



This is the submitted SHAP response to the Ofgem consultation on: Allocation of voluntary redress payments in the context of enforcement cases
24.8.16

The SHAP consultation response has been prepared on the basis of contributions by representatives from SHAP members from urban and rural local authorities and social housing providers with further comments submitted by the SHAP network also incorporated.

SHAP GENERAL COMMENTS

Thank you for the opportunity to respond to this consultation. We have consulted with our members on a collective response.

SHAP has the vision that all domestic dwellings will be energy efficient, resilient to extreme weather, affordable and comfortable to live in, and that this will provide a structure for sustainable communities, attractive places to live and support jobs and skills within a low carbon economy

SHAP (Sustainable Housing Action Partnership – www.shap.uk.com) is a best practice network with members from across the housing sector including Local Authorities, social housing providers, contractors, consultants and NGOs. Since its establishment by Sustainability West Midlands with Regional Development Agency funding in 2005, SHAP has provided independent cross sector information on sustainable housing to the housing sector and wider networks.

SHAP has carried out research into issues of emerging importance for the housing sector on an annual task and finish basis and results have been freely available at www.shap.uk.com/resources.

SHAP believes that it is essential to build on existing experience and expertise so that new projects, programmes and policy development can benefit from past learning.

An important SHAP objective is that success factors supporting delivery of projects, programmes and policy development are shared in the shortest possible time to enable all stakeholders to achieve the best possible outcomes. The SHAP response to this consultation is therefore rooted in the belief that it is critical to share success factors to support the creation of a sustainable housing stock that is affordable to heat and comfortable to live in.

At a time of continuing need to make the best possible use of investment available to address issues of fuel poverty and health and wellbeing, we believe that it is essential that access to funding is available to all those who can demonstrate how funded projects:

- fit into strategic programmes
- build on demonstrable success factors
- harness existing experience and expertise
- have taken account of past learning.

In particular, we would like to see inclusion of local authorities and their partners as organisations eligible to bid for funding (in addition to a focus on charities). We believe the strategic overview of local authorities and their wide partnerships can strongly inform priorities for funding in order to achieve the very best outcomes from the funding available.

This comment by one (non Local Authority) SHAP Member represents a consensus view from our consultation:

“It is clear that the two routes to addressing fuel poverty are to improve the energy performance of the housing stock and to ensure that low income households have access to cheap energy deals rather than expensive energy deals. In terms of improving the housing stock, we know how to do it, but lack of funding for improvements is usually a problem, so a fund for this would be helpful. We don’t need innovative solutions, just a LA with access to funds like this and the ability to work with those on low incomes, and manage all the work that is required.”

However, we are realistic that the consultation must take account of the fact that if the revised process for allocation of voluntary redress funding becomes too difficult or constrained, then penalties may be chosen to be paid directly to Treasury. *Should this happen we would still welcome the opportunity for those with strategic overview roles to influence and inform how funds are spent.*

We also recognised that voluntary redress funding should decrease over time as customer care processes etc improve. Therefore, we would like to stress that monitoring and evaluation of voluntary redress funded projects should be mandatory, consistent across projects and of high quality so that the learning of the most effective ways to use limited funding to address fuel poverty can be captured and shared. The aspiration being that this knowledge can be used to support the business case for long term funded programmes working towards the elimination of fuel poverty.

We welcome the statement in Para 2.5¹ regarding innovative ways and approaches but would stress that we need to learn lessons and identify success factors from previous relevant projects (not just those funded by voluntary redress) before committing to further innovative approaches. We propose that there should be an objective of ‘doing better’ than before rather than seeking purely to be innovative. We would support opportunities to include innovation in small steps as part of projects delivering activity that builds on previously evidenced positive outcomes. We regard innovation in process as important as innovation in technology.

We look forward, as a result of this consultation, to:

1. clearly identified criteria on how to access funding eg if lack of match funding is a deal breaker, then this should be clearly stated
2. the publication of the details of projects funded through voluntary redress
3. the publication of evidenced outcomes of the funding obtained through monitoring and independently checked

¹ Para 2.5. *We believe that the above will ultimately maximise consumer benefits via a wider number and spread of charitable recipients than has been the case to date, and we consider this to be a good thing as it is likely to maximise the spread of consumers will also be supported (including via innovative ways and approaches).*

The SHAP response to Ofgem questions follows

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.

We agree with the objective of maximising longterm benefits for energy consumers by ensuring that funding is well targeted.

Fundamentally, we would like to propose an Option 3, whereby the role of local authorities in facilitating collaborative, area based approaches to targeting voluntary redress funding is recognised. Local authorities, working with a range of other partners and stakeholders over many years have had considerable local success in addressing with fuel poverty and vulnerable households. Their local knowledge and experience is extremely valuable and should be supported and built on as a route to delivery of voluntary redress funding. We therefore don't agree that charities are the only appropriate route for channelling redress funding to energy consumers.

