National Energy Action (NEA)'s 2023 Autumn Statement priorities

Introduction

National Energy Action (NEA) works to ensure that everyone in the UK can afford to live in a warm, safe home[1]. NEA works collaboratively with many national and local organisations[2] who are at the forefront of the current energy crisis.

Within this short paper, NEA outlines its key priorities for the upcoming Autumn Statement. Last winter, NEA welcomed and supported the UK Government providing significant support to households to address the ongoing impact of the energy crisis. While the provision of cost-of-living income supplements will help many struggling households in the remainder of the financial year (2023-24), key gaps remain, and we believe further urgent actions are needed to support some of the most vulnerable people who are at most risk of needless death and cold-related morbidity this winter. NEA also highlights vital longer-term priorities which can help create warmer and healthier homes, help stimulate the economy, reduce poor air quality, and reduce carbon emissions.

Our key recommendations

1. **Through existing mechanisms, provide targeted energy bill support to support low-income and vulnerable households this winter.**

2. **Build on the current Energy Price Guarantee (EPG) arrangements to further reduce standing charges for prepayment meter customers and reduce the ongoing premium Standard Credit still face.**

3. **Introduce a 'help to repay' scheme to address growing levels of debt within the energy sector.**

4. **Restate the commitment to consult on a new mandated social tariff and fund it in a progressive way from April 2024.**

5. **Provide additional investment into domestic energy efficiency programmes to meet the UK Government's legal duties to upgrade all fuel poor homes to a reasonable standard of energy efficiency by the end of this decade.**

Funding our proposals

NEA understands that given the pressures on the economy, the fiscal situation is still extremely tight, and that the prevailing economic view in government continues to be that there is a need to maintain a sense of frugality when it comes to new spending.

NEA recognises these constraints, particularly when it comes to providing further universal energy-related support like last winter. However, NEA notes that there have been significant underspends on related energy schemes which could be deployed to provide targeted energy bill support through existing mechanisms this winter to support low-income and vulnerable households [see Annex 2]. Our proposals for how to utilise this unspent funding are detailed below and assessed against UK Government criteria in Annex 1. NEA also notes that HMT is now significantly less exposed to high potential costs of the EPG, due to lower than expected wholesale prices[3] and for the majority of the population, the EPG is no longer in place. It has been estimated that this has led to an additional £10bn+ in fiscal headroom as explored by Resolution Foundation[4] and the National Audit Office.[5]

Our Proposals

1.Through existing mechanisms, provide targeted energy bill support to support low income and vulnerable households this winter.

Ofgem has recently announced that the price cap for the period 1 October through to 1 January will be set at £1923 for the typical consumer. While this new price of energy is lower than it has been over the previous 18 months, it is still considerably higher than the price before the invasion of Ukraine, more than 50% higher than the price cap of October 2021 (£1,277).With the exception of the welcome steps being taken to reduce the premium prepayment meter customers have historically faced, for the upcoming winter, there is currently no direct energy support planned, despite bills being significantly higher. At the new level, millions of people will struggle to pay their bills, and NEA estimates that 6.3m households will be living in fuel poverty and susceptible to living in a cold home. While the universal support that was given last winter may not be needed again, there is an opportunity to continue to protect the most vulnerable households in society by giving energy-based financial support to a targeted group of households.

Given the lack of time available to provide such support, this would need to be done through a well-developed method, that has supporting legislation already in place, and that could be made operational very quickly. Such policies that meet these criteria are a targeted Energy Price Guarantee, a targeted Energy Bills Support Scheme or expanded Warm Home Discount.

Work by Citizens Advice has estimated the cost of such support as being ~£3.6bn,[6] in the case that the Warm Home Discount is expanded so that 5.8 million households receive a £600 discount on their bills this winter, bringing their bills much closer to the levels experienced before the invasion of Ukraine. This cost is also indicative of the overall cost required to achieve a similar aim through a targeted EBSS scheme or a targeted EPG.

