



Action for Warm Homes

Keeping vulnerable energy consumers warm and safe this winter

National Energy Action (NEA) works across England, Wales and Northern Ireland to ensure that everyone in the UK can afford to live in a warm and safe homeⁱ. This briefing has been produced in advance of the upcoming Ofgem announcement to increase the Default Tariff Price cap which will take effect this autumnⁱⁱ.

Last winter Public Health England (PHE) warned there is a damaging overlap between the health impacts of living in a cold home and Covid-19ⁱⁱⁱ. The physical impact of cold comes puts significant pressures on our health services. Even before Covid began, poor physical and mental health due to inadequately heated homes was badly impacting health services; costing the NHS between £1.4bn and £2bn every year in England alone^{iv}. This winter this needless unwanted strain on frontline health and social services will be even more acute.

The financial impact of COVID-19 has also badly exacerbated energy affordability challenges and has led to large increases in utility debt^v, leading to energy rationing and customer not having enough money to pay for energy bills. In addition, following a massive increase in wholesale energy prices^{vi}, there will shortly be a further very significant increase in the Default Tariff Cap (which is estimated at over £150), with further increases to the cap planned for early next year. This is at a time when NEA is already deeply concerned about the following impacts:

- A significant rise in general inflation^{vii} driving up spending on other essentials such as food
- An increase in energy use^{viii}, due to people still spending longer at home or working from home
- A reduction in incomes^{ix}, as furlough winds down and the uplifts to Universal Credit are withdrawn
- The increase in wholesale prices also effects heating oil/LPG and coal customers which is not covered by the cap
- Difficulties in accessing support, especially where households are digitally excluded or only speak English as an additional language

This combination of reduced incomes and increased debt has a profound impact on householders, and in an NEA survey of organisations work to support fuel poor households, three quarters said there was a high risk of the increased build-up of fuel debt, as a direct result of the pandemic. In response, we highlight the vital need for additional interventions to protect vulnerable consumers this winter.

Summary of suggested short-term interventions:

- I. Help accelerate the clearance of growing levels of utility debt by promoting Water and Fuel Direct and directly supporting households to make greater third-party contributions^x.
- II. Accelerate the deployment of smart pre-pay for legacy PPM customers to ensure these customers can top up more conveniently, switch suppliers to access the best deals and can choose innovative tariffs to achieve bill savings^{xi}
- III. Work with Ofgem to require better identification of financial vulnerability by energy suppliers and energy networks^{xii}.
- IV. Work with DWP to ensure the continuation of Winter Grant Scheme which helps low-income households to access friendly credit and reduce energy arrears^{xiii}.
- V. Work with DWP and HMT to extend and strengthen the increase to Universal Credit (UC) beyond October 2021^{xiv}.

To date, the UK Government has adopted a progressive approach to addressing the direct financial impact of the crisis on household incomes^{xv}. We stress that whilst recent progress to develop current and emerging programmes is welcome, urgent additional actions are needed now to improve health outcomes and support the most vulnerable people who are at most risk of needless death and morbidity^{xvi} this winter. For years Ofgem have insisted the way to avoid increases to bills is to switch. Many fixed details have however come to an end and for some customers switching is impossible due to levels of debt or because PPM customers have far fewer options to switch supplier or tariff and can't avoid the consequences of a higher cap which suppliers nearly always subsequently price to.

Whilst Ofgem have limited scope to keep the Default Tariff cap lower given the current primary legislation within the Domestic Gas and Electricity (Tariff Cap) Act 2018, NEA has contested the decision to roll the more generous and bespoke Pre-Payment Meter Cap into the wider Default Tariff cap which is less beneficial to PPM customers. As well as other key measures, Ofgem have the powers to provide more protection for the most vulnerable customers.

Create a fair and affordable transition to net zero

Finally, it is important to note that wider targets to reach net zero must not negatively impact on fuel poverty levels across the UK. The UK Government's plans to reach net zero, regulate retail energy markets and increase incomes must work in tandem alongside energy efficiency improvements to support all UK nations to end fuel poverty and achieve a fair and affordable energy transition.

