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against
poverty

CAP

Energy bill support – designing policies to support British households in an age of high price

CAP's written response to the Social Market Foundation's (SMF) consultation

December 2022

always hope.

Summary

Christians Against Poverty (CAP) has more than 25 years of experience in delivering debt help. CAP supports over 8,000 people on their journey out of debt each year and has specialist in-house teams to support vulnerable individuals. Through this experience, CAP has developed insight into the varied and complex needs of vulnerable consumers and their relationships with creditors. CAP also runs community-based groups across the UK, the CAP Money Course and CAP Life Skills, both which help adults with money management skills. CAP therefore has experience with helping people on low incomes navigate and manage their bills.

- Energy prices are rising and many low income households have long been unable to afford energy costs. Therefore CAP agrees that more must be done to support households to stay warm and well.
- Any designed support scheme must be targeted to those who need it most and it must ensure that there are no cliff edges.
- It is today's cost of living crisis that creates the most compelling argument for creating new mechanisms to offer targeted support. CAP would like to see creative new approaches and, if needed, investment in new mechanisms to deliver support adequately.
- Both reducing energy costs and improving home efficiency achieve similar results for households, but CAP would like to see the main driver behind interventions tackle affordability, rather than energy efficiency alone. This keeps people at the centre of policy making and decisions.
- Additional policies should be created to incentivise landlords (including those in the private rented sector) to improve the energy efficiency of properties. It is not fair that households, or Government support, should pay for additional energy usage due to poor efficiency.

1. Should help with high energy bills be universal, or should support be targeted in some way on groups deemed to be in particular need of help?

As energy bills soar, it is the low income households who are feeling it the most. As a proportion of total income, low income households will be spending a much higher percentage on energy, leaving little to no wiggle room for other essentials, like food. Figures produced for The Guardian in August 2022 forecasting for the October 2022 price cap rise, taking data from Ofgem and the Office of National Statistics (ONS), suggested households could be spending as much as 47% of their entire household budget on energy costs.¹ The report cited that those on the lowest incomes could be paying 62% of their total household income after housing costs. With the debt advice sector seeing a rising number of client budgets in deficit, any rise in energy will see more households pushed over the edge. From CAP's experience, those clients struggling to afford energy costs will often go without. This sees households living in the dark, cooking on fires in their gardens and struggling to stay warm. In a fair and just society, this is not right. Therefore, CAP would recommend that if there is a limit on the level of financial support, this support should be targeted to those in particular need of help. This way those for whom the support would make a material difference in the everyday will receive it.

Selection: Who should receive targeted support with energy bills? How should selection criteria account for income and energy usage?

There are two main factors that dictate how much energy support a household might need; one is income level and the other is energy requirements. Energy use may be dictated by household makeup, whether anyone is living in the property who has additional needs requiring higher energy use, and the energy efficiency rating of the property. Any households living on a low income should be entitled to additional help, and households that require greater energy use should receive further support. The differing need could make up elements of support, a base element for low income households and then further awards for those requiring a higher than average energy use. As mentioned in the report, there should also be targets placed on landlords to ensure private rented homes meet a minimum efficiency rating of EPC C.

The new definition of fuel poverty should not be used to target support with energy bills, because the definition requires someone to be in a poor energy efficient home. However, for people on low incomes, it can still be hard to afford energy even when living in homes with good energy efficiency ratings. Therefore, this should not be used as the proxy.

¹ <https://www.theguardian.com/money/2022/aug/26/ofgem-cap-poorest-homes-47-of-budget-on-energy>

Incentives: How can a system of targeted support avoid – or lower – cliff edges that see some recipients losing significant sums of money because of changes in their circumstances?

Payments do not need to be a flat rate, every household could be entitled to a certain number of 'warm hours' supported by smart tech, after which they must pay for further usage.

Stigma, low knowledge and participation: How can a system of targeted support address the risk that some eligible recipients might not claim the help they are entitled to?

Since the COVID-19 pandemic, targeted support for low income households has been evolving and there are opportunities to make the support automated. The UK has seen support given to households living in certain Council Tax bands, the pilot schemes using HMRC data to match with DWP data for various reasons and awareness-raising campaigns for these targeted groups.

As it stands, the pricing of energy tariffs is very complicated and can lead to confusion for households. For those on a low income this complication reduces confidence in the amount of energy they are able to consume, and can also cause problems if usage is above what it should be. Any future model that helps to improve this would be welcomed.

Sitting outside the remit of this consultation, something CAP and other anti-poverty charities have been campaigning for is raising the rate of social security. Whilst CAP has been encouraged by the decision to uprate social security by the rate of inflation in April 2023, for many this is too little, too late. Whilst this report, and stakeholders who fed in state that any support should be targeted directly towards energy bills, CAP would argue that there would be less need for support if households had sufficient levels of income to begin with. If all households receive at least the Minimum Income Standard, there should be less need for additional schemes targeting specific essentials. Some would counter and suggest that this additional income risks being spent elsewhere; however, this is another issue altogether and as a default there should be trust in individuals and households to steward their income.

