Crunch Point

Protecting households from record energy bills in the coming months

citizens advice

Executive summary

This April energy prices are set to increase by 54% and households will face an average annual bill of nearly £2,000.[1] At the same time, general inflation is forecast to hit 8%, pushing up many costs including the price of a food shop.

In October, annual energy bills could hit £3,000 as the wholesale price of gas soars. Citizens Advice found that despite the government's support measures:

- **5 million people** will be unable to afford their energy bill when prices rise in April.
- **14.5 million** will be unable to afford their energy bills from October.[2]

Everyone is feeling the impact of the cost of living crisis, but some will be hit harder than others. People who pay as they go for their energy on prepayment meters are less able to spread the cost of energy throughout the year and will face huge hikes next winter:

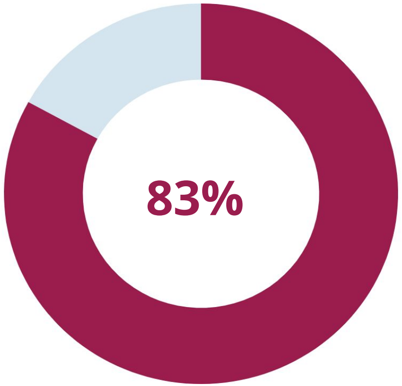
- Rising energy costs could see an average household on a prepayment meter facing bills of £336 - **over £10 a day** - in December 2022. That same usage would have cost them £147 in December 2021.
- In January 2023 - a month when finances are already tight for many - prepayment customers will have to find an estimated £360 to cover their energy costs, or risk being cut off.[3]

People on low incomes are most likely to be unable to afford price rises from April. Polling commissioned by Citizens Advice shows that **nearly half (47%)** of people on low incomes predict that they will fall behind on their essential bills, or cut back on essential spending.[4]

Government urgently needs to step in

The government has announced a package of support to help people manage April and October's price rises. This is made up of a £150 grant in April and a £200 loan in October.

But more than **8 in 10 (83%)** of people we spoke to said that they did not think that the £200 energy loan would make a significant difference to their ability to pay their bills.



The government should put in place both broad and targeted support to mitigate the impact of price hikes:

- **Uprate benefits** in April to better reflect the cost of living.
- **Support households in October** through a more generous, non-repayable Energy Rebate and an expanded Warm Home Discount scheme.
- **Better target existing energy efficiency schemes** and **help consumers make the right choices** to decarbonise their homes.

Ultimately, government will need to implement a 'Marshall Plan' for energy efficiency nationwide to decarbonise homes and reduce our reliance on gas.

