



*Action for Warm Homes*

## **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 has provided a package of support including:

1. A £1 billion 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.*
2. A £150 council tax rebate to go to all households in England with a council tax band of 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<sup>th</sup> May, only 15 councils had started to give the rebate to households that don't pay in this way.*
3. A £400 'Heat now pay later' energy bill rebate, which will be provided this autumn to all households in Great Britain, with an equivalent scheme running in Northern Ireland.
4. A £650 one off payment ahead of winter to all recipients of means tested benefits, which will support 8.4 million households across the UK directly
5. A £300 one off increase to the winter fuel payment this winter, meaning that 8 million pensioner households will receive support.
6. A £150 one off payment to disability claimant households ahead of winter.

None of the measures above are exclude receiving any other measure.

Overall this support covers all of the October increase for all recipients of means tested benefits, as well as approximately half of the April increase. The scale of the response is now broadly in line with the scale of the problem for this winter. However, analysts estimate that bills could stay high beyond this winter, and therefore the UK Government should plan to provide lasting support for households, instead of relying on a series of "one-off" measures

## A targeted approach is needed

NEA have identified the following policy options:

1. **Investigating deeper price protection or a new social tariff.** This would 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 may need new Government legislation so that it can sit alongside the price cap.
2. **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.
3. **Accelerate the improvement of energy efficiency in fuel poor homes through:**
  - **Prioritising 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 could result in 50,000 fuel poor households missing out on vital energy efficiency installations ahead of this winter.
  - **Committing 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.
  - **Setting 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.

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:

- I. Reducing the standing charge for prepayment users by recovering SOLR costs on a volumetric basis.
- II. Working better identify and act on financial vulnerability of energy consumers
- III. Ensuring costs of failed suppliers are spread over a longer period of time, to reduce the immediate burden on consumers.
- IV. Reducing the wider burden of energy debt on customers by enforcing licence obligations.
- V. Working to ensure that all prepayment users can receive a smart meter as a priority.