Shock proof

Breaking the cycle of winter energy crises

January 2024

Executive summary

It's now 2 years since energy prices started their rapid rise following the pandemic and Russia's invasion of Ukraine. At the height of the crisis we saw significant intervention by the Government to help pay people's energy bills, and a promise to develop longer term support.

Last year, as debt levels rose, the severe risks faced by people who prepay for energy became alarmingly apparent, as well as the inappropriate practices by some energy suppliers in forcing customers onto prepayment meters. This prompted a crackdown by the regulator and new and strengthened consumer protections.

Yet as we enter the third year of this crisis, the households still feeling the worst of its effects seem increasingly forgotten. Energy prices have fallen from their historic peak, but the withdrawal of government bill support means typical bills have not fallen since last year and remain unaffordable for many.

Ahead of winter we called for the Government to provide urgent additional support for the energy consumers who were the most likely to struggle to afford their bills, and to publish a promised consultation on new ways to provide targeted support with energy bills from April 2024 onwards. Since then, no additional support has been provided, and there's been silence on any longer term proposals.

The need for support is even more urgent now. New polling[1] and Citizens Advice data shows the extent to which some consumers across Great Britain were struggling in the first weeks of winter:

- More than 3 million people have been disconnected from their energy in the last year because they could not afford to top up their prepay meter - including more than 1.4 million since November
- Over 5 million people live in homes with an energy debt, and are at greater risk as a result of actions to reduce costs, including turning off the heating or skipping meals
- Energy debt is now most common debt we support people with. The average energy debt owed by our clients was £1,835 by the end of 2023, up from £1,579 a year earlier.

The rest of winter looks set to be even worse, with prices rising 5% this month and colder weather seeing typical household energy usage reach its highest point.

We estimate that **over 2 million people will disconnect** because they can't afford to top up by the end of winter.[2] The total energy debt pile has reached at least £2.9bn - and growing.[3] This is weighing down millions of consumers and risks becoming unsustainable for the sector.

Some respite may be on the horizon, with prices predicted to fall somewhat from April - but this won't be enough to fix the crisis. Bills will still be over 40% higher than they were in 2021, while the end of extra support through the benefits system means many families on lower incomes will have less disposable income than they do currently.

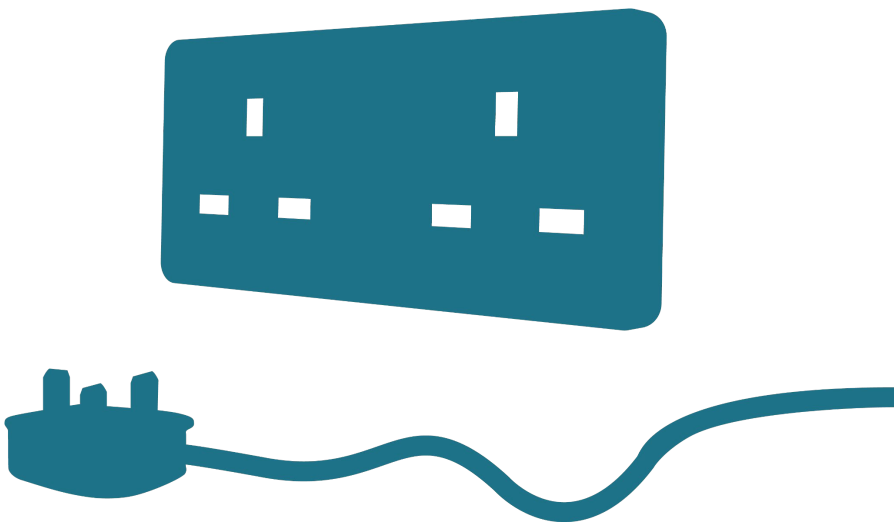
Meanwhile, wholesale prices remain volatile, and some changes in the energy system are likely to put upward pressure on bills in the coming years. We risk an annual winter crisis unless action is taken to help those struggling most.

Last year Citizens Advice looked at designs for new targeted support with energy bills that could work alongside energy efficiency improvements to lower bills sustainably.[4]

In this report we set out how these principles can be applied to the existing Warm Home Discount scheme to expand support to more low income households, at a level that is tailored to their energy needs. It also needs to be responsive to changes in energy prices so that support doesn't fall behind when prices go up, or remain unchanged if prices go down.