Option 1: If this Option is approved: We support the enhancement of principles as detailed in the consultation document but would want to see local authorities included as eligible to bid.

Option 2: If this Option is approved: we believe DAF providers should be funded by energy companies on top of their voluntary redress payments, not out of the fines.

In response to the bullet points in the consultation document:

- We believe that it is essential that funding is open to local authorities due to their historic knowledge and ongoing range of duties, the trust they have with most of their citizens and because they along with their other non-charity partners who are well placed to identify and assess project options to support selection of those that will deliver maximum benefit – local authority support includes drawing on other local authority activity and data to help target funding. Local authorities and their partners are also well placed to pull together bids between different stakeholders and across administrative boundaries and may be best placed to deliver area based schemes.
- We recognise that historically some charities and other organisations have obtained funding on behalf of one or more smaller local authorities, however, there are many examples of local authorities with significant experience in delivering projects to fuel poor and vulnerable customers who should therefore be able to access voluntary redress funding.
- We welcome proposals to use an open, transparent bidding process to identify and select funding recipients
- We welcome proposals for ensuring appropriate monitoring and reporting is in place

- There are currently issues of targeting that may be addressed (in part) by proposals for data sharing between energy companies, local authorities and DWP. This development is essential if we are to move beyond proxies for vulnerability (such as poor housing stock) to target the most vulnerable and fuel poor customers (due to age, illness, income, time spent in the house etc)

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?

The criteria need to explicitly recognise that local authorities can bid for voluntary redress funding alongside other interested organisations.

The approach to voluntary redress should also:

- ensure that there is full transparency on the criteria against which bids for funding will be judged. If matchfunding is a requirement, this should be clearly stated and guidance should be given on what constitutes appropriate and eligible matchfunding. We believe that support for existing schemes should be considered as eligible where positive outcomes can be fully evidenced.

Historically, the provision of energy efficiency advice and information has been well funded (funding to CAB etc). Where this can be shown to be effective it should be supported, along with funding for emergency safeguarding programmes (including the provision of low cost items such as electric blankets etc). However we believe that there should be equal priority for funding to improve the energy efficiency of vulnerable consumers' homes and voluntary redress funding could be used to help to offset the reductions made under the Energy Company Obligation. This would be particularly important where schemes have already been designed and were ready to be implemented but were not taken forward due to ECO changes at short notice.

Approaches to the use of voluntary redress should:

- Ensure that information obtained through monitoring the delivery and value for money of funded projects is shared widely.
- Include controls to manage how funding might be passed to subsidiary or associated organisations.

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?

Chapter 4 sets out one of the principles as *“the number of charitable recipients should be proportionate to the size of the penalty”, whilst the description of the open bidding principle says that the process will be ‘accessible to applications from all suitable charities, trusts and organisations that help energy consumers’*. It is not clear that local authorities and their partners would be eligible to bid.

We believe local authorities working with their (established tried and tested partners) have significant strategic oversight, access to data and experience that should be explicitly invited to shape the allocation of voluntary redress funding and its delivery.

Therefore, we have proposed an Option 3 and believe that the Option 1 (current process with enhanced principles) is not a preferred option because it still leaves the decision about who to allocate funding to with the energy company. The experience of voluntary redress to date shows that this has not worked effectively. There is little transparency about how funds are used. Option 1 does not name local authorities and their partners as potentially eligible to bid for funding despite their track record in sustained activity to work with the fuel poor.

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?

Option 1 could only be supported if the following additional principle was applied:

The energy company will give equal consideration to bids submitted by local authorities, and will provide explicit evidence to Ofgem and all bidders to clearly justify the decision(s) made to allocate funding to a particular organisation in preference to others.

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?

Option 2 is favoured above Option 1, subject to local authorities being able to participate in all open bidding processes, and subject to local authority bids being given equal consideration by the third party and Ofgem.

For Option 2, we would prefer to see assessment of the bids to be by the third party, with the final decision on funding allocations being made by Ofgem.

Bids should be invited on a case-by-case basis rather than on a periodic basis. This will allow prospective bidders to judge on each individual occasion whether they are in a position to submit a bid, and to tailor their bid to the nature of the breach. However, this should not create a situation of short deadlines for bids on top of unpredictable launch dates for funding that becomes available on a case by case basis.

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

We believe that funding costs for a third party allocating redress funding should be from investment returns and interest earned, with energy companies providing gap funding (pro rata to their fines) as necessary on top of redress funding to pay for the third party costs. However, it is recognised that this should not be a dealbreaker resulting in money going direct to Treasury rather than available as voluntary redress funding to be bid for by eligible organisations.

