

Ofgem consultation on the Allocation of voluntary redress payments in the context of enforcement cases

Charis Grants Ltd response, August 2016

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Introduction

Charis Grants Ltd welcomes the opportunity to respond to this consultation into the allocation of voluntary redress payments. We would be pleased to engage further with Ofgem following the consultation period to provide further detail of our initial answers outlined in this brief response.

As a background to our organisation, Charis Grants Ltd (Charis) provides a variety of support services to energy suppliers and other corporate clients with tailored welfare solutions to support vulnerable individuals and families. Our innovative schemes are primarily aimed at helping those in real hardship meet essential needs. This support is often provided through financial assistance for debt or the provision of a wide range of goods and services, either directly or via third sector organisations operating in community. The ultimate goal is to offer vulnerable people in hardship a chance for future financial sustainability and improved well-being.

Charis is the administrators of the British Gas Energy Trust, who received £11.1 million funding from British Gas in 2015 as a result of a voluntary redress agreement with Ofgem. The fund has been used to form a specific funding programme called the Healthy Homes fund. The Healthy Homes fund was set up to fund charities and other third sector organisations, both large and small across Great Britain, to work with local partners to deliver programmes that assist low-income and vulnerable households with the aim of delivering innovative projects that demonstrate positive health impacts.

In particular, the Healthy Homes programme focuses on addressing health problems exacerbated by fuel poverty, as outlined in the Public Health England report on “Fuel Poverty and Cold Home – related health problems”¹.

As administrators of the British Gas Energy Trust, Charis has designed and managed the Healthy Homes Fund scheme which is currently in progress: setting the criteria, managing the application process via tender, assessing potential recipients, setting up funding agreements with each successful applicant, all reporting and monitoring throughout the scheme period and with full audit of each organisation’s project. Full support and networking amongst the various organisations has been ongoing through a dedicated scheme Project Manager. A full Healthy Homes impact report will be published in July 2017.

¹ Local action on health inequalities: Fuel poverty and cold home-related health problems, Public Health England, 2014

Chapter 2: What we want to achieve?

Question 1: Do you agree with our objectives for the allocation of voluntary redress? If not, please explain why.

Charis agrees with the objectives of the allocation of voluntary redress. We believe that the redress funding can provide an opportunity for maximising support for energy consumers by harnessing third sector and other organisations to optimise impact. It is vital that redress funding is well-targeted and practical measures are delivered at a local level. For best outcomes project administrators and charities should work in close partnership to innovate schemes to ensure that projects specifically address the needs of individual communities. It is vital that a strategic, long-term approach to project funding and delivery is taken in order to best address issues of sustainability and provide greatest social impact and value.

Question 2: Are there any additional objectives or criteria we should consider when making a decision on our forward approach to voluntary redress? Are there things our approach should definitely include or absolutely avoid?

Criteria should be focused at practical measures that harness the support and resources provided by the third sector. A combination of national and local delivery of innovative projects, focused on partnership working with local authorities and health providers as well as other organisations, should optimise the chance of longer term sustainability and positive outcomes for the vulnerable. Key to this is the initial scheme specification coupled with an open simple bidding process, and long-term goals. Schemes should incentivise partnership and innovation, link to policy objects, and specifically target households and individuals who are fuel poor, vulnerable, and demonstrate improvement in specified outcomes.

All communities vary, and Charis disagrees with a single provider delivering projects as this may promote a 'one size fits all approach'.

Chapter 4: Overview of options

Question 3: What are your views on "Option 1: Current process with enhanced principles"? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider?

Charis consider Option 2 to be the preferred option for the successful delivery of voluntary redress payments and will state the advantages of this second option in question 5. There are a number of disadvantages to the current delivery mechanism (option 1) which are hindering the effective and efficient allocation of funds to achieve maximum positive impact for beneficiaries and greatest social return on investment.