This change would mean millions of people can stay warm through winter. Building on existing mechanisms means this support can be delivered more quickly and within the Government's existing spending envelope for energy bill support.

Alongside this support, Ofgem and the Government should develop a joint action plan to support people in energy debt. This should include additional funding for independent debt support to help people find sustainable solutions based on their individual circumstances, and steps to ensure energy suppliers are doing right by their customers.



Millions are at risk this winter because they're behind on energy bills

With sky-rocketing energy prices no longer dominating the headlines, it is tempting to assume that the energy affordability crisis is over. But while the wholesale price of energy has fallen since last winter, overall costs for typical bill payers are roughly the same due to the removal of government support schemes.

This January, the price of an annual energy bill for the average household increased by £94 to £1,928 - more than 50% higher than the same point in January 2021.[5]

People are also facing much higher costs for other essentials, with food prices still rising by 8%.[5] The cumulative effect of the cost-of-living crisis is causing long-term strain on people's finances.

Recent Ofgem figures show that the total debt held by domestic energy consumers has been rising since 2018 and now stands at almost £3 billion. Even this is only a portion of the total debt arising from energy bills. It only includes money owed to suppliers for more than 3 months, and doesn't account for other borrowing - like credit cards - that consumers may use to pay their energy bills.[6]

1 in 10 households (9%) told us they have had to borrow money in the past 6 months to cover their energy bills.

We're seeing the impact of these pressures on the people we help at Citizens Advice. **Energy debt is now the most common debt we help people with**.[7]

In 2023, our specialist debt services helped more than twice as many people with energy debt as we did in 2020.[8] The average energy debt owed by our clients is now £1,835, up from £1,579 a year ago.

Our latest data shows that half of our debt clients are now in a negative budget - up from 45% in 2021.[9] This means their income is not enough to cover their essential costs, even after being helped by one of our specialist advisers to maximise their income and manage their debt.

Not having enough money to afford these essentials puts people at risk - even for those not using a prepay meter. Our polling found that, over the past year, people with credit meters who owe money to their supplier had taken the following actions because of their debt:

Half (49%) had turned off their heating and a fifth (22%) had cold showers or didn't wash at points

1 in 10 (10%) had resorted to using a food bank, while a quarter (25%) skipped meals or cut back food spending.

People on prepay suffer most from unaffordable energy

The situation for millions of people who prepay for energy this winter is stark. When they can't afford to top up they are disconnected from energy - stuck in a cold, dark home.

Our polling found that by mid-December:

- More than 3 million people had disconnected in the last year because they could not afford to top up their meter[10]
- Nearly 800,000 people were disconnected from their energy supply for a period longer than 24 hours in the past year because they could not afford to top up
- Nearly 1.7 million people on prepayment meters have been disconnected from their energy supply at least once a month in the past year

This represents only a small improvement on the disconnection rates we found last year in our Kept in the Dark report.

> We estimate that households using prepay collectively spent at least 2,000,000 days off supply in 2023 due to not being able to afford to top up.[11]

Key reasons people said they couldn't afford to top up were unexpected expenses (52%), changes in income (40%) and changes to energy costs, like colder weather (43%).

> Winters are particularly hard for people who prepay for energy, as they don't benefit from having their costs smoothed out across the year, but instead face significantly higher costs in the cold months.

Disconnection from energy can have significant harms for people, and mean they resort to desperate measures to try to stay on supply:

- Almost 3 million people live in households where they have skipped meals, cut back on food spending or sold or pawned possessions in the last year to save money to keep their meter topped up.
- 57% of people disconnecting because they couldn't afford to top up said it had negatively affected their mental health, and 35% said it had negatively affected their physical health
- More than 8 in 10 (86%) of prepay users who disconnected reported stress and anxiety (64%), depression (38%) and shame (38%) as a result

People on prepay suffer most from unaffordable energy

Last year we were alarmed by a significant increase in people being forced onto prepayment meters by their supplier to repay a debt. There were too many cases where people couldn't afford to pay for their energy and were at risk if they were disconnected from their energy. After we published our report, Ofgem clamped down on this practice, with a temporary ban in place for most of 2023, while the regulator developed new rules.[12]

These rules protect some of the groups most vulnerable to cold homes from being forced onto prepayment meters - households with over 75s and with children under 2. There are also new requirements for more proactive engagement ahead of installation and stringent checks on suitability of prepay based on personal characteristics and circumstances.