Whatever system is designed, it must be targeted to those who need it most, it should be automatically allocated and sufficient to ensure households are not left in the cold and dark.

2. It is (relatively) easy to answer the questions above. Implementing those answers in practice is a very different matter, because as this report has shown – and the current Government has tacitly accepted – existing mechanisms for identifying those in need of bill support and then delivering that support are inadequate and wasteful.

Do you agree that an energy bill policy that seeks to deliver targeted support to those in financial need requires the creation of new state mechanisms to identify those people and deliver that help?

If you do: What information about households' financial situations and energy usage would such a new system require? And further: Is the creation of a new state mechanism, reliant on knowledge of the personal circumstances of households, politically viable? How might political and public concerns about “database” policies be addressed here?

The current mechanisms used for delivering support are flawed because, as the report states, they have not been designed for this purpose. Whilst CAP is encouraged by the number of support measures that have been made available to people over the years, including Warm Home Discount, the Energy Price Guarantee and cost of living payments, there is still room for improvement when it comes to delivering this support. As it currently stands, most solutions that have been suggested are passported on existing structures, such as being in receipt of means-tested benefits. This, however, leaves out people in work on low incomes who don't have children and so are not eligible for one of the benefits. For instance, Warm Home Discount is passported on, and therefore those on a low income but not in receipt of social security have no way to apply through their energy supplier. It is worth noting that in a lot of instances the information is there, but data sharing restraints and the inability to match incomes to households causes issues, as do outdated EPC ratings.

If there was a new mechanism designed by the Government, it could better target support for people who need it most and could be provided automatically, meaning that those most excluded from society would not miss out. This wouldn't have to be constrained to energy bills, but could encompass water social tariffs and other governmental support offered to certain groups. This, however, requires a unified and holistic approach from the Government, as well as a significant amount of investment. However, the long-term benefits would outweigh the upfront costs of setting this up.

There may be concerns about privacy and the amount of data the Government holds on individuals and households. CAP is unable to provide an informed view on this topic.

3. **When it comes to delivering bill support, we have considered four broad options for policy. We find that two of these approaches raise such significant problems that they should not be considered as the basis for long-term policy. Rising block tariff models have superficial appeal and a degree of public support, but because of the complex relationship between income and usage, they create inconsistent and unsustainable outcomes. Real price caps also have an appealing simplicity, but create regressive outcomes and remove incentives to reduce usage or increase energy efficiency.**

Do you agree with our rejection of these two models?

CAP would caution against the full rejection of the rising block tariff model, as there are some benefits of this model. If the main concern to be addressed is ensuring that all households have a safe amount of energy they can access, this model option works well. This could further be combined with options such as payments for people with higher energy needs due to health or disability.

4. **Rejecting rising block tariffs and real price caps leaves two options on the table: fixed payment discounts and per-unit discounts. Both are progressive, delivering the most help to people on lower incomes. Fixed payment discounts can deliver lower bill reductions, given the changes in behaviour they can encourage. Per-unit discounts can deliver the biggest benefits to people on higher incomes, and significantly reduce household incentives to reduce energy usage. We think these two policies, their advantages and downsides, should be considered in more depth as part of a long-term energy bill policy.**

Do you agree with our assessment of these two policy options? Are there other ways to deliver bill support that we should consider?

CAP broadly agrees with the assessment of the two policy options. Comparing the data modelling, both schemes would support 8.3 million households and cost £6.7 billion to run, as well as 63% of recipients being in the lowest three income deciles for both. As a result, this shows both models are equally as effective at targeting those who need it most.

Fixed payment discounts

CAP agrees with the assessment that this could work automatically, which helps to make sure people are not excluded from the support. It is also beneficial in that it encourages households to monitor their consumption, which supports the environmental goals. Whatever the discount, CAP would recommend that the level decided tracks with actual energy prices. This is in contrast to, for example, the Warm Home Discount which is a fixed payment and has only been increased once, by £10, since 2011

CAP is concerned that with any scheme, the sudden cliff edges could see a large number of households unable to secure any support, even if their situation is only marginally different to another. The report mentions the ‘forgotten middle’, those households not in receipt of any social security but living on a low income – CAP would like to see any support scheme designed to ensure there are no groups who need the help overlooked.

Unit rate discounts

There are some benefits gained with a unit rate discount. CAP is aware that this model does not incentivise consumers to use less energy or insulate homes better. However, looking at CAP’s client base, only one in ten (11%) clients own their home, so the majority have little control over improving home energy efficiency. What is more, CAP would rather see those who have higher energy consumption needs, such as people who have a disability or illness, be able to afford to use what they require. This option provides a greater value of financial support to households that consume more energy.

It could be that these two policy options are put forward, allowing customers with higher energy needs to be able to access unit rate discounts, and other households who have average level of need able to receive a fixed payment discount.