Without acting to achieve a fair and affordable energy transition, some approaches to fund decarbonisation programmes can increase costs for these households. For example, to decarbonise heating, new or restructured policy costs on gas bills could badly affect these households. This in turn could negatively impact on the acceptability, delivery, and pace of meeting the goal of net zero. In response, the UK Government has pledged to put affordability and fairness at the heart of the UK's energy transformation to net zero but one recent example of where this has not been acted upon is the upcoming Green Gas Levy, where all energy users, whether fuel poor, or a large industrial user, will pay the same quantum of costs towards subsidising biogas. This is an unfair cost recovery mechanism, and while the cost per customer in that instance is relatively small, if replicated across different policy areas it would represent a significant affordability challenge for the poorest households, especially those on pre-payment. The upcoming BEIS work on affordability must look to investigate these issues and its conclusions set out how the UK Government will ensure net zero is affordable for all.

Summary of suggested longer-term interventions:

- I. Follow through with welcome plans to expand the Energy Company Obligation (ECO) and Warm Home Discount (WHD) and improve their accessibility.
- II. Sustain investment in Home Upgrade Grant (HUG) scheme within the upcoming Spending Review to meet the final remaining fuel poverty milestone and Fuel Poverty Target in England.
- III. Within the upcoming Heat and Building Strategy set out clear energy efficiency standards for both the private and social rented sectors.
- IV. BEIS's upcoming CfE on affordability must culminate in the UK Government setting out how to achieve a fair and affordable energy transition. This should improve transparency on current impacts of decarbonisation for different groups (depending on their income, payment type and usage) and offset any new policies which would otherwise increase costs for low-income consumers.
- V. Take opportunities within the Digital Economy Act to allow local authorities, public sector health bodies and energy networks to directly identify customers who need support to reduce their energy costs.

ⁱ See www.nea.org.uk

ⁱⁱ Whilst Ofgem have limited scope to keep the Default Tariff cap lower given the current primary legislation within the Domestic Gas and Electricity (Tariff Cap) Act 2018, NEA has contested the decision to roll the more generous and bespoke Pre-Payment Meter Cap into the wider Default Tariff cap which is less beneficial to PPM customers. As well as other key measures, Ofgem have the powers to provide deeper protection for the most vulnerable customers.

ⁱⁱⁱ Within the document they highlight why tackling cold homes should be a priority to protect older people, people with pre-existing chronic medical conditions such as cardiovascular and respiratory conditions, in particular chronic obstructive pulmonary disease (COPD) and asthma, and diabetes, people assessed as being at risk of or having had recurrent falls, people who are living in households experiencing fuel poverty and people experiencing homelessness or rough sleeping. The document goes on to add that many of these groups are also at greater risk of severe illness from COVID-19. See: <https://www.gov.uk/government/publications/health-matters-cold-weather-and-covid-19/health-matters-cold-weather-and-covid-19>

^{iv} In 2016 Building Research Establishment (BRE) released its revised Cost of Poor Housing (COPH) report, which estimated the cost of poor housing to the NHS based on Environment, Health and Safety (EHS) and NHS treatment costs from 2011 and includes treatment and care costs beyond the first year. It also includes additional societal costs including the impact on educational and employment attainment. Finally, it provides information in terms of QALYs (Quality adjusted life years) as well as cost benefits, and to compare with other health impacts. The report estimates that the overall cost of poor housing is £2bn, with up to 40% of the total cost to society of treating Housing, Health and Safety Rating System (HHSRS) Category 1 hazards falling on the NHS. Overall, the cost to the NHS from injuries and illness directly attributed to sub-standard homes was estimated at £1.4 billion, and the total costs to society as £18.6 billion.

^v Citizens Advice has estimated that 2.8 million UK adults had fallen behind on their energy bills <https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/excess-debts-who-has-fallen-behind-on-their-household-bills-due-to-coronavirus/>

^{vi} According to the Times wholesale UK gas prices are close to their highest levels since 2005 and are more than six times higher than they were a year ago, according to ICIS, the price reporting agency, while power prices have tripled in a year to 13-year highs. See: <https://www.thetimes.co.uk/article/small-energy-suppliers-face-train-crash-over-costs-ks8gcmq9>.

^{vii} On the 16 June the ONS warned that the consumer prices index (CPI) measure of inflation rose sharply to 2.1% in the 12 months to May, up from 1.5% in April. The Bank of England and most City economists have forecast that inflation will rise to about 3% over the rest of the year before falling back to the central bank's target of 2% next year.

^{viii} Millions of employees working from home in the 2020-21 winter faced a collective hike of almost £2bn on their energy bills, and tougher working conditions.