These are generally positive changes that should prevent people being put on prepayment meters inappropriately. However, there are still significant risks for people already on a prepayment meter and repaying a debt. We found they're at much higher risk of disconnection because they can't afford to top up:

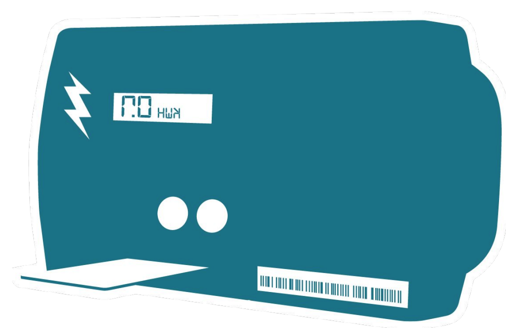
7 in 10 households (71%) repaying a debt on their meter had disconnected at least once in the past year because they couldn't afford to top up, compared with just 17% of those who have not repaid a debt on their meter within the last year.

A portion of every top up goes towards their debt, so it's vital that payments are set at an affordable level to make sure they can still afford the energy they need.

There are already rules in place that require suppliers to monitor self-disconnection by customers. In practice this is much easier for people who use smart meters - which can automatically alert the supplier about disconnections - than with traditional prepayment meters.

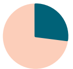
Suppliers should be stepping in to offer support to people who are disconnecting, including reassessing how much debt they repay with each top up to ensure energy remains affordable. They should also assess whether this payment method remains safe and appropriate, and offer alternatives if not.

Action by energy suppliers can only do so much. It's clear that people who prepay for energy, and who are on the lowest incomes, will remain at risk without additional financial support to help them afford their energy bills.



The rest of the winter looks bleak for millions - and some are worse affected

Our polling demonstrates the anxiety that millions of people feel about being able to afford their energy bills in the coming months and the state of their overall finances. We found that:



More than a quarter (27%) of people we spoke to said that they could not afford to cover their essentials every month.

Over half (54%) of consumers who prepay are worried about staying topped up until April

More than a quarter (27%) had an unsecured debt across different markets, with half (50%) of those in debt owing more than £1,000.

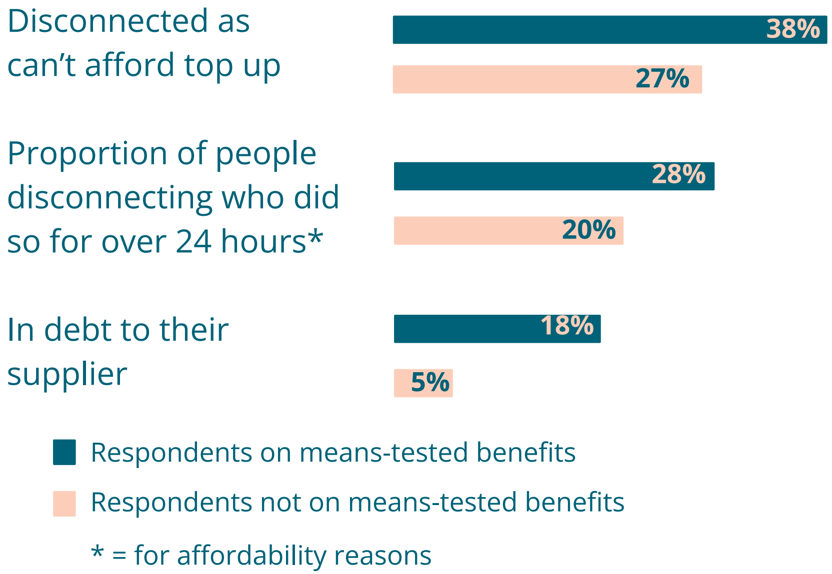
Many households are right to worry. Prices have increased from January by 5% - to around £1,930 for a typical bill payer.

This comes just as energy usage reaches its peak. On average around a third of annual energy spending occurs in the first 3 months of the year.[13] Prepay users with typical energy usage will need to pay around £230 in January alone.

Based on the levels of disconnection we saw in our survey, and adjusting for increasing usage and price rises, we estimate that between mid-December and mid-March over 2 million people will disconnect because they can't afford to top up.[2]

Some groups are more likely to face debt and disconnection, while others are more vulnerable to the impacts of a cold, dark home. Our recent polling shows that this is still the case.