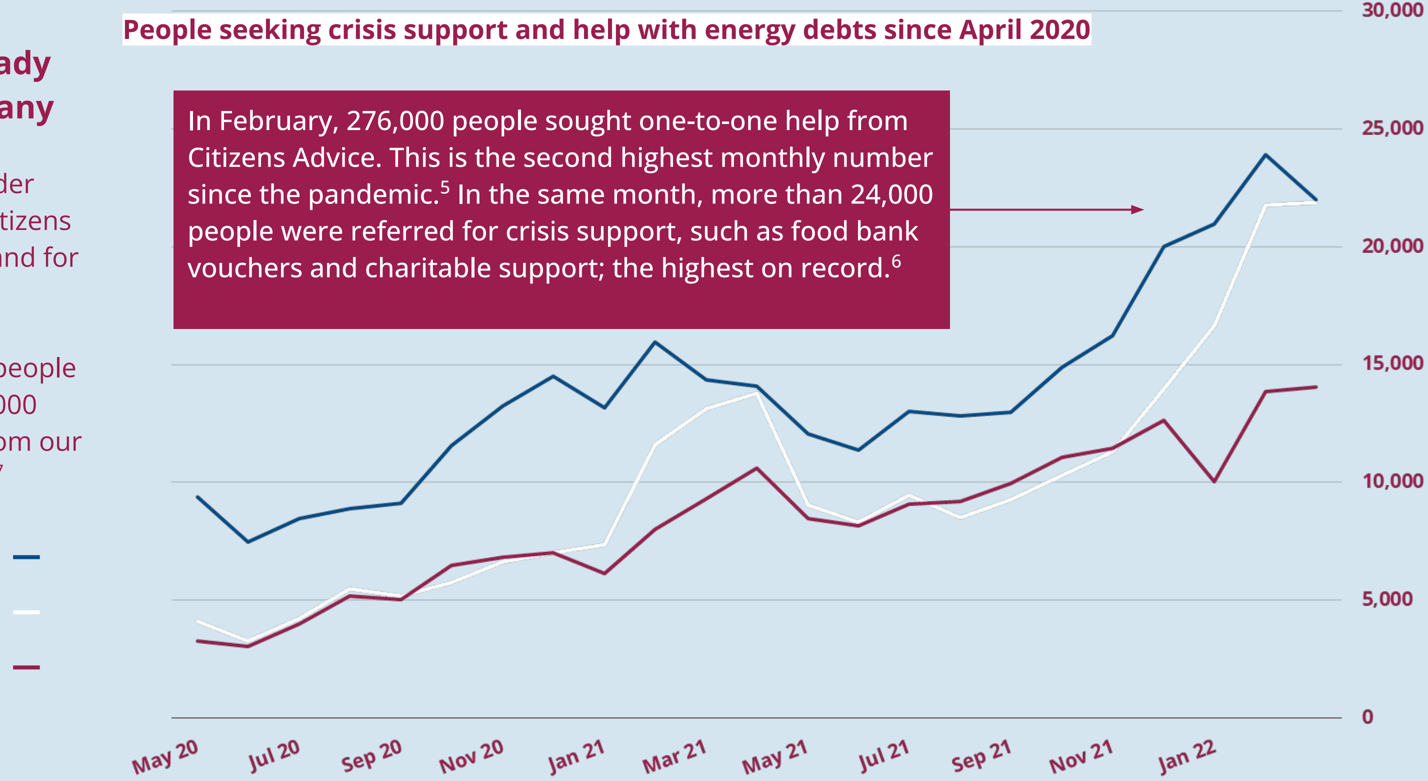
Energy prices will hit generational highs leaving millions struggling to pay their bills

Energy costs are already unmanageable for many

Household budgets are under enormous pressure, and Citizens Advice is seeing huge demand for support as a result.

In February 2022, 276,000 people sought our advice. And 49,000 people received support from our consumer service helpline.[7]

People seeking crisis support and help with energy debts since April 2020



In February, 276,000 people sought one-to-one help from Citizens Advice. This is the second highest monthly number since the pandemic.[5] In the same month, more than 24,000 people were referred for crisis support, such as food bank vouchers and charitable support; the highest on record.[6]

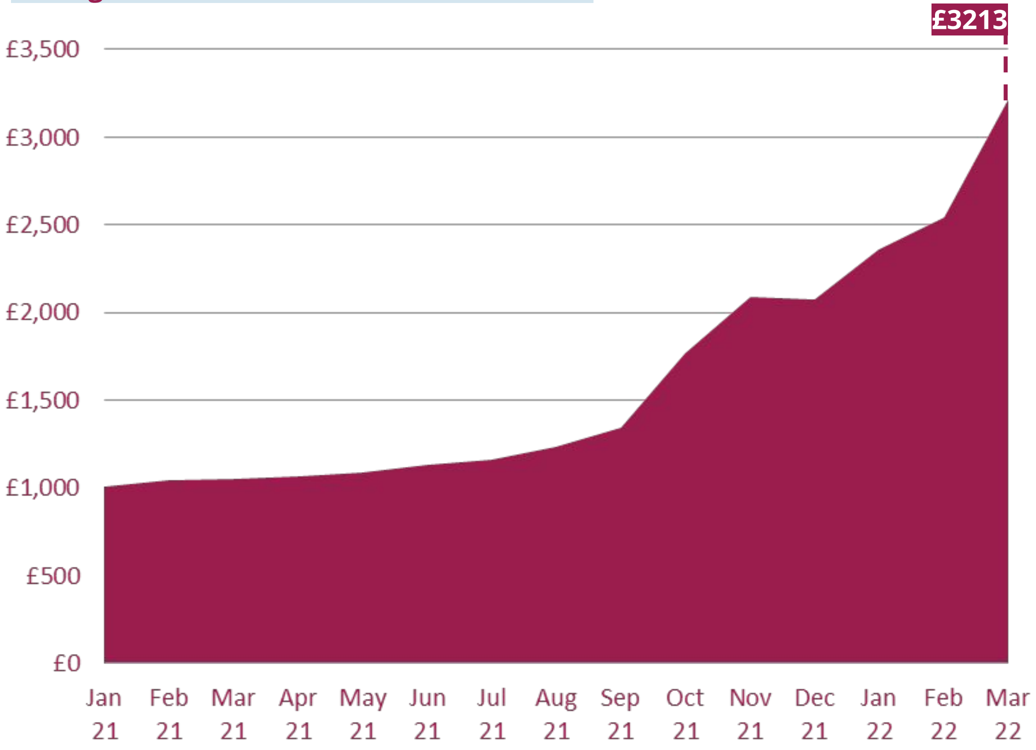
Our research suggests that already more than **1 in 10 (13%)** people can't afford their energy bills without cutting back or falling behind on other essential spending.