^{ix} The Report "Getting used to life under lockdown? Coronavirus in the UK by Policy Institute at Kings College London estimated that 3 in 10 have experienced a reduction in their income as a result of Coronavirus, and that while 3 in 10 people have had to cut back on non-essential spending, 2 in 10 have had more money left at the end of the month. explored the impacts of coronavirus through a survey of 2,254 UK residents aged 16-75 by King's College London in partnership with Ipsos MORI, conducted on 20-22 May. For the full report, please visit <https://www.kcl.ac.uk/policy-institute/assets/getting-used-to-life-under-lockdown.pdf>

^x As well as driving up awareness of the respective services and streamlining the application process for Fuel and Water Direct, the UK Government should consider promoting the benefits of the scheme to customers who are in debt to both utilities and adopting new mechanisms to accelerate the clearance of utility debt within the schemes. This can be achieved by matching the contribution customers make to paying off their debt from their benefits. This could be matched £1 for £1 by the Government for both energy and water debts albeit, these ratios could be adapted depending on the limitations of the budget for this area. As a minimum, matching debts £1 for £1 would help customers clear their debts in half the time^x without creating significant administrative overheads for either the DWP's Universal Credit Service Centre or utility providers.

As well as the positive impact addressing utility debt can have on individuals, reducing utility debt has significant benefits for both utility suppliers and the wider economy and breaking the debt cycle

^{xi} On 27th June, NEA and EAS published a joint report that warned that more than 2 million 'pay as you go' customers with older 'legacy' energy meters were put at needless risk during the pandemic. NEA called on the UK Government, Regulator, and industry to intervene and prioritise smart meters for pay as you go customers, so they do not lose out on £5 billion of household benefits from the smart rollout. The new report "Maximising the smart meter roll-out for pre-payment customers" captures insights and views from over 130 organisations across the UK who work with low income and vulnerable energy consumers, alongside interviews with key industry and government stakeholders and vulnerable 'pay as you go' customers themselves. It was launched at an online event with over 300 delegates and was covered by BBC news. The recommendations called for new forms of advice and incentives as well as specific targets for replacing legacy prepayment meters and for an overhaul of the current New and Replacement Obligation (NRO). Replacing the millions of remaining dumb prepayment meters will however take time and in the meantime, NEA called for prices for prepayment users to remain capped, until prepayment households have received a smart meter.

^{xii} NEA has been calling on Ofgem to follow through with plans to better identify households in financial difficulties through the creation of a financial vulnerability flag or 'needs code' within the Priority Services Registers (PSR). NEA also rearticulated some of these points at an oral evidence session of the Industry and Regulators Committee which has recently launched an inquiry into Ofgem and net zero, considering Ofgem's role in the transition and the wider energy system, and how net zero impacts on other areas of Ofgem's responsibilities, including affordability and security of supply.

^{xiii} The Winter Grant Scheme provides funding to County Councils and unitary authorities in England (including metropolitan councils and London boroughs) to help people who are struggling to afford food and utility bills (heating, cooking, lighting) and water (including drinking, washing, cooking, central heating, sewerage and sanitary purposes).

^{xiv} Within the previous Spending Review, NEA and a wide number of cross-party MPs, charities, think tanks and celebrities called on the UK Government to extend and strengthen the increase to Universal Credit for low-income households as well as addressing other key gaps in provision to mitigate the financial impact of the crisis on the poorest households. Within this briefing we repeat this call and underline the urgency of providing UC recipients with vital clarity on this matter.

^{xv} Both universal credit and working tax credits have been increased by £20 a week. According to HMT analysis, these steps, combined with the positive impact of the furlough scheme, has a positive impact on incomes for those in the lowest income decile. See: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/898420/Impact_of_COVID-19_on_working_household_incomes.pdf.

^{xvi} The main causes of excess winter deaths are attributable to respiratory and cardio-vascular diseases which are badly exacerbated by cold conditions. Other causes may include influenza, trips and falls or in a small number of cases, hyperthermia. Public Health England cites studies that 10% of excess winter deaths are directly attributable to fuel poverty and that a fifth of EWDs are attributable to the coldest quarter of homes. This was regarded as a 'conservative' estimate as separately the World Health Organisation stated that 30% is the best estimated share – based on European evidence – of EWDs that can be considered attributable to cold housing conditions. This suggests that poor energy performance – manifested in homes that are hard and/or expensive to heat, thereby exacerbating the risks of respiratory and circulatory problems and poor mental health – is a significant contributory factor to the number of EWDs in the UK.