People on means tested benefits[14] are more likely to be in debt, more likely to disconnect and to do so for longer periods:

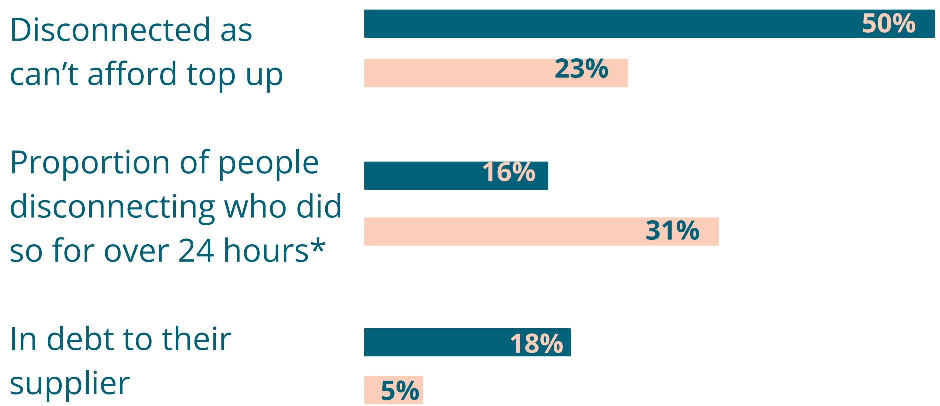


Ben, November 2023

Ben has mental health issues. He is struggling to top-up his energy and he has a debt on his gas meter. His boiler is broken and he has been without gas for several months, using the kettle for hot water to wash. He can't afford to top-up his meter until he gets his benefit payment in 2 weeks.

The rest of the winter looks bleak for millions - and some are worse affected

Households with children - and particularly those with children under 4 - are more likely to be in debt and disconnect than those without children.



Respondents with children under 4

Respondents with no children

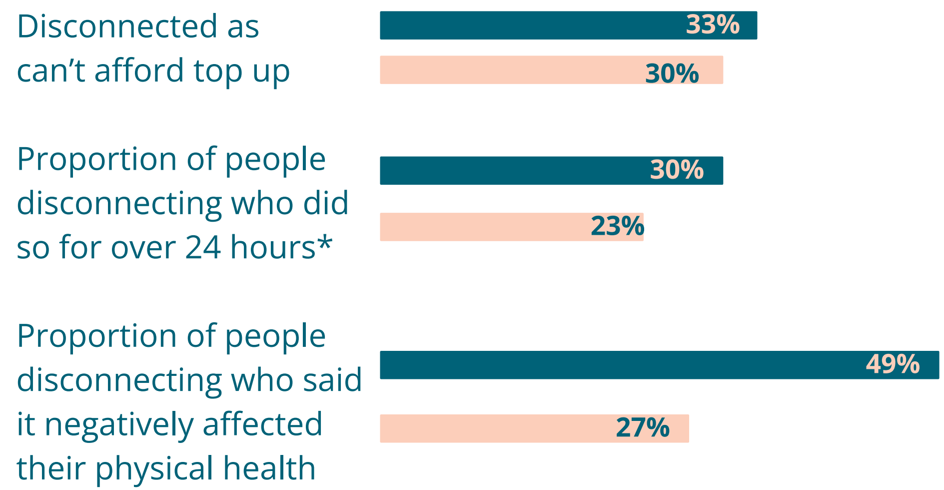
* = for affordability reasons

Evidence from NHS clinicians has previously shown how the health and development of young children can be significantly harmed by living in a cold home.[15]

Angela, December 2023

Angela's prepay meters will run out in the next day and she can't afford to top up. She's also in debt with other bills including council tax. She has children including a newborn who also has bronchitis and requires medication to be kept in the fridge.

Despite being at more risk without energy, **disabled people or people with a long term health condition are as likely as people without a disability to disconnect**, and more likely to do so for longer when they do:



Respondents with a disability or long term health condition

Respondents without a disability or long term health condition

* = for affordability reasons

Mo, December 2023

Mo is off supply for both gas and electricity, and has to repay £15 on each meter before he can reconnect. He has no insulation in the property and it gets very cold. He has multiple physical health conditions, including a respiratory problem. His supplier said they're unable to help as they've previously given him assistance.

The energy affordability crisis: Clare's story

The Energy Consumers Tracker was a qualitative longitudinal study for Citizens Advice (November 2021 to September 2023) which looked at experiences with energy and wider cost of living.

