Committee on Fuel Poverty

The Committee on Fuel Poverty Response to the Energy Bills Support Scheme Consultation. May 2022.

The Committee on Fuel Poverty (CFP) is an advisory Non-Departmental Public Body sponsored by the Department for Business, Energy & Industrial Strategy (BEIS). We monitor and provide independent, expert advice on Government's strategy to improve the energy efficiency of the 3.2 million homes of the fuel poor in England to make them more affordable to heat.

Introduction

The Committee on Fuel Poverty recognises that the Energy Bills Support Scheme (EBSS or the Scheme) is one of only several measures the Government has undertaken in relation to energy costs.

For those in fuel poverty or those vulnerable to fuel poverty these measures are welcome but not sufficient especially if prices continue to rise. The Committee wishes to restate the importance of energy efficiency expansion, the Warm Homes Discount scheme and other targeted support, which may need further review regardless of recent changes.

We welcome the opportunity to address the themes contained in the technical consultation about the design and operation of the scheme.

We regard the Scheme more as a policy directed at helping every household with a sharp rise in the cost of living, rather than a measure dedicated to reducing fuel poverty per se. CFP analysis of the BEIS 2020 fuel poverty statistics indicates that, of the £5.8 billion funding to provide a £200 reduction for all households, 87% of this sum, £5.05 billion, will be directed at those other than the fuel poor. The energy bills of the fuel poor, under the current definition living in homes with an energy efficiency rating below C, are higher than those living in better insulated homes with higher incomes. This scheme, as it is untargeted, proportionately benefits those not in fuel poverty more than those in fuel poverty. We understand that this is a response to an unprecedented rise in fuel costs for all but suggest, at the end of this submission, that there is an opportunity to recycle the repayment of the fund targeted on the fuel poor.

The BEIS team supporting the roll out of the Scheme are seeking information from the BEIS Fuel Poverty statistics team on the impacts on the fuel poor. The Committee would welcome any updated statistics and insight this provides.

Indeed, in the light of the recent sharp increase in fuel prices the Committee believes that the time lag involved in producing the Annual Fuel Poverty Statistics

LILEE Report for 2020 (the report was published in early 2022), hinders both Ministers and this advisory committee in their monitoring of the necessary progress towards meeting fuel poverty targets. More recent data is needed.

The Committee would like to see more work done to understand the impact of this scheme on the most vulnerable and fuel poor, especially those who for one reason or another may not get the payment but will still have to pay off the debt.

During this unprecedented period – a pandemic, followed by a huge surge in wholesale energy costs, which has driven inflation to 9% - we are conscious that the data on progress in meeting energy efficiency targets or in reducing fuel poverty, do not include a large part of the pandemic; nor any of current energy price increases.

Q1 Eligibility to the scheme.

One aspect the Committee was asked to reflect on was the equalities aspects of the Scheme. Our considerations are that there is a simplicity to using the electricity meter points, of which there are just over 29million, to ensure maximum reach. However, there are bill payers whose payment methods, living arrangements and housing disruption may face more difficulties receiving the £200. For example, it is not uncommon in shared houses or temporary accommodation for bill costs to be included in rental charges. This may disproportionally affect some protected groups and those living in fuel poverty, and we urge close attention to these impacts and remedies to resolve.

Q2 The proposed Qualifying Date

We believe the 3 October snapshot date as the trigger for the Scheme is helpful; and relatively easy to communicate to consumers.

A simple system for residents who face disruption close to this date and can demonstrate that they missed the qualifying date for unavoidable reasons, and thereby be granted the reduction at their new property; would be preferred to iron out unnecessary wrinkles in the execution of the Scheme. In seeking to build in this modest safeguard, we would not wish to add unduly to the complexity of the Scheme or create opportunities for fraud.

Q2b) Delivering the bill reduction.

The Committee agrees with the intention of delivering the reduction as quickly as possible, irrespective of payment method. The Committee would ask Government to consider what checks will be undertaken on landlords offering tenancy contracts that include bills, especially where their tenants may be vulnerable customers.

Q3 Delivering the reduction within six weeks (or six months for hard-to-reach customers).

