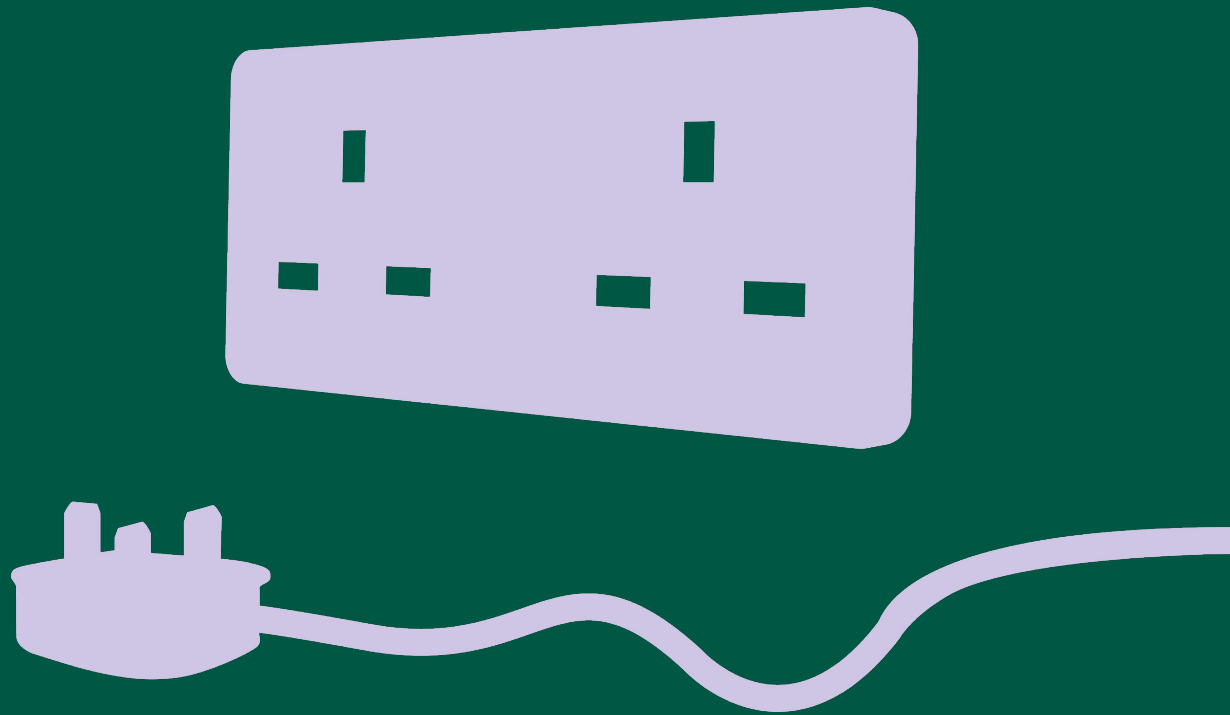


# Red alert

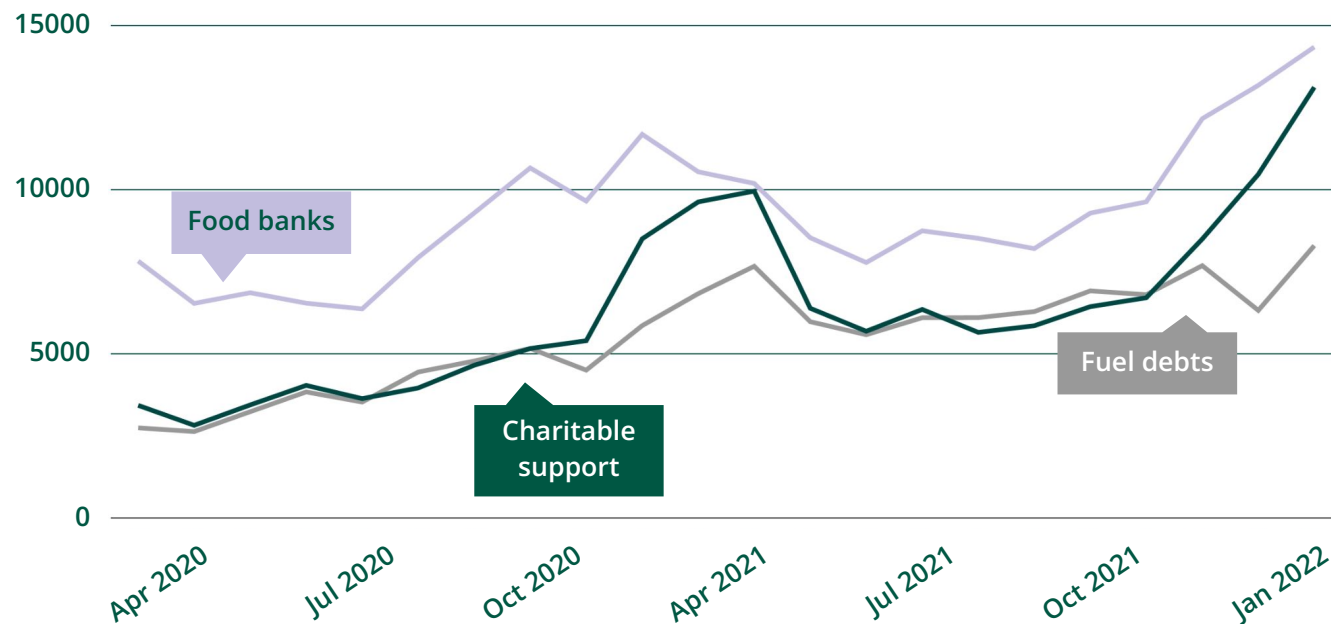
Households face enormous pressures  
in build up to energy price cap rise



## Demand for our services is at its peak since the start of the pandemic

As inflation hits the highest point in 30 years, household budgets are already facing enormous pressure. The worst is yet to come, with Ofgem expected to announce a more than 50% increase in the energy price cap from April, just as other price rises hit households.<sup>1</sup>

### People seeking crisis support and help with fuel debts since April 2020



In January 2022 **more than 270,000 people sought advice** from Citizens Advice, higher than at any point since the pandemic began.<sup>2</sup>



In the same month, a staggering **24,000 people helped by the charity required some type of crisis support** such as food bank vouchers and charitable support. This is the highest on record for the charity, passing the previous peak only set in December 2021.<sup>3</sup>