Clare is a mother of 3 in her mid thirties. She works part time, and relies on means-tested benefits to supplement her salary. She also receives the Warm Home Discount.

When we first spoke to her in November 2022, she'd been struggling with energy bills for some time. **Although her family's usage was moderate, her bills had almost doubled from a year earlier.**

Having a young baby meant Clare felt it was important to have a warm home. She tried to only use the heating for an hour in the morning and the evening and encouraged her children to wear layers and to stay in one room during the day. She looked into replacing her old boiler and making changes to her house to make it energy efficient, but the upfront costs were too high.

Higher energy bills, higher mortgage payments and the added costs of having a newborn meant that she had to make cutbacks in other areas, including food. When we asked how she felt about her energy bills, Clare directly linked stress around money and her bills to her deteriorating mental health.

By February 2023, Clare's monthly energy bill doubled to around £400. Unable to cut back any further, she went into debt with her supplier and resorted to paying her bills by credit card. **Her home began to have issues with condensation and mould.**

By May, Clare used a Cost of Living payment to pay off some of her debt to her energy supplier, and had been able to use her heating more intermittently and pay off her credit card. However, despite her financial pressures easing, the winter had taken a severe toll, leading to a mental health crisis.

In September, Clare's bills had again reduced to around £200 a month, and she was in credit with her supplier. This meant she could be more relaxed about her family's energy usage. However, rising food prices meant that she was still forced to cut back on essentials, and her baby was in and out of hospital, putting further strain on her mental health.

When we last spoke to Clare she told us **she was trying not to think about the future as she found it depressing** and that she hoped that the weather wouldn't be too harsh over winter.

Will falling energy prices solve the affordability crisis?

This winter consumers have endured high energy prices, but forecasts show the price cap may fall by 16% from April to around £1,620.[16] This is a result of falling wholesale gas prices, driven by high levels of gas storage in Europe, and a relatively mild weather.

This would save typical households around £25 a month, but leave energy costs over 40% higher than they were in 2021.[17] Wholesale prices may remain volatile due to ongoing conflicts and geopolitical issues, so we could see prices rise again.

Even if these price reductions are sustained, there are pressures that are likely to mean paying for energy remains a struggle for many on lower incomes next year:

- A combination of benefits not keeping pace with the cost of essentials[18], rising housing costs and the withdrawal of Cost of Living payments worth up to £900 per household from April means working age families on a low incomes will have less disposable income than last year.[19]
- Repayments for people in debt to their supplier will mean their total costs will remain higher until they pay off what they owe. Consumers in debt can also be blocked from switching, which will limit their ability to make savings.[20]
- Ofgem has proposed adjusting the price cap upwards to pay for increasing bad debt, and review of suppliers' operating costs allowances could lead to a further increase.

Over the period to 2030 there are some upward pressures on energy costs and changes that may see some people pay more:

- Increased payments for energy networks and new investments in other energy infrastructure.
- Reforms to encourage more time of use pricing, more location-based pricing also being considered.[21]
- Possible changes in how policy levies on energy bills are collected could incentivise take up of heat pumps, but also lead to higher costs for people who use gas heating.

While reforms should save money overall, they may put some consumers at risk of paying more. People who are slower to adopt smart and low carbon technologies will be less able to benefit from reforms like flexible pricing.[22] This is likely to include people on lower incomes, but also those with more limited ability to make changes in their homes like renters and people with more limited digital skills or access..

While bills for all consumers should fall as cheaper renewables come on stream, savings may be smaller than previously hoped for due to cost rises for offshore wind.[23]

It’s vital that as policymakers make necessary changes to the market we tackle the barriers that prevent people from benefiting and protect those at most risk if they lose out.

Why isn't current bill support ensuring affordable energy?

The biggest energy bill support scheme is the Winter Fuel Payment, which provides 8.3 million pensioner households across Great Britain with between £100 and £300 a year[24], at a total cost to the Government of £2bn a year.[25]

Some low income pensioner households with high energy costs are likely to rely on this help to manage their bills - but in general it's not well targeted as it is paid to all pensioners, regardless of need. The level of support has also withered over time, with the core support not being uprated since 2001. Had support kept pace with inflation it would now be worth £350.[28]

The main targeted energy support scheme is the Warm Home Discount (WHD). This provides a discount of £150 for around 3 million eligible households. It is applied directly to electricity bills, which ensures eligible households receive it regardless of which heating technology they use. It costs around £450m and is paid for through a cross-subsidy from other energy consumers. This adds around £19 to all electricity bills, and there is a reconciliation mechanism to ensure all suppliers pay a fair share.