5. **Energy efficiency is clearly a vital part of any effort to reduce energy bills, and Britain’s poor performance on increasing the efficiency of homes is regrettable in the extreme. Given that a key obstacle to increasing efficiency is unstable, short-lived policy, an important question here is: What is the best way to ensure lasting, stable efficiency-promoting policies that can survive economic and political cycles?**

But while there is widespread agreement that efficiency must be increased, many fundamental questions remain, not least since efficiency policies can and do have multiple aims. Should efficiency policies be set in order to maximise reductions in overall UK energy demand, or to maximise the bill savings to those in greatest financial need?

Responses to that trade-off might help frame answers to a subsequent question: Should Government support with the costs of household energy efficiency work be targeted solely on those in financial need of help with bills, or should some support be available to those who are able to pay for efficiency measures but do not choose to do so?

A related question: Should the group deemed to be in need of help with efficiency measures be the same as the group selected for targeted price support, or should it differ? If so, how?

Only 11% of CAP's client base live in owner occupied accommodation. This leaves the vast majority of clients unable to impact the energy efficiency rating of their property, save for small efforts like buying thicker curtains and adjusting boiler temperatures. As a result, CAP would like to see the Government do more to incentivise landlords to upgrade their properties to a better energy efficiency rating. This should be a priority and could involve schemes for landlords to spread the costs of these updates.

As many as 77% of CAP clients in 2021 were living in rented accommodation (52% in social housing and 25% in the private rented sector). CAP hears many stories of clients dealing with poor living standards, unable to do anything about it. CAP would like to see the Government intervene in these instances, to ensure people are able to live in accommodation of a decent standard. It could be that the Government produces an incentive for private landlords by launching an additional tax on properties that have few energy saving measures in place. This money could then be earmarked for other low income households to improve their own homes. It is also worth noting that in a minority of cases, the energy efficiency rating of a property cannot be improved. Therefore, whilst CAP supports any attempts to improve housing stock across the UK, people living in poor quality homes should not have to pay disproportionately more.

CAP would like to see efficiency policies targeted at maximising savings from bills for those in greatest need, as opposed to the main focus being on reducing energy demand. Whilst these are both listed as benefits of improving home efficiency, support from the Government should be targeted to those who need it most. By aiming to reduce bills as a priority, the consumer is placed first and this helps to ensure that any policy is actually helping people as intended, rather than becoming a net zero policy.

As to the question on whether the group deemed to be in need of help with efficiency measures should be the same as the group selected for targeted price support, CAP would strongly suggest these groups are not conflated. Whilst there may be overlap, with a lot of households eligible for financial support also eligible for efficiency support, CAP would like

to see the efficiency support targeted to those homes who could experience the most benefit from it. For instance, a low income household living in an EPC B property should not receive as much support for energy efficiency as a household living in an EPC E band. Yet, they may both receive support for the price of energy due to their low income status.

6. We have largely considered price support and energy efficiency separately in this report. Of course, we acknowledge that in reality, such policies would coexist and interact. How should price support and energy-efficiency policies interact?

CAP understands that over the long term it is contradictory to continue to support households with their energy bills when their usage is high due to poor energy efficiency. This both harms the environment and is not the best use of public spending. As a result, those in need of energy price support should be prioritised for energy-efficiency support where this is appropriate. Anyone identified as living in a low energy efficient home, who is renting, should have their landlords targeted. CAP understands that for many landlords, forcing upgrades could make renting untenable; so, CAP would like to see more incentives for landlords. CAP would like to see the Government design a scheme specifically for this group – one which does not bankrupt landlords, but also ensures they commit to these changes as a matter of urgency. It is worth noting that this scheme should not see costs be placed back on households.

Whilst this report stated that whatever solution should be targeted specifically at energy bills, CAP would like to reiterate the point that social security levels are too low. There are also large numbers of households living in in-work poverty, not able to earn enough to afford basic living needs. Low income is the main issue here, and so this should take priority over energy efficiency.

7. Electricity market reform is a vast and complex topic, much of it beyond the scope of this report and this project. But clearly the way wholesale energy prices are determined is directly relevant to energy bills and the people who pay them. What principles should underpin electricity market reform, and how can that reform take full account of household energy bills? How should market reform policy interact with other energy bill policies?

CAP is not an expert in this field, so is unable to comment on what market reform should look like. However, one of the underlying principles of any market reform is that consumers should have the ability to pay. There should be clarity in how the market operates, foresight and affordable prices. CAP would like to see every UK consumer able to feel a sense of

dignity and have the ability to confidently engage with the energy marketplace. CAP wants to see the Government ensuring that people can afford to use the energy they need to stop severe rationing and long term self-disconnection.²

² capuk.org/adarkplacepdf

About Christians Against Poverty (CAP)

With a vision to see transformed lives, thriving churches and an end to UK poverty, Christians Against Poverty (CAP UK) is a national charity that equips local churches to deliver a range of services.

CAP Debt Help provides holistic support for families and individuals facing problem debt with a free face-to-face service – tackling both the financial conundrum and the wider emotional impact. CAP tackles the causes and consequences of UK poverty through free community groups, also run through local churches. This includes Job Clubs, Life Skills groups and the CAP Money course.

All CAP's services are free of charge and available to everyone, regardless of age, gender, faith and background. To find out more, visit capuk.org.

Requests for further information

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