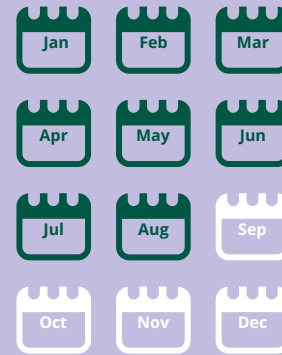
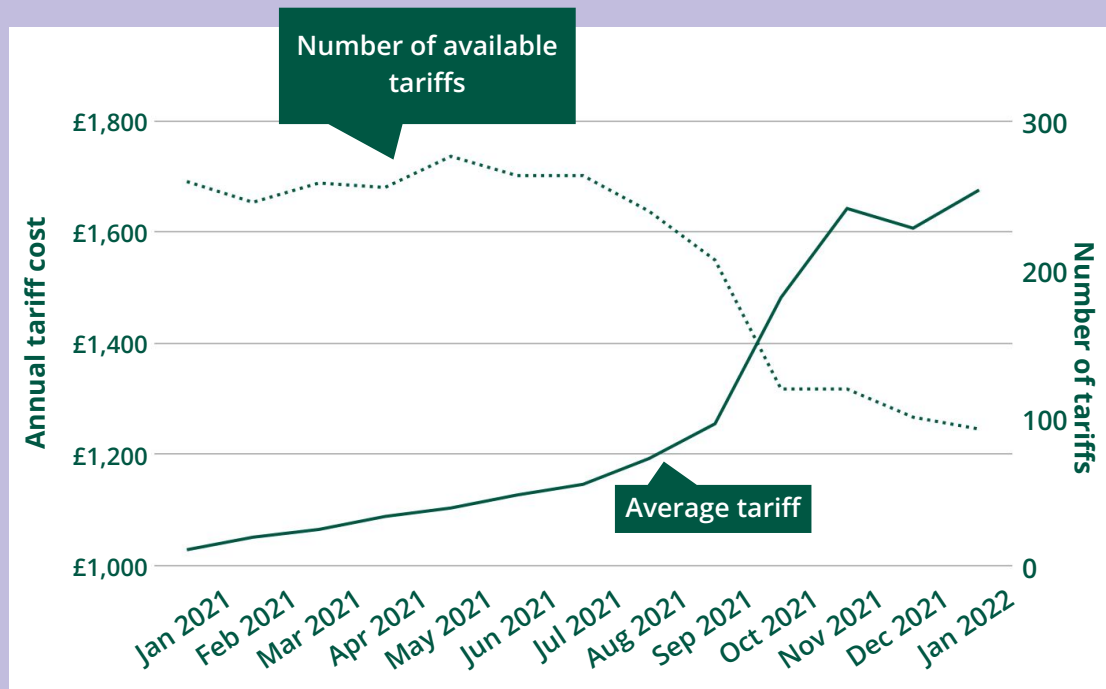
The number of people **supported with energy debts hit more than 8,000, the highest on record**. And debts are rising too, with the average energy debt now standing at £1,450, up from £1,330 in 2020.<sup>4</sup>

# The current state of the energy market means people have run out of options

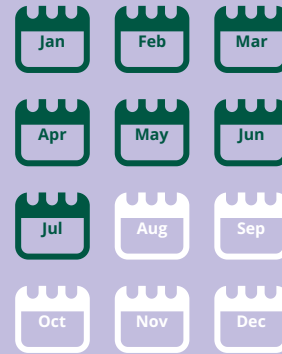
In April, we could see the energy price cap rise by as much as 57%, from £1,277 to £2000 for an average household.<sup>5</sup>

22 million households - nearly 80% of the national market - are on the price cap, which is now effectively the cheapest tariff available.

## Analysis of average number and price of publicly available tariffs in the market Jan 2021 - 22<sup>6</sup>



An average household that has been on the default variable tariff throughout 2021 and 2022 will have spent £1,153 by August 16th 2022, the same amount as for the whole of 2021.<sup>7</sup>



An average household on a fixed direct debit ending at the end of 2021 will have spent £989 by July 16th 2022, the same amount as for the whole of 2021.

By the end of 2022 an average household is projected to have spent **£1,834**.

In the past, when the price cap increased, people were encouraged to shop around to find a better deal. But as wholesale prices have increased, **the average price of a fixed price tariff has overtaken the price cap, and the number of tariffs people have to choose from have plummeted.**

Our analysis of tariff data shows that the average tariff price has increased by more than £600 in the last year. **This leaves consumers with fewer options** if they find themselves struggling with higher energy bills.

## Eight million won't be able to afford April's price cap rise

Nationally representative polling commissioned by Citizens Advice in January 2022 shows that huge numbers will be unable to afford April's price cap rise.<sup>8</sup>



More than **one in seven (16%)** would not be able to cover the anticipated average price cap rise of £60 per month. That is equivalent to around **8 and a half million** people.<sup>9</sup>