1 in 20 (5%) are unable to afford their energy bills even after cutting back on other essentials.[8]

Customers can't switch to lower their energy costs because fixed-term tariffs are currently more expensive than the price cap.

In March 2022, the average fixed tariff increased by more than £600 compared to the previous month, to over £3,000.[9]

Average fixed tariff available on the market



Energy bills are set to skyrocket in April - and again in October

From 1 April, the price cap is set to rise, with energy bills increasing by nearly £700 for the average direct debit customer to £1,971. The average prepayment meter customer will see their bills rise even further to £2,017.[10]

The government announced steps in February to shield customers from some of the impact of April's price hike. This included a £350 package of support for most households made up of a £150 one-off Council Tax discount for properties in bands A to D in April 2022 and a £200 loan via energy accounts in October 2022.

Since then prices have continued to rise - in part due to the devastating war in Ukraine and its effect on wholesale gas prices. Latest estimates suggest bills are set to soar even higher in October, with people facing average bills between £3,000 and £3,500.[11]

The government's support package is welcome but our analysis suggests that it doesn't go far enough given the scale of bill hikes people face - particularly in October.

Even after accounting for both rebates in full:

- From April, **5 million people** will be unable to afford the average monthly rise in the price cap.[12]
- From October, **14.5 million** would not be able to cover the expected cumulative price cap rise of £145 per month. That's more than **1 in 4 adults**.[13]

The government's £200 energy loan is expected to be paid as a lump sum into customers' accounts in October, and will need to be paid back over the next 5 years at a rate of £40 per year. We asked people how they felt about the loan's impact on their ability to afford their bills:

- More than **8 in 10 (83%)** said that they did not think that the government's loan would make a significant difference to their ability to pay their energy bills.[14]
- Almost **1 in 6 (16%)** said that they thought that the energy loan would make it more difficult to pay their energy bills.[15]

People on low incomes will be hit hardest

The coming year will be difficult for millions, but people on low incomes[16] will find it particularly difficult to weather price increases.

Our research highlights the unequal way that price rises will impact those struggling the most:

- People on low incomes are already **twice as likely** to be unable to afford their energy bills, with **1 in 12** unable to afford their bills even after cutting back on other essential spending (compared to **1 in 24** for people on higher incomes).[17]
- From April, **nearly half (47%)** of people on low incomes predict they will have to fall behind on essential bills, or have to cut back on essential spending. This is compared to a **quarter (25%)** of people on higher incomes.[18]

People on benefits are already struggling to make ends meet

Our advisers are seeing more and more people seeking advice on issues that relate to the cost of living. As well people struggling to cover food and fuel costs, they're also seeing knock-on impacts of rising prices, like people unable to afford housing costs, council tax and debt repayments.

