How to protect consumers as energy prices rise - January 22

citizens advice

The challenge

The cost of living crisis has been growing in scale and impact over the last six months, with inflation reaching historic levels and yet to peak. Those on the lowest incomes are most exposed, and masked within the headline inflation figures are item specific increases that are hitting low income households the hardest. The poorest households were already spending 7.5% of their post-tax income on energy in 2019/20, before the current increases, and the latest figures show energy costs have risen by 23% in the past year.[1]

While the crisis is already affecting households up and down the country, it is set to deepen with the further increase in the price cap due this April, with estimates putting it at up to £2,000. That increase is predicted to push an additional 2 million more households into fuel poverty, bringing the total to 6 million.

We are already seeing the effects of the cost of living crisis in our data. In December 2021 we recorded an over 100% increase in cases where people ran out of money to top up their pre-payment meter compared to the same time last year. Our consumer service helpline dealt with more than four of these cases every hour over this period.

Direct interventions are needed now to mitigate against the harm many households are already experiencing. The government also needs a longer-term plan for addressing the soaring cost of living. Challenging as the current climate is, with further rises to the price cap over the course of the year, the winter of 2022 can be expected to be even worse and we must ensure the right measures are in place to protect those at greatest risk.

Solutions

There are several policy tools at decisionmakers' disposal to help lessen the impact on households. Here we consider:

- A one-off payment to low-income households in April 2022
- An increase and extension of the Warm Home Discount in Winter 2022-23 delivered through customers' bills and funded by the government
- Increase April benefits uprating to better reflect current inflation
- To spread the cost of supplier of last resort (SoLR) levy over 2-3 years
- A reduction or removal of VAT and/or environmental levies from energy bills.

[1] Office for National Statistics (2021) Consumer Price Inflation. Available at: www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/november2021 // Family Spending in the UK. Available at: www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/datasets/familyspendingworkbook1detailedexpenditureandtrends

We are recommending four steps to deal with the challenge over the coming year. The first is to make a one-off payment to all low-income households in receipt of Universal Credit, legacy benefits and Pension Credit to help meet the challenges these households face at this moment.

We then propose reaching an agreement that enables the spreading of the SoLR levy over the next 2-3 years to offer some stabilisation to the energy sector and provide some immediate breathing space to consider further market reforms.

Thirdly, inflation has risen sharply since the September figure for CPI that the Government will draw on for the 2022-2023 benefit uprating. It will have risen by over three times as much as it did from September 2019-2020 (the 2021 uplift figure) from September to November 2021 alone. The government should base the uprating figure on the latest available figures - either the Bank of England forecast rate or the March 2022 rate - to ensure those on the lowest incomes aren't left financially adrift as inflation continues to rise.

Finally, we need to recognise that this crisis will stretch through to next winter and start now on developing solutions. By increasing and extending the Warm Home Discount we can have the provision in place that will protect the lowest income households from the worst excesses of the coming price increases.

Targeted support

In April 2022, when a further 2 million households face being pulled into fuel poverty, support should be targeted to low-income households via an **'Energy Support Grant'** delivered through the benefits system. Winter Fuel Payments are already paid on an automatic basis to pensioners each year and provide a much needed extra £200-300 to help with winter heating costs. An equivalent one-off payment to all Universal Credit (and legacy benefit) claimants in April 2022, together with an additional payment to low-income retired households in receipt of Pension Credit, would put money in the pockets of those that need it most. It also has the advantage of being quicker and administratively simpler than any extension of the Household Support Fund.

Additionally, **temporarily extending the Warm Home Discount** would channel money directly to those that need it most, enabling them to heat their homes in Winter 2022, when prices are due to soar further. We think three main changes are needed:

- An increase in the value of the discount to reduce the impact of price rises on recipients in 2022/23. The level should be based on the most up to date government modelling of future price rises.
- An expansion in the number of households who receive the Warm Home Discount, to make sure more households at risk of fuel poverty are supported in 2022/23 - in addition to existing plans to expand eligibility to 1 million more low-income households in Winter 2022/23.
- An increase to the part of the scheme that allows energy companies to provide extra financial assistance to people they identify in need of support. More money in this

fund could support the hardest hit households who will lose access to the scheme under the planned reforms.

This would bring more low-income households into the scheme, and help offset more of the bill increases people will face next winter. The Warm Home Discount is normally funded via a levy on bills, but any temporary additional support should be provided by the Government to avoid even higher bills for other consumers.

Lastly, the Government is already planning to **uprate benefits** by September's CPI rate of 3.1%. Inflation has spiked dramatically since then. The Government should reflect this by changing its methodology for uplifting benefits and increase them by either the Bank of England forecast or the March rate of CPI. This will ensure they more accurately reflect the cost of living.

Support for all

Government should enable the **spreading of the cost of supplier failures**, estimated at £2.6 billion not including the administration of Bulb.[2] Current plans expect customers to pay off the majority of the Supplier of Last Resort levy fund from April 2022, adding an additional £94 to bills over and above planned hikes. Spreading the costs over a longer period would act as a short to medium term stabiliser which, together with targeted support to those in greatest need, could provide some short-term relief. This could be delivered through private finance, if an acceptable rate of interest that is fair to consumers can be agreed. Some energy companies have called for a similar funding approach to spread some of the high wholesale energy costs over a longer period.

Cutting VAT on energy has the benefit of simplicity and scale - it would reach all customers and has minimal administrative requirements. However with bills rising by hundreds of pounds, a measure that would result in savings in the tens isn't going to be noticed by more well off households and won't be enough to benefit those in greatest need. And the other alternative regularly presented alongside a cut in VAT, the **removal of green levies,** needs time to be got right - a rushed attempt at moving these across to general taxation risks a 'whack a mole' approach to tackling the cost of living crisis.

Conclusion

By implementing targeted support that puts money in the pockets of those most in need right now, coupled with steps to stabilise the market and prepare for next winter, the Government can address the most pressing aspect of the cost of living crisis. These measures together would then present the breathing space to look at longer term options to protect households. This includes ongoing consideration of whether energy support schemes offer sufficient protection as prices rise and an approach to benefit uprating that reflects the current volatility of inflation.

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[2] BFY Group, on behalf of Citizens Advice, December 2021. Estimates of costs per household are based on dividing the £2.6bn by the number of households. This assumes that Ofgem proceeds with its minded-to position to amend industry rules so that last resort supply costs are no longer collected from non-domestic gas users from April 2022.