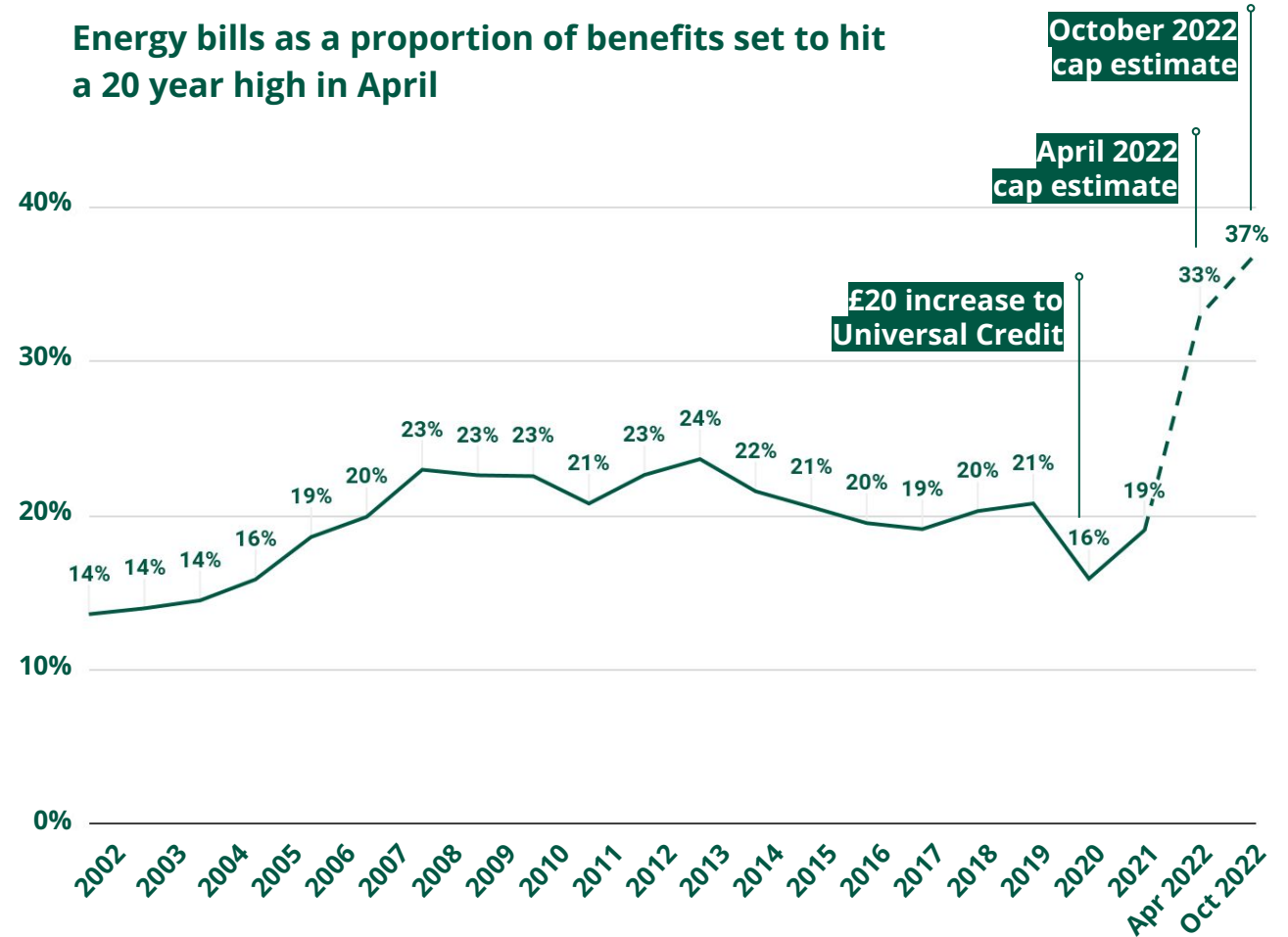


This rises to over **a quarter (27%)** of disabled people and more than a **third (36%)** of people on Universal Credit.



Almost **one in 10 (9%)** of the people we spoke to are already **in energy arrears**, even before the price cap rise.