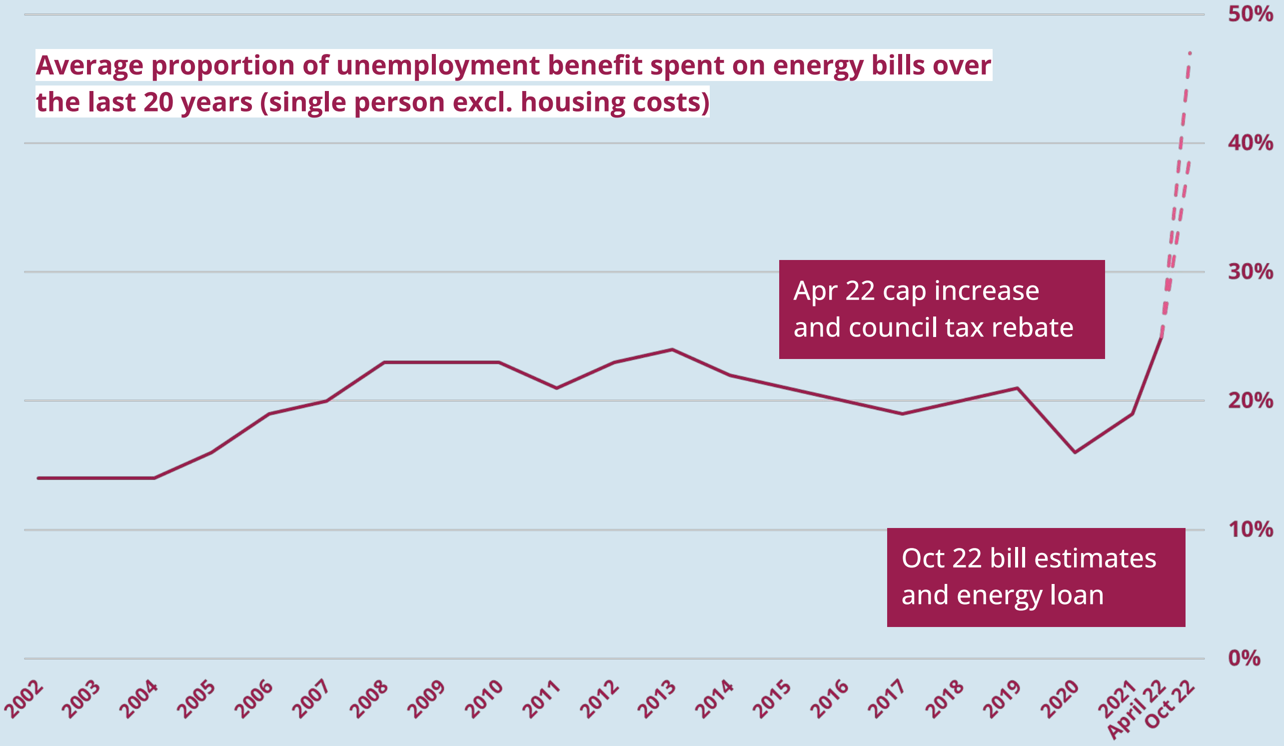
We analysed cases from Citizens Advice offices about the impact of the removal of the £20-a-week increase to the standard allowance of Universal Credit in October 2021.

In more than a quarter (27%) of cases we analysed, adviser notes attributed the need for a food bank referral to the removal of the £20 increase.[19]

People on unemployment benefit will see the proportion of their allowance spent on energy bills soar to new generational highs

We analysed energy tariff data against historic benefit levels going back two decades. A single person on benefits will still be spending **a quarter (25%)** of their standard allowance - the basic rate of Universal Credit - on energy bills. This is even after including the £150 Council Tax rebate.

Looking ahead to October, we took 2 estimates of predicted average energy prices and found that a single person on benefits could end up spending between **39%** and **47%** of their standard allowance on energy bills.[20] This would leave little to cover remaining costs such as food, transport, internet and additional bills.



