The best way to tackle the cost of living crisis in April is through targeted support

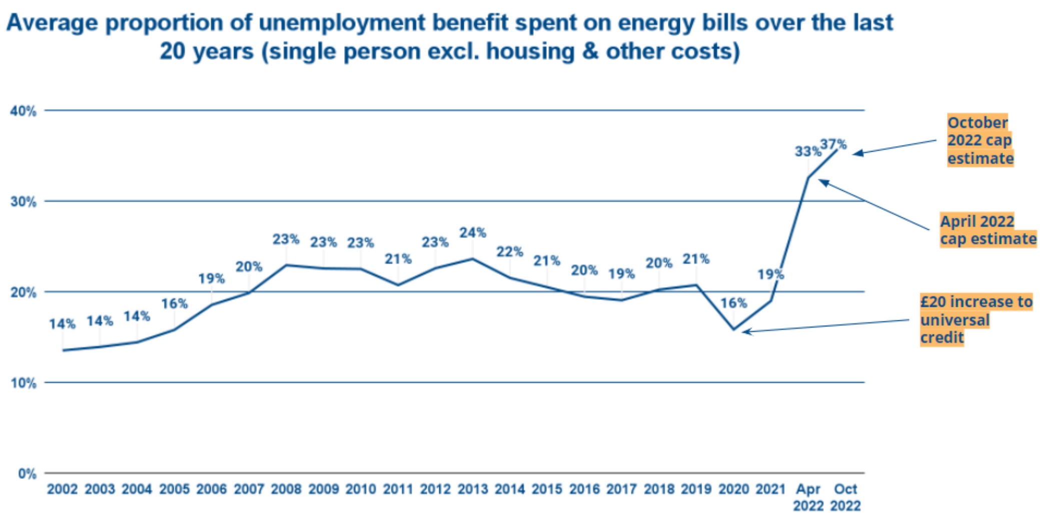
January 2022

On April 1st 2022 under current plans, the energy price cap will increase by a predicted 57% to £2,000, bringing annual energy bills to a level we haven't seen in many of our lifetimes. For the average household on a default tariff (11 million households) that would be an increase of £65 per month from March to April. For 600,000 customers rolling off cheap fixes they switched to in Spring 2021, it's even higher - for them it'll be a £77.50 per month overnight hike.

That doesn't include an additional £94 which will be clawed back via energy bills from April 2022 to pay for the cost of dozens of energy companies failing. It also doesn't include general living costs increasing, as the rate of inflation is predicted to hit 6% in April.

New Citizens Advice analysis of energy tariff data against historic benefits levels going back two decades finds that April's estimated price cap rise will leave a single adult spending a third (33%) of their standard allowance - the basic rate of Universal Credit - on energy bills. This could rise to 37% of the standard allowance in October. The figures represent a historic high compared to 2002 levels which saw 14% of basic rate benefits spent on energy bills.

Up to 2.1 million single adults without children currently claim this basic rate of Universal Credit. Our modelling excludes other benefit payments, including for housing costs.



We're already seeing the effects of the cost of living squeeze - in the last 3 months, someone came to us with an energy debt issue every 40 seconds. If no support is announced, households on the lowest incomes face a significant squeeze on their finances.

Reaching those that need it most

We recommend four steps to deal with the challenge over the coming year:

1) Reduce the immediate immediate financial pressure low income households will feel in April. The best way of doing this quickly is through a one-off payment via the benefits system. The other possible mechanism is through energy bills. However, as we discuss below, there are significant challenges to this approach in the short term.
2) Spread the cost of energy supplier failures over a longer period (2-3 years) rather than current plans (recovering the majority in 2022/3)
3) Uprate benefits in line with current inflation, offset by lower increases in the following financial year (with the overall impact of the change being cost neutral).
4) Recognise this crisis will stretch through to next winter - when the risks from cold weather are greatest - and start developing solutions now. By increasing and extending the Winter 2022 Warm Home Discount we can have the provision in place that will protect the lowest income households from the worst excesses of the coming price increases.

Using illustrative values from the Winter Fuel Payment for these schemes, our proposals would provide savings and income boosts to households on the lowest incomes worth £577[1] in 2022/23 or around £48 per month.

The best way to get money directly to those that need it most is is through a one-off 'Energy Support Grant' via the benefits system, paid in April

In April 2022, when a further 2 million households face being pulled into fuel poverty, support should be targeted to low-income households via an **'Energy Support Grant'** delivered through the benefits system.