## Energy bills as a proportion of benefits set to hit a 20 year high in April



Citizens Advice analysis of energy tariff data against historic benefits levels going back two decades found 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.<sup>10</sup>

## What needs to be done

Immediate action is needed to help people through this crisis. The government should:

- ✓ **Provide targeted support to low income households in April 2022 via an 'Energy Support Grant'** through the benefit system. Winter Fuel Payments are already paid to pensioners each year - an equivalent payment could be paid to all Universal Credit and legacy benefits claimants. This is the best way of reducing immediate financial pressure on households and simpler than creating a new Warm Home Discount-style rebate for spring.
- ✓ **Increase benefits by the Bank of England forecast inflation rate of 6% for April**, rather than the planned September rate of 3.1%. This is a cost neutral solution which would help ensure benefit levels reflect the current cost of living.
- ✓ **Spread the cost of energy supplier failures over a longer period** (at least 2-3 years) rather than current plans (recovering the majority in 2022/3).
- ✓ **Recognise the crisis will stretch through to next winter and temporarily extend the Warm Homes Discount.** This means increasing the level of the rebate, expanding the number of eligible households and increasing provision for energy companies to provide extra financial assistance next winter.<sup>11</sup>

It is clear that something needs to be done, but many of the proposals that have been put forward are not sufficiently targeted to households that need it most:

- ✗ **A one off rebate to all households, to be paid back through bills in subsequent years:** This would provide immediate relief. However, if gas prices remain high this would push bills higher, and households may struggle. Additionally, lower income households could cross subsidise the bills of middle and high income households.
- ✗ **Cutting VAT on energy bills:** This would help all households, but only by around £80 - £100, saving just £7-8 per month. This would also subsidise the bills of middle and high income households, at a cost of around £600 million to the taxpayer.
- ✗ **Delaying the increase to National Insurance:** Delaying the 1.25% increase in National Insurance that's planned for April would not help those who need it most. Cutting National Insurance would save somebody on minimum wage just £8 a month, while people looking for work would receive no extra support.
- ✗ **Subsidising the cost per unit of energy:** This would come at a significant expense, up to £20bn by some estimates. Given energy prices may remain high for years, this is unlikely to be a sustainable solution to the crisis.

# References and footnotes

<sup>1</sup> National insurance is set to increase by 1.25% in April, alongside increases in water bills and council tax and rents.

<sup>2</sup> Data covers England and Wales and does not include Citizens Advice consumer service or Witness Service data. Period defined as April 2020-January 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.

<sup>3</sup> Of the estimated 276,000 people who sought advice in January 2022, Citizens Advice supported 181,000. Just over 24,000 of those clients were referred for crisis support.

<sup>4</sup> The median fuel debt arrears held by people who undertook a debt assessment between 1 January 2021 - 31 December 2021 was £1446. The median fuel debt arrears held by people who undertook a debt assessment between 1 January 2020 - 31 December 2020 was £1327.

<sup>5</sup> based on April price cap estimate from Investec (of £1,995 per year by April 2022)

<sup>6</sup> The number of tariffs is the number of available tariffs on the market on the first working day of each month. The annual average tariff cost is measured in Ofgem's medium Typical Domestic Consumption Values and is calculated by taking the average of all tariffs on the market on the first working day of each month.

<sup>7</sup> Cost calculated using Ofgem's medium Typical Domestic Consumption Values for the relevant price cap periods across 2021, and using the estimated price cap level for April and October 2022. This Modelling assumes that 34% of energy consumption occurred between January and March, 32% occurred between April and September, and 34% between October and December. This assumption was made in line with [analysis](#) that electricity demand is 36% higher in winter compared to summer. This model also assumed that the energy bills consumers receive would be spread evenly throughout the year. 2021 consumption figure calculated using Ofgem's medium Typical Domestic Consumption Values for the average fixed direct debit tariff in December 2020. Other assumptions as above.

<sup>8</sup> Based on 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

<sup>9</sup> Based on ONS figures on number of households in UK.

<sup>10</sup> 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 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.

<sup>11</sup> For more detailed information on our proposals please see our previous [briefing](#)

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Published: January 2022

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Citizens Advice is the operating name of The National Association of Citizens Advice Bureaux. Registered charity number 279057.