The route which the UK Government takes to provide support can be debated and NEA has carried out a high-level options appraisal in Annex 3 but we would stress that without taking one of the key routes noted, this winter will be disastrous for millions of low-income and vulnerable households. Not only will this badly impact on both physical and mental health, but it will also continue to damage the economy given energy debt reduces spending power, which in turn, drains local economies and puts further strain on small and large businesses. Continued high energy prices will also continue to negatively impact the Government's aim to reduce inflation.

Another option, albeit not targeted at providing direct energy relief, is to provide additional cost of living payments for the most vulnerable households who have missed out on support (low-income carers, households on bereavement allowance) and provide further support for low-income households with disabilities and medical dependencies.

Carers have consistently missed out on support despite often being in financially difficult situations due to their reduced earning potential and diminished opportunities for higher level learning and training. NEA would like to see all carers receive the full £900 cost-of-living support, regardless of whether they also receive means-tested benefits. The additional costs of this would be tempered by the number of carers that are in receipt of means-tested benefits. Similarly, households in receipt of bereavement allowance have likely had recent shocks to their income but may not be in the means-tested social security system. They have also been largely missed out when it comes to additional support.

Households with disabilities and medical conditions are very vulnerable to the impacts of the energy crisis. They often need to use much more energy than the typical household due to needing to spend more time at home, needing to live in a warmer home to stay healthy, or needing to power high demand medical equipment (such as dialysis machines). NEA believes that because of this, households in receipt of DLA and PIP should receive the full £900 cost-of-living payment. This would cost ~£4.5bn.

2. Build on the current EPG arrangements to further reduce standing charges for prepayment meter customers and reduce the ongoing premium Standard Credit still face.

In the latest Spring Budget, the UK Government set out that they would be “removing the premium paid by over 4 million households using prepayment meters (PPM) bringing their charges in line with comparable direct debit customers until the EPG ends and saving them an average of £45 a year”. This was an incredibly welcome development that has temporarily ended the scourge of the most vulnerable households facing additional costs to access energy. NEA is working closely with Ofgem to ensure that this development is made permanent.

NEA is also pleased that the UK Government is now able to use the EPG to reduce standing charges for prepayment customers to reduce the premium. This is a significant development, as standing charges have a disproportionate impact on prepayment customers. For example, when prepayment users self-disconnect, standing charges continue to accrue as a debt on the meter that must be cleared before energy can be accessed again. Higher standing charges mean longer periods of self-disconnection, and reduced access to energy.

The upcoming Autumn Statement provides an opportunity to build on this development to address two issues in the energy market.

Firstly, the EPG could reduce an unfairness in the market, by reducing the premium faced by standard credit users in the market. Those that pay by standard credit are more likely to be vulnerable across a number of metrics[7], including having a lower income; being more likely to be fuel poor; and being more likely to be a single parent.

The reason for this is that households often use this payment method because they have some level of financial vulnerability. For example, a household may have moved onto standard credit, because their monthly direct debit is simply unachievable. A household may also be using standard credit because they do not feel comfortable giving control of their bank account to a third party through the direct debit system. Penalising these households, which are financially vulnerable, through price differentials, essentially amounts to adding to their costs as a direct result of their vulnerability. This is unfair.

Analysis by Ofgem[8] has shown that there are 2.4 million standard credit electricity users, and 2 million standard credit gas users. A typical dual fuel standard credit user pays a £129/year premium on their electricity.

HMT could look to eliminate this premium, which would cost approximately £200m over the course of the remainder of the Energy Price Guarantee, based on 70% of energy use being consumed during the winter half of the year.

Secondly, the EPG could provide additional support to prepayment customers to help to reduce instances of self-disconnection over the winter, through reduced standing charges. While the UK Government is partly addressing this issue within the EPG currently, they are only being reduced to a point where a typical prepayment user pays the same amount for their energy as a typical direct debit user. There is an opportunity to go further.

This could be done by eliminating standing charges for prepayment users for the remainder of the energy price guarantee. Targeting such an intervention on prepayment users would be efficient, as prepayment users are much more likely to be vulnerable. Doing so automatically through the EPG would also be effective for this group, who otherwise need to rely on a voucher system, which leads to the unintended outcomes of uncashed vouchers. NEA estimates the cost of eliminating standing charges for PPM customers this winter to be approximately £600m.Utilising the EPG to provide additional support to those households to increase fairness in the market, and to reduce self-disconnections, would be a frugal way of securing extremely positive outcomes for the most vulnerable households.