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

No. However, their experience from previously funded schemes could be taken into account by the body allocating funds. It is assumed that there will still be public awareness of where the funding is coming from.

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

Bidding for funding is taking an increasingly large amount of time of those who have most experience and should be spending their time on active delivery. Bid writing is often carried out on top of the normal day job. Therefore any bidding system needs to be made as efficient as possible. We recognise that there are several ways to support an efficient process that gives any bidder (whatever their size) the best chance of success:

1. Timing of calls to allow for long lead times to deadline dates and deadlines to avoid holiday periods
2. Transparency of criteria that will be used to assess bids
3. Defining of funding objectives that relate to strategic objectives in a given geographical / issue based area ie defined with the input of those holding local knowledge
4. A methodology for match making between bidders with common interests and / or complementary objectives, experience and skills sets
5. An approach that breaks funding into pots with different thresholds, ceilings and requirements for match funding. It is anticipated that organisations would then be

able to direct their energies to bidding for the pots most suitable for their delivery capacity.

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?

We believe that if a charitable trust is set up, that there should be a wide representation of housing sector organisations among the Trustees. However, we believe that using an existing third party rather than establishing a new charitable trust has cost benefits and should be a more efficient route.

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

We believe that funding costs for establishment and administration of a charitable trust should be on top of redress funding. However, it is recognised that this should not be a dealbreaker resulting in money going direct to Treasury rather than available as voluntary redress funding to be bid for by eligible organisations.

CHAPTER 5: An additional consideration

Question 11: What are your 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?

Continuing support for existing directly relevant schemes with properly evidenced positive outcomes should form part of the bidding process. It is important that there is continuity in schemes eg local authority winter warmth and winter safeguarding schemes as we believe that some schemes are easily scaleable giving a very efficient route to adding value when funding levels and timing are unpredictable. However, as it is impossible to determine the levels of future redress funding, we recognise there can be no certainty on levels of support for ongoing programmes. This makes it particularly important to build on previous learning and do better than develop new schemes that may not be able to be refunded and so cannot develop learning. We believe that it could be beneficial to extend the number partners in existing schemes thereby replicating existing good practice as efficiently as possible.

We do believe that it is essential to support locally based FREE, IMPARTIAL energy advice schemes and helplines with a proven track record which are better able to provide useful advice than national helplines, which frequently are only able to signpost to other organisations. Therefore we would like to see Ofgem funding a robust evaluation and

lessons learnt exercise on previous redress funded projects and their outcomes in order to determine which local energy advice centres should be funded.

The business case for supporting existing schemes should include an analysis of the costs of retraining staff each time an advice or winter safeguarding programme is run down and then restarted. The business case should also investigate the costs of NHS treatment for those missed during any hiatus periods of existing schemes. Fundamentally, however, such schemes should not rely on uncertain levels of voluntary redress funding (which it is hoped will reduce over time as customer service etc is improved). Nevertheless, they could be prioritised where they demonstrate strong value for money.

CHAPTER 6: Overall view

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

Of the two options given, we support Option 2 provided that the funding for an oversight body is on top of redress funding, although it is recognised that this should not be a dealbreaker resulting in money going direct to Treasury rather than available as voluntary redress funding available to be bid for by eligible organisations. However, we would prefer an Option 3 to be developed see Qu 13. below.

We support the proposal that there should be open bidding and that this will be part of a completely transparent process, provided that:

- Local authorities are allowed to participate and are given equal consideration by the third party and Ofgem.
- Energy companies are allowed no influence over the allocation decisions.
- When allocation decisions are made, unsuccessful bidders can clearly understand the reasons why other bids were preferred.
- The allocations are not prioritised based on the size of the match funding that an organisation can offer. Many organisations with good project proposals are unable to find match funding – particularly local authorities whose budgets have been dramatically reduced.
- That there is a debate on the balance to be struck by the numbers of households that can be helped v the opportunities to assist those most severely in need

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).



**This is the submitted SHAP response to the Ofgem
consultation on: Allocation of voluntary redress payments
in the context of enforcement cases
24.8.16**

Option 3, whereby local authorities are given a role in facilitating collaborative, area based approaches to delivering projects funded by voluntary redress funding. We don't agree that charities are the only appropriate route for channelling redress funding to energy consumers.

Local authorities already work with partners who deliver energy efficiency advice, safeguarding and energy efficiency works to their fuel poor and vulnerable citizens. Proposals to improve access to data to achieve better targeting will help deliver even better outcomes from a co-ordinated service delivery approach.

Option 3 would give local authorities and their partners a greater role in advising on what should strategic priorities are; decisionmaking on allocation of funds; co-ordination of collaborative bids. SHAP would be able to provide independent cross sector views on the Option 3 proposal and could help on advising on ECO priorities and bidding criteria through an Option 3 mechanism due to its cross housing sector representation and independence from any single voice/agenda.