We have modelled this scheme using the value of the Winter Fuel Payment as a reference. Winter Fuel Payments are already paid on an automatic basis to pensioners each year

[1] This estimate includes a £200 Warm Home Discount, a £200 energy support grant and the average value of increasing benefits by 5.1% rather than the planned 3.1%. This estimate is based on the average Universal Credit payment. Latest available figures are from August 2021, this estimate has been adjusted for the removal of the UC £20 uplift, but not for changes to the taper rate and work allowances. Statxplore-Households on Universal Credit- Mean Payment Amount by Payment Indicator.

and provide a much needed extra £200 to households (£300 in households with someone over 80) to help with winter heating costs. An equivalent one-off payment to all Universal Credit (and legacy benefit) claimants in April 2022, together with an additional payment to low-income retired households in receipt of Pension Credit, would put money in the pockets of those that need it most.

A solution based on welfare payments has the benefit of speed and simplicity. Other options (for example a rebate on energy bills) will take time to get right or come with administrative complexities as we discuss below.

Rapid changes to Universal Credit, such as the £20 uplift, or the recent changes to the taper rate and work allowances, which were both implemented within weeks, indicate that it should be feasible to make a one-off payment to everyone on Universal Credit at pace.

This will prove more challenging in the legacy system. However, the Department of Work and Pensions' success in offering a one-off £500 payment to Working Tax Credit recipients last spring shows that it is possible. The potential recipient list and the mechanism by which Cold Weather Payments are made to people on legacy benefits could potentially be used as a starting point.[2]

We have modelled the cost on the basis of this payment going to all households on Universal Credit, Pension Credit or legacy benefits. However, in principle this payment could be targeted to groups likely to have particularly high energy bills, such as families with children. This is an illustrative figure not based on average household usage and the government could consider support at a range of levels.

Benefit[3]	**Number of households claiming in Great Britain**	**Cost of delivering £200 to each household**
Universal Credit	4.9m	£980m
Pension Credit[4]	1.2m	£240m

[2] This tax-free scheme is paid automatically to people who receive certain benefits and meet specific conditions whenever the average temperature in their area falls to zero degrees celsius or below over seven consecutive days between November and March every year.
[3] Data pulled from DWP's Stat-Xplore and House of Commons Library Universal Credit data dashboard. Due to differences in publication dates, the Pension Credit data reflects the latest available caseload numbers from May 2021, working age benefits are taken from November 2021.
[4] Excluding Savings Credit only claims.

Legacy benefits	2.9m	£580m
Total	9m	£1.8bn

Support could also be delivered through energy bills, but it will be operationally challenging to achieve in time for April's price rise

Delivering support through the benefits system is the most straightforward lever that the government has. Another option is delivering a Warm Home Discount-style rebate in Spring, which has the benefit of directly lowering energy bills, where we know the cost of living squeeze is most acute. This would be an additional payment over and above the planned Winter 2022/23 Warm Home Discount.

We are proposing a new scheme rather than adapting and bringing forward the existing Warm Home Discount. This is to ensure households continue to receive support in winter and to mitigate the administrative complications with bringing forward changes to the scheme in time for April. The key differences between this and the Warm Home Discount, as well as the timing of the payment, would be:

- Support targeted at a wider group than the existing Warm Home Discount - ideally, all Universal Credit and legacy benefit claimants, though as above it would also be possible to target specific groups within the benefits caseload.
- To ensure the burden on other energy customers does not increase at a time of substantial price rises for everyone, this scheme would also be funded by the government and paid to customers via suppliers.
- Increased value of the rebate to reflect higher energy costs, for example £200 rather than the planned £140-150 proposed for the Winter 2022/23 Warm Home Discount scheme. Again, this is an illustrative figure not based on average household usage and the government could consider support at a range of levels.

We think this could be implemented at a cost of £1.8 billion if we assume eligibility is expanded to all Universal Credit and legacy benefit claimants at a flat rate of £200.

The Warm Home Discount, on which this scheme would be based, currently provides payments to the Core Group of low income pensioners automatically.[5] We think the Spring rebate should use this existing data sharing/matching mechanism, as it is the quickest way to get payments to people, and be at least as generous as the reforms propose. However, the DWP would also need to share data on a much wider group of benefit claimants' and suppliers would need the capacity to match new data. Industry appears confident that they could do so, though it is worth noting that delivering support through energy bills gives them more financial certainty.