Prepayment customers are at particular risk of hardship next winter

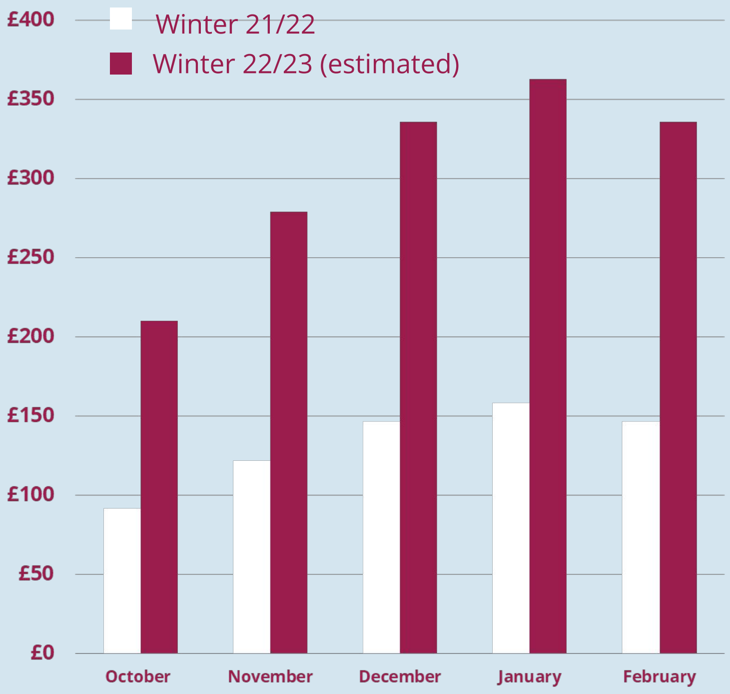
People who pay for energy by direct debit have their energy costs spread more evenly across the year. That's because suppliers tend to charge a flat rate monthly and customers accrue credit in summer and spend it in winter.

But **4.5 million households** on prepayment meters pay for their energy as they use it, which means prices vary throughout the year and can peak in winter at unmanageable levels. These households will be particularly hard hit by spiralling costs.

Households on prepayment meters are already at a greater risk of fuel poverty. According to the most recent government figures, more than a **quarter of households (31%)** who pay for their electricity via prepayment are fuel poor. This is compared to **1 in 9 households (11%)** who pay for their gas via direct debit.[21]

Citizens Advice analysis found that energy costs for prepay customers next winter will likely far outstrip this winter. In December 2021 the average household paying for electricity and gas through a prepayment meter spent £147 on their energy. We estimate that in December 2022 the average household on a prepayment meter would be spending over £10 a day on their energy, paying £336 for the month alone.[22]

Monthly energy costs for prepayment customers



In January 2023, just after Christmas when finances are already tight for many, prepayment customers will have to find an estimated **£360** to cover their energy costs, or risk being cut off.

In recent months we have seen record numbers of people come to Citizens Advice because they can't afford to top up their prepayment meters.[23] With the price cap increasing in April, and further increases expected later this year, we expect this trend to continue.

Our research found that customers on prepayment meters are really concerned about their ability to pay for their energy over the coming year:

- **Twice as many customers on prepayment meters (1 in 10)** are already unable to pay for their energy supply compared to **customers who pay by direct debit (1 in 20)**, even after cutting back on other essential spending.[24]

- From April, **more than half (52%)** of prepayment customers expect to be unable to afford their energy, or to have to cut back on essentials or fall behind on other essential bills. This is compared to under **1 in 3 (27%)** of people who pay by direct debit.[25]

People using prepayment meters also benefit less from the government's package of support. Both rebates are to be applied automatically to people who pay either their Council Tax or energy bills by direct debit, with alternative mechanisms for those who do not. This adds another layer of complexity to accessing support for those most vulnerable to rising energy costs.

The scale of price increases calls for radical action to support households this winter and beyond

The government's existing support package is valued at £350 per household, which went some way to mitigating April's £700 price rise. However, as bills look to increase by a further £1,000, equivalent to a 6% increase in the basic rate of income tax[26], more is needed to ensure households are able to turn the heating and lights on this winter.