3. Introduce a 'help to repay' scheme to address growing levels of debt within the energy sector

Last winter, millions of households struggled with their energy bills, even with the significant support available from the UK Government. Households had two ways to cope with this, either by rationing their energy, or by racking up debts to their energy supplier. Many who rationed their energy still found their bills unaffordable, resulting in debt.

Data from Ofgem suggests that debt in the sector has been an increasing problem since the start of the pandemic. In the first quarter of 2023, total debt on energy bills stood at £2.25bn, compared to £1.32bn in the first quarter of 2020. A 70% increase in three years.

In the same period, the number of households in debt to their supplier reduced. While this is good news, it does however follow that the households that remain in debt are now more in debt than before, with average debt levels increasing substantially.

This is a significant issue. When this debt is formal debt that is linked to a debt repayment plan, it results in a higher effective price of energy, and ultimately more rationing of energy from indebted households. This can lead to the severe health consequences that can result from living in a cold home.

Moreover, just being in debt can itself have negative consequences on mental health. Half (46%) of people in problem debt also have a mental health problem.[9]

NEA supports the proposals from Money Advice Trust to implement a 'Help to Repay'[10] debt repayment scheme, to provide debt relief and repayment matching.

Such a scheme has strong public support. Nationally representative polling of 2,000 UK adults found that three quarters of UK adults (73%) think people who have fallen into energy debt due to high prices should be given help to reduce what they owe.

The costs of such a scheme could be flexible[11], and would not need to be enough to cover all of the debt in the market, as much of the £2.25bn lies with people that may not struggle to repay their debt, or who do not need the full support of full debt relief.

The Fuel Direct system and process of third-party deductions could be revamped for this purpose. By matching third party payments, debts would be cleared much more quickly. This would also partially address the issues many households have experienced of having older benefits, like Income Support Allowance or Job Seekers Allowance clawed back to pay for debts, without their consent.

4. Restate the commitment to consult on a new mandated social tariff and fund it in a progressive way from April 2024.

It is estimated that high energy prices will remain for a significant amount of time, and while the support packages that HMT have provided for households have been welcome, it is not sustainable, especially with prices changing on a quarterly basis, to provide multiple support packages per year.

In the Autumn Statement, HMT signalled that "The government will also develop a new approach to consumer protection in energy markets, which will apply from April 2024 onwards." And that "It will work with consumer groups and industry to consider the best approach, including options such as social tariffs, as part of wider retail market reforms".

In the spring of 2023, the Department for Energy Security and Net Zero reaffirmed this commitment in "Powering Up Britain: Energy Security Plan", saying: "We intend to consult in summer 2023 on options for a new approach to consumer protection in the energy markets from April 2024 onwards". Such a consultation has unfortunately not been presented, and there is now a risk that the original timescale of an April 2024 introduction will not be met.

It is important that this commitment is reaffirmed, and that HMT works with DESNZ to ensure that any proposals are consulted on as early as possible to ensure that implementation by April 2023 remains feasible.

5. Provide additional investment into domestic energy efficiency programmes to meet the UK Government's legal duties to upgrade all fuel poor homes to a reasonable standard of energy efficiency by the end of this decade

Beyond the need to continue to help directly address the cost of energy, millions of people face every winter in properties which are dangerous or unfit for colder seasons and one in ten households in England lives in fuel poverty, meaning they live below the poverty line but also have much higher bills due to poor levels of energy efficiency[12]. During cold spells, poor housing can also lead to sharp rises in the requirement of the energy needed to stay warm.[13]

At such high prices, fuel poor households living in inefficient homes face a significant challenge. While energy prices for the average household are at ~£1,923/year, for those living in the least insulated homes, the cost of meeting their energy need will be above £2,789/year, almost 30% of the state pension.

The most sustainable way to reduce the exposure of households, and now the state, to high energy prices is to reduce our energy consumption. For the poorest households, the only way to do this safely, while remaining warm at home, is to improve the thermal efficiency of their home. This is recognised in the UK Government's Fuel Poverty Strategy, which accompanies a legal target for all fuel poor households to reach EPC C by 2030.