We note the consultation seeks to address how quickly different payment methods will receive the reduction, and we recognise that each method imposes particular time constraints. However, we support the principle aim that all customers will gain the full benefit of the reduction during the winter months.

Q4 Notifying customers.

The Committee notes that most customers will receive the £200 reduction relatively quickly, and we urge the Government to ensure that suppliers, or landlords, in the case where bills are included in the rent, are obliged to include a clear reference to the £200 credit on bills, or rent records, in the interests of transparency.

Notification via individual letters may not be the customers preferred route of communication and may be administratively costly.

Q5. Circumstances where it is not reasonably practicable to deliver the payment.

The scheme is based on payment to a domestic bill-payer having an electricity meter point. However, there are scenarios which will require additional thought to ensure the consumer gains the benefit of the reduction. Those include:

- **Park home residents**. It is commonplace to have their electricity bills built into their standing site rent and often they do not have a personal electricity meter. We urge Ministers to regulate or legislate to require site owners to clearly show the reduction, perhaps with a publicised Ofgem phone number to seek redress.
- **Flats above commercial premises**. These residents may share a meter with a business and be charged a sum within their rent for their bills or a proportion of the meter charge. We hope provision will be made for these residents.
- **Family circumstances.** Family circumstance can impact on fuel poverty, such as a lone parent, who has only one or no full-time income coming into the household. In 2020, more than 1 in 4 lone parents with dependent children were reported as fuel poor. We do not believe that this Scheme disadvantages them in any practical way. However, we do see a risk to those people who face instability or disruption in their living arrangements, due to family break-up, bereavement, domestic abuse, or eviction, who may fail to gain the £200 reduction, but in subsequent years, perhaps living in the private rented sector, face the cost of the annual £40 levy, without having gained any of the benefit.

- **New Properties.** Based on average growth in the past 5 years, it is estimated that there will be approximately a million new MPANs (Meter Point Administration numbers) created in 5 years from April 2023 according to BEIS figures. These will accrue no benefit whatsoever. Many who occupy these properties, including those in social housing and those and fuel poverty shouldn't pay for a benefit not received.
- **Young people.** Young people leaving home for the first time will have to pay off this debt despite not benefitting from it.

Q6 Spreading the benefit to Direct Debit payees over 6 months.

Although this does not deliver the full reduction on day one, by spreading the reduction, it enables customers to get used to a steady and regular payment amount, gaining the full reduction over the winter months.

Q7 Pay on receipt customers gaining the benefit in their next bill after the qualifying date.

These customers are used to settling a variable bill with 28 days of receiving the bill. It makes sense for them to see this credit on their bill's balance sheet as soon as practicable.

Q8 Payment card customers gaining the benefit in their next bill after the qualifying date. Q9. Any reason why not.

Payment cards suit customers who are used to making periodic trips to a post office or Paypoint at a local supermarket. On a particular visit, they may pay before they receive a quarterly bill, or pay only part of bills if they cannot meet the full amount. To credit those customers on their first bill after the qualifying date, will enable those customers to see the full reduction as soon as possible.

We see no advantage to the customer of spreading the reduction across several bills.

Q10. Smart prepayment meter customers receiving the reduction as soon as possible after the qualifying date.

These customers are used to topping up their meter via a phone app or online. It seems sensible to credit them with the full reduction as soon as possible after the qualifying date, so they see the reduction immediately.

Q11 Use of SAMs (Special Action Message)/vouchers for traditional prepayment meter customers.

We regard traditional prepayment meter customers as at a significant disadvantage if they must transact up to five vouchers or Special Action Messages, to gain their reduction, taking up to six months to do so.

That a low-income segment of customers might have to wait up to six months to receive the full reduction they are entitled to, creates an inequity in the Scheme, which we hope can be addressed. Prepayment meter customers are already distinct in that they pay for their energy in advance, unlike most customers.

Q12 SAMs (Special Action Message)/vouchers remaining valid until March 2023. Q13. SAMs/vouchers being five vouchers of £40 each.