The government needs to urgently review April's annual benefits uprating. Currently pegged to the September level of inflation at 3.1% this will be woefully inadequate in light of today's spiralling rate of inflation. It will mean a real terms cut to the incomes of millions of households least able to afford it.

Any extra support brought forward now can come off next year's increase. This places no recurring strain on public spending and helps address today's cost of living crisis.[27]

By October's price cap increase, the government should put in place both broad and targeted support to mitigate the impact of price hikes. There are several levers which Government could use:

Turning the Energy Rebate loan into a grant: Government should increase the value of the Energy Rebate to better reflect energy costs this winter, and suspend repayments permanently or until energy prices drop to pre-crisis levels. However, providing rebates via bills poses significant challenges for the 2 million households on old-style prepayment meters. They may receive support in the form of multiple vouchers in the post, leaving open the risk of fraud or support not being claimed. Paying out the rebate via a discount on standing charges would mitigate these challenges.

Expanding and extending Warm Home Discount: Government has already committed to extending Warm Home Discount eligibility to a further million households and increasing its value by £10. We would recommend a further eligibility increase to include households who will fall into fuel poverty as a result of higher costs. The government should also temporarily increase and fund the value of the discount to better reflect current costs.

Further direct payments to households: Further direct payments to households would also reflect the wider pressures caused by soaring food, transport and other costs. This could be delivered through a one-off payment using the benefits system, or by an additional Council Tax Rebate as long as additional support is targeted for those on the lowest incomes claiming Council Tax Support.

Smooth further price cap rises: The government could take a more radical approach, capping bill increases by a given percentage, helping smooth the impact of price rises over a longer period of time.

This is preferable to providing piecemeal local grants. There is an important role for local discretionary support, including the Household Support Fund, to help people in crisis. But locally administered support alone is not a solution to the cost of living crisis. Some councils have had restrictive, inconsistent or unclear eligibility criteria that act as a barrier to access.

Staff at local offices told us that, in comparison to the benefits system, the Household Support Fund was an inefficient way of distributing support to low-income households.[28] The patchwork nature of how it is being delivered will mean that many who needed support, won't have received it.

We will need to reduce our demand for energy given price volatility is likely in the coming years. This year we need action to:

Support and inform consumers to make the right choices: Put in place a new government led campaign aimed at helping people safely reduce energy usage in the home. This should be backed up by an expanded national energy advice service to provide people with independent and reliable advice on the actions they can take to reduce their energy bills. This should be both online and over the phone to reach digitally excluded people.

Expand household energy efficiency and low carbon heating programmes: The government should provide more funding to super charge existing schemes and encourage the take up of low carbon heating and retrofitting of existing properties. This should be accompanied by better use of data matching to identify and help consumers in vulnerable situations.

Make it cheaper for consumers to decarbonise their homes: VAT on energy efficiency measures and other low carbon products and services should be reduced or even removed to incentivise take-up.[29,30]

Ultimately we will need radical action to decarbonise homes. Government should put in place a 'Marshall Plan' for Energy Efficiency - a street by street, town by town approach to rolling out energy efficiency measures. Installers could also be assessing properties as they go to establish what low carbon heating might be most appropriate for the home once those technologies can be deployed at scale.