In this parliament, NEA has welcomed the central funding of energy efficiency schemes once more. This has been achieved through the Green Homes Grant scheme, where spending for fuel poor households has mostly been delivered through the local authority part of the scheme. The scheme has allocated £718m in funding to local authorities to date. Subsequently, the UK Government announced a Home Upgrade Grant (HUG) scheme, aimed at fuel poor households who do not have a connection to the gas grid. Up to now, HMT has allocated a total of £1.1bn to the HUG scheme.

This recent investment is hugely welcome and alongside our supporters, NEA has been assisting the policy design and delivery of these schemes. However, a more comprehensive, long-term strategy and corresponding programmes are ultimately going to be needed to meet the statutory requirements to help all fuel poor households in England[14].

In particular, the Conservative Manifesto contained welcome proposals for a larger, £2.5bn Home Upgrade Grant Scheme (HUGs) that would be completely delivered during this parliament. The upcoming budget provides a critical opportunity to fulfil the manifesto commitment by increasing the HUG budget by £1.4bn this parliament, insulating more homes and shielding more fuel poor households from a prolonged energy crisis. This could be done initially by allocating more funding to local authorities through further rounds of the scheme, and eventually through the creation of a demand-led HUG scheme, where households can apply centrally for grants. This would help to reduce the locational inequities created by the current scheme where access to the scheme depends largely on location.

Additionally, many millions of pounds were returned to government this year from HUG Phase 1 schemes that did not meet their expected targets. There is an opportunity to reallocate this funding into a new LAD programme to help more low-income households living in energy inefficient homes.

HMT should use the opportunity presented by the Autumn Statement to urgently make additional LAD funding available to English councils to use this winter. Such a programme would be likely to succeed as: there is huge demand from households, with thousands of households on waiting lists; robust delivery partnerships with installers and referral organisations are already in place, the Infrastructure and Projects Authority (IPA) rated LAD delivery in 2022-23 as green for timescales, budgets, and quality.

A new LAD scheme would support many thousands of low-income and vulnerable households and help improve our country's long-term energy security by reducing demand for imported gas.

Beyond these immediate measures to improve the energy efficiency of homes, NEA continues to stress the need for the £6bn committed towards energy efficiency from 2025 to 2030 to meet the objectives set out in the latest fuel poverty strategy. That is to say that the allocation of funding should be made on a worst first, fabric first basis, prioritising improving the energy efficiency of fuel poor homes.

Finally, it is crucial to ensure that the energy efficiency for rented accommodation is improved, with privately rented homes needing particular attention. Since 1 April 2020, private landlords can no longer legally let or continue to let any domestic properties unless they meet the minimum energy efficiency standard of EPC E unless they have a valid exemption in place, and they have made a financial contribution of up to £3,500 including VAT towards the cost of upgrading their properties with energy efficiency measures. Despite these welcome requirements, private renters often live in the least efficient homes. In total, 210,000 privately rented homes in total fail to meet the minimum standards of EPC F/G. Over 100,000 are fuel-poor tenants who are now living in the least energy efficient privately rented homes despite legal requirements to the contrary.

Citizens Advice has highlighted the consequences of this - that renters face widespread problems with damp, mould and cold, with 1.6 million children exposed to these conditions. Around two-thirds of privately rented properties in England and Wales fall below EPC C, the government's target rating for all fuel poor homes by 2030.

