



Action for Warm Homes

# POLICY BRIEFING

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## SUPPORTING VULNERABLE ENERGY CUSTOMERS THROUGH THE ENERGY CRISIS

This policy briefing has been developed by fuel poverty charity National Energy Action (NEA). We highlight what positive steps can be taken now by the UK Government and energy regulator Ofgem to respond to the current energy crisis and support vulnerable energy customers. It is hoped that this will prompt policy interventions in advance of Ofgem announcing the next revision to the energy price cap.

### Background

Households on the lowest incomes and those that contain someone with a long-term illness or disability that reduces their ability to work have seen their income drop by over £1000 per year, due to changes in Universal Credit. In addition, benefits claimants are seeing their real terms income reduce every day, as inflation soars at its highest rate in 40 years. Over three quarters of the increase in inflation is due to the relentless surge in energy prices, which places the biggest burden on the shoulders of the poorest households. Prior to the April increases, NEA had hoped that targeted support for struggling households would be made available through HMT package of support to address energy bills. The UK Government did provide a package of support including:

- A £500 million increase to the local authority led Household Support Fund in England (with the Devolved Nations across the UK benefiting from associated consequential increases in their funding which have also subsequently be channelled to providing crisis support for the poorest households). *This crisis funding is split between helping with the cost of energy, food and other essentials.*
- A £150 council tax rebate to go to all households in England with a council tax band if A-D. Other vulnerable households can potentially access the rebate through discretionary funding. Again, there is consequential spending for the Devolved Nations. Those paying in ways other than direct debit are missing out. *As of 17 May, only 15 councils had started to give the rebate to households that don't pay in this way.*
- A £200 'Heat now pay later' energy bill rebate, which will be provided this autumn, albeit with a subsequent increase in bills of £40 per annum for 5 years to pay for it. This is available for GB customers only, and as it is cost neutral for the Treasury, there are no implications for Northern Ireland. *This scheme will be very difficult for prepayment customers to access. It is estimated that 30% of prepay users will not access the scheme, but will have to pay for it nonetheless.*

Overall, if perfectly distributed to all fuel poor households, the support would only cover approximately half of the additional April increase and approximately two thirds of the funding the Treasury has announced (£6bn) will currently need to be repaid by consumers. In response, NEA has said<sup>1</sup> that the UK Government's response is currently inadequate and further support will need to ensure the poorest households are not hardest hit by the energy crisis. In addition, industry analysts are predicting the GB price cap could rise even further in October, with current estimates being an increase of more than £500. Following the Queen's Speech on the 11th May, these issues remain unresolved. NEA believes that the UK Government should provide further support for households across the UK.

## A targeted approach is needed

NEA have identified and costed the following policy options:

- **Exempting vulnerable households, in particular low-income prepayment energy users, from paying the £40/year levy that is currently planned to re-pay the 'heat now, pay later' £200 energy bill rebate.** The scheme should be reformed so that low-income households receive the rebate as a grant that does not have to be repaid. This would ensure that those households who are most likely to miss out on the benefits of the scheme, do not become sponsors of it.
- **Expanding existing schemes to provide deeper support to more households.** Through the Warm Home Discount, the Winter Fuel Allowance and the Cold Weather Payment, the UK Government already provides support to households across the UK. But both the depth and breadth of this support is not sufficient in the context of current energy crisis and could be expanded, covering the entire cost of the October 2022 price increase at a minimum.
- **Accelerating the repayment of utility debts across the UK.** This would provide financial support for households that have a debt repayment plan with their energy supplier, with Government matching every £1 paid by the customer by £1 of Treasury funding. To help every indebted household it would cost £500m per year.

Whilst NEA favours more targeted mechanisms which support the 'worst first', it has been suggested by some groups that the UK Government should consider removing VAT or policy costs from energy bills. Funding policies through levies is generally less progressive than through the tax system however NEA welcomes and supports the planned extension and expansion of both the Warm Home Discount (WHD) and Energy Company Obligation (ECO). We believe these vital programmes must remain funded by energy consumers as they directly help to reduce prices for the most vulnerable households who are the prime beneficiaries. Energy bills could however be reduced through the movement of other, legacy levies (the feed in tariff and renewables obligation) into general taxation, or by reducing VAT on energy bills. If both of these options were taken, households would see a reduction in costs of ~£150 per year. However it would cost the Treasury ~£4bn, significantly more than the targeted options proposed above.

## The role of Ofgem

While there is more that the UK Government can do to help low income and vulnerable households, we also believe there are some clear actions that Ofgem can take. These are in line with their statutory remit and can ease the pressures on struggling households this winter. Like the UK Government, Ofgem have committed to make the needs of vulnerable consumers their key priority but there is much more that could, and should, be done. We believe that these opportunities include:

1. Investigating deeper price protection or a new social tariff to help make energy more affordable for a discrete and well-defined set of low-income energy customers. Such a tariff must be additional to existing schemes, mandatory for all suppliers, targeted at those most in need, reduce the costs of eligible households and use auto-enrolment. This could later be backed up through Government legislation alongside the price cap.
2. Reducing the standing charge for prepayment users by recovering SOLR costs on a volumetric basis.
3. Working better identify and act on financial vulnerability of energy consumers
4. Ensuring costs of failed suppliers are spread over a longer period of time, to reduce the immediate burden on consumers.
5. Reducing the wider burden of energy debt on customers by enforcing licence obligations.
6. Working to ensure that all prepayment users can receive a smart meter as a priority.

## Energy Efficiency

Our final key priority is to permanently reduce needless energy waste in our homes. One of the key reasons the poorest households are so exposed to the current crisis is they live in the least efficient homes, some of the least efficient in Europe. This has left the UK more exposed to the current soaring gas price compared to many other countries and we are wasting billions of pounds each year as heat escapes through leaky roofs, floors and ceilings. Addressing the challenge of our leaky homes must continue to be a key priority<sup>2</sup>. Government should:

1. **Prioritise Parliamentary time for the passage of ECO 4 legislation.** While the UK Government has taken the decision to extend the ECO scheme for further four years, it is not yet backed by legislation, so therefore there is currently no live ECO scheme running. Failure to do this will see 23,000 low-income households miss out on insulation measures which could reduce energy bills by up to £240 annually. This would have a huge impact ahead of further price increases from October onwards.
2. **Commit the remainder of the funding promised to upgrade fuel poor homes in the Conservative Party Manifesto.** The Government has only committed £1.1bn of the promised £2.5bn for the Home Upgrade Grant scheme. Committing the remainder of the funding will help over 100,000 households save more than £750 per year on their energy bill.
3. **Set regulatory minimum energy efficiency standards for rented properties.** The private rented sector contains some of the leakiest housing in the UK, with residents significantly more likely to be fuel poor. In order to reduce their energy costs, there should be regulatory standards for the minimum energy efficiency levels of rented accommodation, as previously stated by the Government.

## Endnotes

<sup>1</sup> <https://www.nea.org.uk/news/government-plans-for-energy-crisis-woefully-inadequate/>

<sup>2</sup> On the 19 October the UK Government published its long-awaited Net Zero strategy and Heat and Buildings strategy, which set out the funding for decarbonising our homes over the next three years. Providing clarity on spending over three is welcome as it provides the energy efficiency industry with a strong signal to invest in the supply chain and new green jobs. NEA is however very concerned that the investment dedicated for the Home Upgrade Grant is less than half of the funding pledged within the Government's 2019 manifesto for the poorest households in the least efficient homes.