Charis disagrees with the approach of allowing the energy provider under investigation to propose the recipients of any funding. Energy providers lack the necessary depth of understanding to address the holistic needs of the vulnerable and fuel poor. They also lack comprehensive knowledge of the charitable sector particularly smaller, community based organisations as this is not core to their business. In addition, this process can incentivise energy companies to submit proposals which have the least impact on them in terms of time and effort, and therefore disincentives innovative, longer term, and more targeted solutions. For example, an energy supplier could be much more inclined to donate one large lump sum to a well-known national charity due to the ease at which this can be

achieved. However this model creates a situation where local and less well-known charities are precluded from bidding for funding.

Question 4: What are your views on the possible additional principles outlined in “Option 1: Current process with enhanced principles”? Are there further additional principles that would help meet our objectives?

Charis believes that some of the additional principles outlined in option one have a degree of merit to improve the current process.

The additional principle of making the number of charitable recipients proportionate to the size of the penalty could be a workable approach, however Charis believes that all redress monies should be available to be tendered for through an open bidding process by any number of charities. The funding would therefore be allocated based on the strength of the proposal and not necessarily limited by a proportionate approach. There are benefits to combining both local, small scale solutions and larger national projects and the number and size of funding to recipients should be decided on a case by case basis taking into account value for money and social impact.

We do not agree with the additional principle of precluding redress payments going to charities or trusts established by energy companies, whose name includes or is similar to the name of the energy supplier provided certain measures can be put in place. These charities are independent of the energy supplier and provided that they do not use the funding to directly benefit the energy company involved, or associate the companies name with the scheme to be delivered, then we feel they offer a good mechanism for independent scrutiny and project oversight. To prevent bias and conflict of interest the open bidding process and scheme management should not be delivered by a third sector or charitable organisation. This measure would preclude Trusts and Charities established by energy companies directly administering the redress funding.

Charis agrees with the additional principle of monies going to support vulnerable energy consumers with a focus on supporting energy related needs. We also support recipient organisations being informed that the funding they receive is as a result of enforcement action, and that all potential recipients must demonstrate they can and will monitor and regularly report on the impact of the funding they receive.

Question 5: What are your views on “Option 2: Responsibility given to a third party with appropriate expertise”? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider”?

Charis support “Option 2: third party responsible for managing redress allocation”. In this option, allocating, managing and monitoring the voluntary redress payments would be done by a third party, not Ofgem or the company under investigation. In order to target the funding at those who are vulnerable and fuel poor the delivering organisation will need sound expertise in the issues impacting on this target group as well as strong connections with third sector organisations working in the health, energy efficiency and debt related areas. A good working relationship with Ofgem and established track record of project delivery would be key to ensuring successful delivery.

The third party would need to be independent of the company under investigation and Ofgem, who would retain their independence to oversee and regulate the scheme delivery. The money to be allocated could sit in a dedicated account set-up with the correct governance frameworks and guidance in place. Charis currently manage several independent trust funds, including the Healthy

Homes redress, in dedicated bank accounts and all schemes are subject to independent scrutiny and audit. In the terms outlined in the consultation document, Charis meet the specifications of a DAF provider in that we manage charitable donations on behalf of organisations and have significant expertise in sourcing recipients and running open bidding processes to meet objectives. We also adhere to the guidance and objectives set by the donor and apply the relevant regulatory targets and obligations in administering our various energy-related schemes.

Regarding who should make the allocation decision, Charis support the view that Ofgem would set-out strategic guidance and objectives of the scheme which would be developed along with the specific guidance on the nature of the breaches. The third party supplier would then propose a scheme to Ofgem to meet the Brief which would outline the detail of the entire project from set-up to final impact report. Charis agrees with all the third party services described in the consultation document (4.32-4.36)

Regarding the frequency of allocation, both a case by case or periodic basis is suitable and could be administered by Charis. The approach which is taken should be the optimum in allowing fair and transparent bidding, offer ease of application and allow charitable applicants to strategically manage their long term delivery plans.