There is evidence that tax incentives could help make investments more attractive, incentivising retrofit. Recent survey evidence from Propertymark, the UK's leading professional body for property agents, shows that nearly 70% of agents think that support should extend to allow energy efficiency improvement to be offset against capital gains tax. A simple tax restructuring to allow energy performance improvements to be deductible against rental income could help make investment more attractive for landlords. Individual landlords currently pay income tax on their rental properties at the same rate as other earned income. Before they work out how much they will be taxed, landlords may deduct costs of managing the property, legal fees, replacement furniture, insurance, utility bills, ground rent and maintenance and upkeep – but not energy saving improvements. We encourage this allowance to be expanded to include expenditure on improvements that result in an increase in the Environmental Impact Rating of the property or included in an agreed list of measures (i.e., loft insulation, cavity wall insulation, etc). This would represent a maximum tax revenue foregone of £1.2bn to 2028, or around £0.24bn per annum over 5 years. This view is shared by financial institutions, landlords and consumer groups, who have previously written to the chancellor on this matter.[15]

Annex 1 – Assessment of our options

Assessment Against Green Book Criteria							
Recommendation	**Value for Money**	**Cost / Revenue Implications for the Exchequer**	**Wider Macroeconomic Implication**	**Distributional impacts**	**Administrative / Compliance Costs**	**Legislative / Operational Requirements**	**Environmental Impacts**
Targeted Support	Income Support for low income and vulnerable households is known to have high equity weighted value. It is also known to be good value for local economies.	~£3.6bn	Money towards low-income households has been shown to have positive impacts on local economies, with more money being spent on local goods/services compared to if money was transferred to high/middle earners.	All options would impact more positively on lower income households.	Kept low by using existing mechanisms.	None/TBD	Making energy more affordable would allow households to use more if the energy they need. This would offset the false carbon impact that is gained through unhealthy rationing practices.
Build on the current EPG arrangements		£200m to eliminate the standard credit premium. £600m to eliminate prepayment standing charges.			Kept low by using EPG as delivery mechanism.		
Help to Repay Scheme **Provide Additional Cost of Living Payments**		TBD			Kept low as households already identified.		
Introduce a Social Tariff for Energy		TBD			TBD		TBD
Increase Energy Efficiency Funding		HUG - £1.4bn Tax Exemptions - £1.2bn			Low, as per HUG scheme.		Would likely lead to carbon savings.

<table>
<tr><th colspan="5">Assessment Against UK Government Priorities</th></tr>
<tr><th>Recommendation</th><th>Halve inflation</th><th>Grow the Economy</th><th>Reduce National Debt Ceiling</th><th>Address NHS Waiting Lists</th></tr>
<tr><td>Targeted Support</td><td rowspan="2">Targeted financial support for households can reduce inflation by directly reducing energy bills for vulnerable households. Doing so through the EPG has previously had a direct impact on ONS inflation figures.</td><td rowspan="5">Money towards low-income households has been shown to have positive impacts on local economies, with more money being spent on local goods/services compared to if money was transferred to high/middle earners.</td><td rowspan="5">While none of these measures will directly reduce the debt ceiling, the scale of funding needed for our proposed package of measures will not be large enough to have a negative impact on the debt ceiling.

Our proposals are also well within an envelope of spending that is confined to the savings previously made through the delivery of schemes which spent far less than expected.</td><td rowspan="5">Addressing the affordability of energy for fuel poor households has a direct benefit to the NHS, and to reducing NHS waiting lists.

Every year ~10,000 across the UK die because they live in a cold home, and countless more people suffer the impacts of morbidity due to excess cold at home. Our package is designed to keep households warm at home this winter and beyond. Doing so, would reduce the strain placed on the NHS by cold homes, reducing the need for NHS resource, and in turn reducing waiting lists.</td></tr>
<tr><td>Build on the current EPG arrangements</td></tr>
<tr><td>Help to Repay Scheme</td><td>While providing income support to households universally could increase inflation, doing so in a targeted way should not have this impact, as it will reduce rationing, instead of increasing buying power.</td></tr>
<tr><td>Introduce a Social Tariff for Energy</td><td>Targeted financial support for households can reduce inflation by directly reducing energy bills for vulnerable households. Doing so through the EPG has previously had a direct impact on ONS inflation figures.</td></tr>
<tr><td>Increase Energy Efficiency Funding</td><td>Increasing energy efficiency funding should directly lead to reductions in consumption of energy, and therefore reductions in inflation.</td></tr>
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Annex 2 – Underspend from Energy Support Schemes Winter 2022-23

