



Extending the safety net over the abyss – Energy bills and household incomes



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Summary

- Three months ago, the UK Government unveiled a large support package as a means of helping families and individuals meet the rising cost of living.
- Since then, estimates have suggested that in October the cap on domestic gas and electricity costs, through default tariffs, will be much higher than previously envisaged, resulting in a large gap between this support package and the actual costs needing to be paid by families and individuals if they are to avoid destitution.
- For some of those who face the most severe risk of destitution, the size of that gap could reach £1,255 over the course of the year.
- In the light of these new estimates, we recommend that the new Prime Minister adds significantly to the size of the existing support package, thereby minimising the risk of acute hardship among those of our fellow citizens who are currently fearing a cold and hungry winter – exactly eighty years after the Beveridge Report set the framework for a welfare state that had as its main aim the elimination of destitution from our shores.

Analysis

We are enormously grateful to the House of Lords Library for supplying the figures underpinning this briefing paper.

In May, the UK Government unveiled the following support package:

- A £400 energy bills support scheme payment, available from October 2022. This replaced the £200 ‘energy bills rebate’ announced in February. There would also be no requirement for the sum to be repaid.
- A £650 payment to households on universal credit, tax credits, pension credit and legacy benefits.
- A £150 disability cost-of-living payment for people who receive certain non-means tested disability benefits.
- A £300 payment for over eight million pensioners.
- Local support through the Household Support Fund.

Early reports from parts of the Feeding Britain network suggest that, when these payments began to be made to households in July, the need for help among some food banks began to decrease. However, Cornwall Insight has since estimated that the default tariff cap could rise to £3,244 a year in October. This would be £444 higher than Ofgem’s earlier estimate for the October rise, made in May, and upon which the size of the support package had largely been based.

According to the Library, if a family or individual’s annual energy bills were to rise from £1,277 a year to £3,244 a year (a £1,967 increase), and they received the £650 means-tested cost of living payment and the £400 energy bills support scheme payment, they could face a shortfall of £917 over the course of the year. That said, we acknowledge that a family or individual’s total energy bills and the support they receive will vary depending on their circumstances. A disabled person with a low income, for example, could expect a shortfall of £767 over the year and a pensioner with a low income could expect a £617 shortfall. However, families and individuals on a fixed-rate tariff will not see their bills rise for the duration of their fixed rate, even if the default tariff cap rises.

Shortly after, Martin Lewis estimated that the default tariff cap could rise to an even higher level of £3,500 a year in October. If a family or individual’s annual energy bills were to rise from £1,277 a year to £3,500 a year (a £2,223 increase), those receiving the £650 cost of living payment and the £400 energy bills support scheme payment could face a shortfall of £1,173 over the course of the year. Again, whilst acknowledging that this shortfall is likely to vary with families’ and individuals’ circumstances, a disabled person with a low income could expect a shortfall of £1,023 over the year and a pensioner with a low income could expect an £873 shortfall.

Most recently, Cornwall Insight’s new forecasts for the October default tariff cap have reached £3,582 and, looking ahead to January, they estimate a cap of £4,266. We estimate that those receiving the £650 cost of living payment and the £400 energy bill support scheme payment would, under these circumstances in October, face a shortfall of £1,255 over the course of the year. The consequences of such a large gap, between families’ and individuals’ incomes

and their necessary expenditure on gas and electricity (not to mention food), are almost too appalling to contemplate – in October alone, the Institute for Fiscal Studies is estimating that the poorest fifth of families and individuals will face an inflation rate of 18%, compared to 11% among the richest fifth.

Conclusion

It is against this backdrop that we urge the new Prime Minister, when they take office in September, to add significantly to the size of the support package that was introduced in May. A failure to do so will consign millions of people in our country to a cold and hungry winter, exactly eighty years after the Beveridge Report set the framework for a welfare state that had as its main aim the elimination of destitution from our shores.