Under our proposed Spring rebate, government would therefore fund energy suppliers to:

- Deliver bill reductions to all households in the current Core Group of the Warm Home Discount (those in receipt of Pension Credit)
- Deliver bill reductions to all households in receipt of Universal Credit and legacy benefits, or to a targeted group within that caseload, subject to the Department for Work & Pensions sharing this new dataset with energy suppliers

However, there are two challenges with a Spring Warm Home Discount-style rebate to overcome:

- **Paying prepayment customers isn't as smooth:** While the discount can be applied automatically to customers' direct debit and smart prepay accounts, traditional prepayment customers need to be sent a physical pre-loaded card in the post which customers then top-up at their local Paypoint outlet. There are issues with this approach which Citizens Advice has raised with BEIS and Ofgem. These include limits on how much credit a card can hold and the risk of customers using up their credit quickly if it's paid all together, rather than applied to bills incrementally as for direct debit customers. Given prepayment customers are disproportionately likely to be in vulnerable situations and on lower incomes, this could be a challenge.
- **Government would need to fund the additional spending on the scheme upfront and may need to consult with industry:** Usually the government would consult on a new scheme - not consulting might leave them open to challenge. If fully funded by the government, this risk should decrease - the alternative is re-opening the consultation and offering support too late for April.

---

[5] BEIS recently consulted on changes to Warm Home Discount which would bring 1 million more low income households into the scheme and raise the value of the rebate to £150 from £140. The changes would also make all payments automated so people don't need to apply and potentially miss out on support - currently only 'core group', or low income pensioners, have automated payments. Because the decision has not been made, the systems and processes to put this in place have not yet been implemented.

- **Data matching can leave some missing out:** It's necessary to have the bill in your name (or your partner's) for the data match to be successful, to avoid paying rebates on the basis of address alone, which could mean ineligible people being paid if the eligible person has moved. This means you may miss out if you live in an HMO and another resident is named, or if you rent and your landlord pays the bill and either includes it in the rent, or rebills you for it. It's unclear how many people this will affect.

This analysis assumes the government can share the right data to facilitate automatic rebates on bills. If not, there are significant issues around people missing out on support if they miss application communications and/or deadlines, and there would be a significantly higher administrative burden on energy suppliers at a time when they are already stretched.

Policy options	**Who's eligible**	**Cost of delivering a £200 rebate**
Current WHD eligibility	2 million households (1 million low income pensioners, 1 million low income working-age)	£400 million
Eligibility under Govt's planned WHD reforms	3 million households (1 million low income pensioners, 2 million low income households)	£600 million
Citizens Advice proposal	9 million households (all households on UC, legacy benefits, Pension Credit)	£1.8 billion

This also assumes the government will fund this additional support, rather than recovering this from bills as normal Warm Home Discount payments are funded. If the government doesn't fund this support, households would see additional rises of around £66 on their bills.[6]

Ensuring benefits keep pace with living costs

Given the spiralling rate of inflation, action is also needed to ensure April's benefit uprating reflects the true increase in cost of living. Based on September's CPI, benefits are due to increase by 3.1%. Just half the forecast rate of inflation by next April. That leaves households facing a real term cut in their benefits for the coming year.

[6] BEIS, June 2021. The Impact Assessment for WHD reforms states under proposed plans, the cost to billpayers will be £19 for 2022/23 - our calculation spreads £1.8bn across 27 million households

As a short term measure, the government should revise benefit uprating to reflect the rapidly changing picture with inflation. Taken in isolation this would simply bring forward, or partially cancel out, future uprating decisions. As inflation is calculated by the change in the Consumer Price Index, by moving the 2022/23 uprating decision to, for example, February's index, the Chancellor would be changing the baseline for the calculation in September 2022 that would inform the 2023/24 uprating levels. This would move from being the September 2021-September 2022 index to the February 2022-September 2022 index, producing a lower percentage increase. This ensures minimal effect on the overall benefit bill as it is a smoothing measure that would address immediate pressures without building in a long term uplift.

	Index (2015=100)	**% change over 12 months**
Sep 2021	112.4	3.1
Oct 2021	113.6	4.2
Nov 2021	114.5	5.1

Consumer Price Index, November 2021, Office for National Statistics

We recognise that this change may be more challenging to implement for the legacy system, given the long lead in time required for making benefits changes, and that - if the change were not possible on the same timeframe - this risks perceptions of lack of parity between the two systems.

If the change could not be implemented for people on the legacy system to the same timescale, this would obviously mean that legacy claimants were not benefiting from the immediate cost of living adjustment that Universal Credit claimants were. However, given the proposed structure of the change, parity in benefit payments would still be met over the medium term - as, effectively, legacy claimants would receive a higher uplift in April 2023 than Universal Credit claimants, offsetting the lower increase in April 2022. This makes the context different to the changes to the benefits system in April 2020, where people not on Universal Credit and Working Tax Credit received lower payments than those on these benefits.