Noting our reservations in answer Q11, it is crucial that vouchers are issued as early as possible and remain valid for at least a year. This is because the recipient of the voucher will pay back the money whether they have used the voucher or not, and if they have not used the voucher within 6 months, for example because they have forgotten to use it, or despite the scheme have been minimising usage through self-disconnection, they will be penalised unfairly.

Any steps to enable pre-payment meters to be topped up to amounts above the usual £49, and thereby enable the customer to receive their £200 credit more quickly would be most welcome.

We would expect energy suppliers to be obliged to take all reasonable steps to ensure customers act on a SAM or voucher in good time.

Q14 Traditional prepayment customers having vouchers that can be used for both electricity and gas.

We have no objection to issuing vouchers for use with either electricity or gas meters. If vouchers were only available for one fuel type, this would be preferred to align to the heating fuel used by that prepayment household.

Q15. Encouraging traditional prepayment meter customers to redeem SAMs/vouchers.

Yes, we support suppliers encouraging redemption of vouchers in a cost-effective way. Our concerns about traditional prepayment meter customers failing to redeem some or all of their vouchers again highlights how important it is that government ensures that all traditional prepayment meters are upgraded to smart meters as quickly as possible.

Q16. Any customers who will not be reached by the Scheme.

We noted in answer to Q5 a) that park home residents, occupants of flats above commercial premises, householders who must move due to sudden eviction, abuse or change of family circumstance and others may miss out and appropriate steps should be taken to protect their entitlement.

Q17. Energy Debt Q18 Definition of bad debt.

The Committee is concerned about the interaction of the £200 reduction and the existence of debt. The proposed approach to customers already in debt does not meet the scheme's purpose.

The purpose of the scheme is 'to spread the cost of this year's energy price shock over time' and to 'ensure households feel the benefit of this support over the winter months' (pages 14 and 17 of the consultation). It is clear that the aim of the scheme is to help consumers budget through the winter, to minimise their chances of going into debt with their energy provider, or to minimise the chances of them increasing existing debt to their energy provider. Energy suppliers are being supported through other means, including changes to the Market Stabilisation Charge.

It is encouraged that, where debt to a supplier is significant, there is a repayment scheme agreed to between customer and supplier. If a payment in this plan is missed, the repayment plan is often considered finished. If the £200 can be used to reduce debt, this may have perverse incentives. Firstly, it could encourage suppliers not to agree new repayment plans from now on, in the knowledge that they could then keep the whole £200 to reduce their bad debt risk. Secondly, suppliers would be incentivised to nullify existing repayment plans for late or missed repayments, to keep the £200 and minimise their bad debt risk.

The Government has stated that the £200 may be used to reduce debt where there is no repayment plan in place, but not to pay towards bad debt that would normally be written off by the supplier. We see two main concerns with this. First, if it is used to reduce debt, it does not help the consumer by spreading this year's costs over time, or by helping them to budget over this winter. Second, the proposed definition of bad debt allows suppliers to be fluid in what constitutes bad debt at any point in time (what they consider 'unrecoverable' and 'are intending to write off' could change from one day to the next). This would allow suppliers to classify money owed as they wish, in order to use the scheme funds to reduce their exposure to bad debt rather than to help consumers handle the effects of this year's energy price shock. If the Government nevertheless decides that debt repayment is an acceptable use, we would want the staged repayments clearly reduced proportionately, so the customer gains the full benefit of this credit within the six months to March 2023. We do not want the £200 to serve only to reduce the term of any repayment agreement, which provides more benefit of the supplier than the customer.

Q20 Funding suppliers. Q21 Reporting delivery of funds.

The Committee does not favour any particular arrangements for funding the suppliers. In relation to reporting, we support a simple reporting mechanism after 6 weeks and ask Government to ensure a robust reporting mechanism to make transparent where, for any reason, households fail to benefit from the Scheme.

Q22. Applying the levy per meter.

It makes sense that the annual repayment levy is imposed on the same per meter basis as the original reduction was implemented.

Q23-Q37 DNOs.

We believe the Government should reach practical arrangements in agreement with the 14 Network Operators.