References and Footnotes

1. From 1 April the energy price cap for a direct debit customer with medium usage will increase by £693 to £1,971.
2. Based on analysis of a representative poll of 6,000 adults (18+) in the UK conducted by ICM Unlimited for Citizens Advice. Fieldwork conducted between 7 and 25 January 2022. 9.85% of people surveyed said they had less than £30 left after paying for their essential bills. (£30 is the difference between the current price cap (£1277) and the April price cap (£1971), taking into account the £350 Council Tax and energy rebates.) Population estimate is based on 9.85% of the estimated UK adult (18+) population in 2022 of 53,200,000 taken from the Annual Population Survey estimates via Nomis. See appendix 2 for the relevant survey question.
3. Cost calculated using Ofgem's medium Typical Domestic Consumption Values for the October 2021 prepayment price cap, and for the estimated October 2022 price cap of £3000. Monthly usage figures are based on Ofgem estimates of the amount of the annual bill value it is expected consumers will use in each month of the year.
4. Citizens Advice commissioned Opinium to conduct polling to gain an accurate picture of how people are being affected by energy price rises in different parts of the country. Opinium surveyed 10,301 UK adults aged 18+ between 8th to 17th February 2022. The data was sampled and weighted to be representative of the UK adult population. See Appendix 1 for MRP questions.
5. Data covers England and Wales and does not include Witness Service data. Period defined as April 2020-February 2022. Citizens Advice transitioned to phone and online services when lockdown restrictions were imposed on 23 March 2020. Comparable data on demand for the charity’s services from before April 2020 is not available. Data refers to one-to-one advice via phone and webchat and does not include face-to-face advice or views to Citizens Advice web pages.
6. Of the estimated 276,000 people who sought advice in February 2022, Citizens Advice supported 175,000. Just over 24,000 of those clients were referred for crisis support.
7. In February 2022 the Citizens Advice Consumer Helpline advised people with 54,095 issues. We are unable to track how many of these issues were unique clients, so the figure has been adjusted by dividing it by 1.1, resulting in an estimated figure of 49,177. Some issues dealt with by the Consumer Helpline are referred by Local Citizens Advice offices, so there may be some double counting. The Consumer Helpline figure relates to clients helped, rather than the number seeking advice.
8. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
9. Based on Comparison Tech data underpinning the Citizens Advice price comparison website. The average fixed tariff cost is measured in Ofgem's medium Typical Domestic Consumption Values and is calculated by taking the average of all fixed tariffs on the market on the first working day of each month.
10. Ofgem, February 2022. price cap figures
11. £3,000 estimate based on Investec estimate for October 2022. £3500 based on current energy tariff prices.

References and Footnotes

12. ICM polling on behalf of Citizens Advice - see footnote 2
13. Based on analysis of a representative poll of 6,000 adults (18+) in the UK conducted by ICM Unlimited for Citizens Advice, 27.19% of people surveyed said they had less than £115 left after paying for their essential bills. (£115 is the difference between the current price cap (£1277) and the forecast October price cap (£3000), taking into account the £350 Council Tax and energy rebates.) Population estimate is based on 27.19% of the estimated UK adult (18+) population in 2022 of 53,200,000 taken from the Annual Population Survey estimates via Nomis.
14. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
15. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
16. The government defines a low income as an equivalised income below 60% of the median national income. In the year ending 2020 (the most up-to-date figures available) the Office for National Statistics (ONS) put the median national income as £29,900, meaning a low income is just below £18,000. We have included in low income here any respondents with a household income of below £20,000, meaning that approximately 22% of respondents in this measure have an income above the government's definition and figures are likely to understate the impact of bill hikes.
17. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
18. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.

19. Based on analysis of a sample of 761 cases between October 2021 and January 2022 where a client's presenting issue was caused or exacerbated by the removal of the £20 Universal Credit increase. In 399 of these cases the client was given a referral to a foodbank. 202 of the cases were directly attributed to the removal of the £20 increase.
20. Data on benefit levels and energy bills based on analysis of Department for Business, Energy & Industrial Strategy (BEIS) average energy bill data, House of Commons historic benefit rates, and Centre for Sustainable Energy (CSE) consumer archetypes. Benefits figures use the annual rate of core income-based unemployment benefits for a single person over 25, excluding additional elements such as housing and child. Prior to 2015 Citizens Advice used Income-based Jobseekers Allowance. From 2015 onwards Citizens Advice used the standard allowance of Universal Credit. Average energy bills up to 2020 are based on BEIS data on average annual energy bills, and adjusted based on CSE archetype of a low-income, out-of-work single adult living in a small 1-bed social rented flat in London. 2021 figure based on current price cap levels. April 2022 figure based on price cap level from 1st April. We have used 2 estimates for energy prices in October. One is a £3,000 figure based on Investec estimate for October 2022. The other is a £3500 estimate based on current energy tariff prices.
21. Using the Department for Business, Energy and Industrial Strategy's (BEIS) figures from Annual fuel poverty statistics report: 2022, which is based on figures from 2020. The government defines a home as fuel poor if 'A household is considered to be fuel poor if: they are living in a home below band C and were they to spend the required amount on fuel costs for the home, they would be left with a residual income below the official poverty line.'