Spreading the cost of energy supplier failures

Additionally, the government should enable the **spreading of the cost of supplier failures**, estimated at £2.6 billion not including the administration of Bulb.[7] Current plans expect customers to pay off the majority of the Supplier of Last Resort levy fund from April 2022, adding an additional £94 to bills over and above planned hikes. Spreading the costs over a longer period would act as a short to medium term stabiliser which, together with targeted support to those in greatest need, could provide some short-term relief. This could be delivered through private finance, if an acceptable rate of interest that is fair to consumers can be agreed. Some energy companies have called for a similar funding approach to spread some of the high wholesale energy costs over a longer period.

What's needed after April

Most experts predict high energy prices aren't going away anytime soon. The government should ensure Warm Home Discount provides adequate support next winter given increased costs.

We think three main changes are needed:

- An increase in the value of the discount to reduce the impact of price rises on recipients in 2022/23. We propose a £50 top-up to bring this support to £200.
- An expansion in the number of households who receive the Warm Home Discount, to make sure more households at risk of fuel poverty are supported in 2022/23 - in addition to existing plans to expand eligibility to 1 million more low-income households in Winter 2022/23. This should ideally include all households on Universal Credit, legacy benefits and Pension Credit.
- An increase to the part of the scheme that allows energy companies to provide extra financial assistance to people they identify in need of support. More money in this fund could support the hardest hit households who will lose access to the scheme under the planned reforms.

This would bring more low-income households into the scheme, and help offset more of the bill increases people will face next winter. The Warm Home Discount is normally funded via a levy on bills and the proposed scheme for next year is projected to cost £19 per billpayer, but any temporary additional support should be provided by the Government to avoid even higher bills for other consumers.

[7] BFY Group, on behalf of Citizens Advice, December 2021. Estimates of costs per household are based on dividing the £2.6bn by the number of households. This assumes that Ofgem proceeds with its minded-to position to amend industry rules so that last resort supply costs are no longer collected from non-domestic gas users from April 2022.

Policy option	Who's included	Additional cost to Government of funding top-up
Existing WHD 2022/3 scheme (£140 rebate)	2 million households (1 million low income pensioners, 1 million low income working-age)	£120 million
Planned WHD reforms for 2022/23 (£150 rebate)	3 million households (1 million low income pensioners, 2 million low income households)	£150 million
Citizens Advice proposal (£200 rebate)	9 million households (all households on UC, legacy benefits, Pension Credit)	£450 million

The government also needs to consider how it can ensure benefit levels are more responsive to rapid changes in the cost of living. Universal Credit is designed to mirror earnings and employers are responding in real time to soaring living costs and the welfare system needs to be able to do the same.

Why most other options on the table won't work

The scale and speed of the cost of living challenge means support to mitigate its effects needs to be fast, targeted and deliver value to the taxpayer. Currently, few policy options being discussed do that.

- **Too costly:** Tackling the problem at source - subsidising the cost per unit of energy - would by some estimates cost around £20bn. This is a monumental cost - and given energy costs may remain high for years - not a sustainable option.

- **Won't go far enough:** Cutting VAT on energy bills would help all households, but only by around £80-£100 - saving just £7-8 per month. Given bills are likely to go up by over £60 per month, this alone won't help people struggling with bills. It also risks subsidising the bills of households who don't need the help, representing £600 million of unnecessary spend.[8]

At best, these majoritarian solutions should be part of a package which also delivers targeted support to households who will find it hardest to pay their bills.

[8] Based on households in the top 40% of national income, with a household income of over £60,000 (ONS data). There are over 5,400,000 households that fall into this bracket (most recently available figures are for 2019/20). Based on Ofgem high TDCV's.

- **Just plain wrong:** Cutting the ECO scheme, which helps low-income households insulate their homes, costs just £2.40 a month on energy bills. This cut would be counter-productive, given energy efficiency will be a key medium term solution to fuel poverty and over-dependence on gas, but also represents a minimal saving against the staggering rises coming.

Some of the other options on the table, like moving green levies from bills to taxes, would have some benefit But these are administratively complex schemes, and moving them to tax would be very expensive for the government, so these changes would be unlikely to be put into place at the speed we need.

Methodology

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.

Latest available data from DWP (August 2021) shows there are 2.1million single adult households with no children receiving Universal Credit. Some of these households will receive the lower standard allowance for under-25s, meaning a higher proportion of their standard allowance would be spent on energy costs.

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 small 1-bed social rented flats in London. 2021 figure based on current price cap levels. April 2022 and October 2022 energy prices are based on price cap estimates from Investec (of £1,995 per year by April 2022) and Cornwall Insight (of £2,240 by October 2022), and adjusted based on the CSE archetype.