The Committee would be interested to know if BEIS has considered the following:

- A review of the time period of repayment given acute pressure on bills.
- If the energy price crisis continues would the scheme extend the repayment period.
- Adjusting the MPAN rates for customers or even allow full exception for customer classes (e.g. those in receipt of WHD)
- If technically possible, reducing the cost of or writing off the debt of those who cannot repay the levy, or where doing so would cause undue harm.
- Constraining or even delaying other industry associated costs during this period to ease the pressure on overall bills.

Q38 Applying Ofgem's powers of enforcement to the Scheme.

We support Ofgem having sufficient enforcement powers and being a source of redress for the, hopefully, small number of cases where residents miss the qualifying date for unavoidable reasons of family circumstance.

Q39-46 managing administrative costs

We note that, despite the Scheme being designed to be simple and universal rather than targeted, and the administration being relatively simple (apart from the small proportion of exceptional cases), the proposal is for all of the administrative cost to be borne by consumers by factoring it into the adjusted price cap in October.

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We believe this leaves consumers with an unknown additional charge levied on their bills, for a £200 loan they are repaying in full, for which they have no right to opt out or refuse.

This appears to be unduly weighted to the disadvantage of the consumer, with no contribution from the energy suppliers. The Committee believe this is as unfair to consumers in fuel poverty or at risk of fuel poverty, as it is to prosperous consumers who might choose to opt out if they were allowed to.

By way of comparison, when local authorities were asked to administer the £150 Council Tax Rebate (CTR) for Bands A-D, the Government provided direct funding. It did not require the administrative cost of the CTR to be added to council tax bills at a later date. We would urge Government to ask Ofgem to assess the real additional costs imposed on energy suppliers and to consider whether the energy company should absorb the cost or Government to grant fund this directly.

Concluding observations

VAT

The Committee asks the Government to look at the impact of VAT, now that over 22 million customers will be paying on average £1971 a year for their energy inclusive of VAT. The £693 increase in the cap, generates around £35 additional VAT, which is exceptional income to the Treasury, not the supplier.

In the Committee's view the additional VAT reinforces the pressure on consumers, many of whom will find it most difficult to meet their bills.

Therefore, whilst we welcome the broad support this Scheme offers to every household, we hope the Government will urgently review the more targeted means of support for those in fuel poverty or those most at risk of fuel poverty.

Repayment timescales

The Committee asks the Government to consider the scenario of sustained high future energy prices as households repay the £200 over future winters. In the context of continued high energy prices, this may drive longer term affordability challenges for an increasingly fuel poor population. A repayment term that varies, for example an increased term in the case of sustained high prices, may be beneficial.

Fuel Poverty Milestones

The consultation does not ask for views on the merits of the Scheme; and although the Committee has reservations about how workable the Scheme is as it stands, our central proposition is to secure value for money from this investment which could be used to accelerate the lifting of more households out of fuel poverty.

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We note that, from 2023, consumers will begin to pay back the £200 in tranches of £40 per year over five years. This provides Government with a total refund of the £5.8 billion; around £1.2 billion per year.

We suggest the Government considers reinvesting this as additional funding towards permanently reducing the energy bills of low-income households. The 2020 milestone of bringing all dwellings up to an energy efficiency rating of E was missed by some 3%.

Following the substantial periods of lockdown during the pandemic it is reasonable to assume that energy efficiency work may have fallen further behind towards achieving the 2020 milestone and the next milestone in 2025.

The reinvestment of the levy payments would enable an acceleration of the work to make up for lost progress, and to ensure meeting the 2025 and 2030 targets on time, providing year on year savings in emissions and in energy usage.

To that end, whilst it falls beyond the immediate scope of this consultation, the Committee wishes to remind Ministers that, whilst cash support is vital in the short term, especially for low-income households, during this exceptional period; the longer-term answer to fuel poverty is substantially warmer, low energy, homes.

We would like to see a ramping up of the energy efficiency programmes, as they will generate cost savings year on year and therefore, pound for pound, represents more efficient use of the Government's resources.

Yours sincerely,

Rt Hon Caroline Flint
Chair, Committee on Fuel Poverty
Members: Liz Bisset; Anuradha Singh; Belinda Littleton, Anthony Pygram and Gordon McGregor.