Question 6: How should the costs of the third party associated with allocating redress be funded?

Charis supports the suggestion that energy companies under investigation should provide the administration costs of delivering the redress scheme. Charis believes any interest earned from redress funding held over a long period should go towards funding further projects for the benefit of recipients and energy consumers. There are risks associated with trying to cover administration costs based on investment as interest rates fluctuate and economic conditions change. Third parties would not have the necessary expertise and would be risk averse to developing investment strategies, and in addition the services of asset management would incur cost.

Question 7: Should the company that made the redress payment have an input into the approval of recipients under this option?

Charis does have a view on this aspect of the redress payment process. Although we do appreciate that the energy supplier may wish influence the process, they should not have final decision-making power.

Question 8: How can we ensure that smaller potential recipients can bid and are not disadvantaged compared to larger potential recipients?

The third party provider and Ofgem should ensure that there is equal opportunity for small charities to receive funding through the bidding system. Smaller organisations should also be supported within reason to manage payments by having an appropriate framework in place with simple, clear processes, minimising bureaucratic burden which can disadvantage smaller organisations.

Question 9: What are your views on this “Variation on Option 2 – Voluntary redress payments go to a charitable trust set up by Ofgem”? Are there any other advantages, disadvantages, risks or costs relating to this option that we should consider particularly in relation to the DAF provider model set out above?

Charis does not consider it necessary for Ofgem to set-up an independent charitable trust, but would work alongside such an organisation to deliver redress projects if there was an opportunity to do so.

All charitable trusts require resource and on-going administrative support and this would require substantial funding, resources and expertise. Charis agree that it is not Ofgem's core business and the Trust could be viewed as not independent from Ofgem. Independent management would be required and there is no obvious source of funding to provide this. We agree with consultation point 4.46 in that using an existing third party has greater advantages and fewer limitations.

Question 10: How should the costs of running a charitable trust set up by Ofgem be funded?

Charis does not have a view on the funding structure of an Ofgem charitable trust. Please see our response to Question 9 regarding the options to set-up a separate charitable trust.

Chapter 5: An additional consideration

Question 11: What are your specific views of the idea of using part of voluntary redress payments to support specific schemes? What are the advantages, disadvantages, risks or costs relating to this idea? What existing schemes could be considered under this approach?

Charis would disagree with redress funding being allocated to selected energy schemes funded by third parties that are not charitable organisations such as the Big Energy Saving Network. The opportunity to receive funding should be via an open and transparent tendering process so that all organisations have a fair opportunity to apply for project funding. Smaller organisations in community are very well placed to know the needs and local delivery mechanisms of their area but are often overlooked as they do not have a national profile.

It is key that social impact is measured from the funded projects. This would not be achievable through a national scheme which receives funding from a range of sources and is not linked as closely to beneficiaries on a local level. A bidding process inviting innovative proposals from a range of applicants is more likely to deliver practical measurable outputs on the ground and in addition be able to demonstrate improvements in the lives of the vulnerable in hardship. Such successful projects can, in time, be replicated and adapted to be delivered in other areas of the UK where appropriate.

Redress monies will fluctuate on an annual basis and therefore national energy schemes are less suited to be flexible to funding variations year on year. In addition, it is a requirement that redress monies are allocated to projects which specifically link to the breach, and Charis feel this cannot be achieved via a one-size fits all national approach.

Chapter 6: Overall view

Question 12: Which of the options in this consultation do you think should be used and why?

Charis supports "Option 2 – third party responsible for managing redress allocations" approach for the reasons outlined in our consultation responses above.

Question 13: Should any other options be considered? If so, please provide an outline explanation of your suggested alternative option(s). Please also outline any associated benefits and costs with the alternative option(s).

Charis supports "Option 2 – third party responsible for managing redress allocations" approach for the reasons outlined in our consultation responses above.