References and Footnotes

22. Cost calculated using Ofgem's medium Typical Domestic Consumption Values for the October 2021 prepayment price cap, and for the estimated October 2022 price cap of £3000. Monthly usage figures are based on Ofgem estimates of the amount of the annual bill value it is expected consumers will use in each month of the year.
23. Based on contacts to the Citizens Advice Consumer Service. In February 2022, 593 people contacted the Consumer Service about self disconnection, compared to 249 people in February 2021.
24. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
25. MRP polling from Opinium on behalf of Citizens Advice - see footnote 4.
26. Financial Times, March 2022, UK households face £38bn hit from rising energy bills
27. Benefits are uprated according to the Consumer Price Index, typically measured September-September. Reviewing April's uprating would not break the link with the index, just ensure that in the short term payments are pegged more closely to it. It would bring forward what would be included in next year's uprating and have no lasting impact on the cost of benefits to the public purse.
28. Local Citizens Advice Insights Panel - February 2022. We hold a regular focus group-style session with frontline staff from across the Citizens Advice network to capture in-depth, first-hand insights into the cost of living crisis.
29. MCS Charitable Foundation, October 2021, Making Zero Carbon = Zero VAT
30. Environmental Audit Committee, February 2021, EAC calls for climate and nature investment to be prioritised in the economic recovery

Appendix

Appendix 1: MRP specific energy questions asked in Opinium MRP polling

MRP1, ASK ALL, SINGLE
Thinking about your current energy bills, which of the following best describes how you feel about them?

1. I can easily afford them and don't have to think about it
2. I can fit them into my budget easily
3. I can fit them into my budget but it's tight
4. I can't afford them without cutting back on essential spending or falling behind on other essential bills (e.g. rent, mortgage, food, council tax)
5. I can't afford them even if I cut back on other essential spending

MRP2, ASK ALL SINGLE
In April, energy prices will increase by 54%, at an average increase of around £60 per month. In October they are estimated to rise again, by a further £20 per month on average. The government has recently announced a one-off council tax rebate of £150 to be paid to around 80% of households in April. They have also announced a loan of £200 on energy bills, to all households in October, and paid back over 5 years.

In April an average household could see a £60 increase per month in their energy bills. The rebate most households will receive on their council tax could cover £25 a month of their energy bills, bringing the average increase to around £35 per month. Thinking about your energy bills from April, which of the following best describes how you feel about them?

1. I could easily afford them and wouldn't have to think about it
2. I could fit them into my budget easily
3. I could fit them into my budget but it would be tight
4. I could afford them without cutting back on essential spending or falling behind on other essential bills (e.g. rent, mortgage, food, council tax)
5. I couldn't afford them even if I cut back on other essential spending

MRP3, ASK ALL, SINGLE
In October, energy bills could rise by 75% compared to today, making them around £80 a month higher for an average household. The government is planning to loan people £200 to help cover energy bills in October, which will need to be paid back over the next 5 years.

Which of the following best describes your view:

1. I think this scheme will make a big difference to my ability to pay my energy bills
2. I think this scheme will make a small difference to my ability to pay my energy bills
3. I do not think this scheme will make a difference to my ability to pay my energy bills
4. I think this scheme will make it harder to pay my energy bills
5. I don't know

Appendix 2: Relevant questions from ICM coronavirus harms polling
Question UC7, ask all respondents: On average, approximately how much money do you have left for food and other costs every month after paying your housing costs (rent/mortgage) and your recurring bills (council tax, energy and water, etc)?

Citizens Advice helps people find a way forward.

We provide free, confidential and independent advice to help people overcome their problems. We are a voice for our clients and consumers on the issues that matter to them.

We value diversity, champion equality, and challenge discrimination and harassment.

We're here for everyone.

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