Scheme	Underspend	Estimate of HHs missing support	Type of households missing out on support
Warm Home Discount A £150 rebate given to households identified as having a low income and living in an energy inefficient home.	£45m	300k households affected.	• In receipt of benefits • Living in an inefficient home • Did not engage with their letter (i.e., more likely to be even more vulnerable).
EBSS vouchers The portion of the £400/household energy bills support scheme that would go to legacy prepayment customers in the form of fuel vouchers.	£98m	At least 250k households affected	• Legacy prepay customers • Very likely to have a very low income • More likely to be vulnerable • More likely to be disengaged
EBSS Alternative Fund The portion of the £400/household energy bills support scheme that would go to households without an electricity account, in the form of a cash payment.	£301m	760k households	• Households without an energy supply contract. This includes: ○ Gypsy/Roma Communities ○ Boat communities ○ Households in the PRS living in HMOs
Total	**£444m**	**At least 1 million**	

Annex 3 – High level options appraisal for energy support mechanisms in winter 2023-24

	Energy Price Guarantee	**Energy Bills Support Scheme**	**Warm Home Discount**
Effectiveness at reaching households	Automatic provision to all recipients	Automatic to most households, but voucher scheme for legacy prepayment households. Previous EBSS scheme has ~10% vouchers unused. Automatic to most households, but voucher scheme for legacy prepayment households. Previous EBSS scheme has ~10% vouchers unused.	
Cost of Support	If a unit rate reduction is given, the scale of support is unknown, but data from the winter of 2022-23 shows that excessive usage is unlikely to be a significant issue.	A fixed bill discount means that the costs of the scheme would be known to the exchequer at the point of scheme design.	
Administrative Burden	Targeted EPG already in place for prepayment customers, with ability to expand provision to any group of customers.	No additional legislation required, but no EBSS scheme planned for this year yet, so may be difficult to be in place in time for winter.	Legislation in place already for the scheme, but scheme mechanics for 2023-24 have already started and may be difficult to change
Type of support delivered	A combination of fixed support (standing charge reduction) and a unit rate reduction could be given, helping both low and high users.	Fixed bill discount. Helps low users, but provides proportionately less support to high users, who are often more vulnerable (e.g. those who have a medically dependency).	

Sources and Further Information

[1] For more information visit: www.nea.org.uk.

[2] NEA is a membership organisation whose members include local authorities, housing associations, health agencies, charities, community. Private sector supporters include businesses with an interest in the domestic energy efficiency market including energy supply companies, scheme managers and consultants, boiler manufacturers, insulation and central heating installers and component suppliers, land developers and manufacturers of renewable technology products.

[3] News Release, Cornwall Insight, 2023

https://www.cornwall-insight.com/press/winter-2023-24-price-cap-forecasts-fall-further-below-2022-23-epg-but-long-term-prospects-remain-uncertain/

[4] The only way is down, Resolution Foundation, 2023

[5] Energy Bills Support, NAO, 2023

[6] Winter Warning, Citizens Advice, 2023

[7] CMA Energy Market Investigation Appendix 9.9 – Prepayment, CMA, 2016

[8] Levelling the cost of standing charges for prepayment metersv, Ofgem, 2023

[9] Money and Mental Health Facts, MMHPI, 2023

[10] Help to Repay Scheme Proposal, Money Advice Trust, 2023

[11] The targeting of such a debt relief scheme could be flexible, where support is based on element such as:

- Whether a household is paying back a debt via both fuel and water direct
- Whether the indebted household has known medical conditions
- Whether debts are over a certain threshold, or the current repayment rate would mean that the duration of debt repayment meets a certain minimum threshold.

Depending on the route taken, a different funding envelope would be required. It would be possible, for example, to pilot a smaller scheme, based on tighter targeting, before moving on to broader provision.

12. Annual fuel poverty statistics report for 2020 (with 2018 data), Department for Business, Energy & Industrial Strategy, 30 April 2020

13. Emissions from homes and public buildings rose sharply by 2.5m tonnes or 4% in 2018 because of the Siberian weather system 'the Beast from the East" equivalent of a small country like Albania's annual emissions.

[14] Fuel poverty strategy, BEIS, 2023

[15] UK financial institutions, landlords and consumer groups call for new energy efficiency support for renters, E3G, 2023