The support offered by the WHD scheme has never been set according to an assessment of consumer need. The initial level was set based on the average support offered by voluntary social tariffs that were offered by energy suppliers in 2009.[26] The current level of support is clearly not effective in supporting people to stay on supply and out of debt.

Over time, the level of support offered through the WHD has fallen behind both energy costs and wider inflation.

- In 2014 it was worth 12.5% of the average bill[27], but now only makes up just under 8%. If it had risen in line with average energy costs it would now be worth £240,
- In 2014 it was worth £140, and in 2022 it was increased to £150. If it had been increased in line with general inflation over that period it would now be worth £185.[28]

With energy prices likely to remain volatile in the future, it's vital that energy bill support becomes more responsive to bills rising and falling.

Around 950,000 low income pensioners receiving Pension Credit Guarantee Credit across Great Britain have WHD applied automatically. The scheme also provides support to around 2.05 million working age households.

Since 2022, recipients of other means tested benefits in England and Wales also receive the WHD automatically. Households have their heating needs estimated based on data held on the age, size and type of the property they live in.[29] Those whose heating cost is modelled to be above a 'high cost' threshold are eligible for support. In practice, the high cost threshold is set by government based on the budget available, rather than an assessment of need.

Why isn't current bill support ensuring affordable energy?

The new approach is better targeted at those at risk of fuel poverty than previous iterations of the scheme and enabled participation by more suppliers. However, it can't take account of some individual circumstances that may cause higher usage, like disability.

It also means low and medium energy users on low incomes miss out. These households have less ability to reduce their costs by using energy more efficiently due to standing charges making up a larger proportion of their bill.

In Scotland, similar data about properties is not available, and so consumers need to apply to their supplier, and support is provided on a first come, first served basis. Eligibility is based on benefits entitlement and any vulnerability characteristics in the household (eg young children or disabled people).

This means some eligible households miss out if their supplier is oversubscribed, the annual application process is burdensome for consumers, and some may not even be aware they are eligible in the first place. The lack of criteria on energy costs also means it is less well targeted at those most at risk of fuel poverty.

Some people have to take additional steps to claim support, and people with traditional prepayment meters also need to manually add it to their meter by using vouchers at the top up shop. This can make it harder for some people to access the support they need, though smart meters enable support to be applied automatically.

Some households miss out on support because of challenges in automatically identifying certain types of household, in particular:

- people whose landlord controls their energy supply
- people who are supplied by a non-domestic contract (for example because they live above a pub or shop), as non-domestic suppliers do not participate in the scheme

There is a bespoke scheme to support people in park homes who miss out on support, and a discretionary strand of the WHD that enables suppliers to make payments to people in other circumstances who are ineligible for rebates.

These are helpful to fill the gaps in support, but still exclude some on non-domestic contracts, including renters whose landlord manages bills and some traveller communities who don't have a permanent residence.

We need a better approach to supporting people with energy bills

At the start of the winter we called for the Government to intervene to provide additional targeted support[30], but none has yet been forthcoming. It's not too late to act to support those who need help most this winter, and there are still some relatively straightforward ways to do so - for example, by funding an additional Warm Home Discount payment for those who already receive it.

The need for extra support is likely to endure over the coming years, and current policies are not well designed to respond. To prevent an ongoing cycle of increasing bad debt, support for people struggling with energy bills must be improved and better targeted.

Last year we released Fairer, Warmer, Cheaper - a major study considering whether energy bill support should be reformed to better meet the evolving needs of consumers. It was grounded in extensive public opinion research, and informed by consultation with the energy industry, academia and charities.

It was developed in the context of wide-scale energy bill support for all domestic energy consumers, costing tens of billions of pounds. It envisaged a more targeted government-funded energy bill support scheme, that built on many of the successful features of the WHD, but went further by targeting a wider group of people on lower incomes, not just those on means tested benefits, and providing support payments which were tailored based on income and energy need.

Despite promising early signs, there has been a lack of meaningful action by the Government, which has failed to deliver on a public commitment to consult on options for additional bill support. The lack of progress means it won't be feasible for a brand new scheme to be in place by Winter 2024/25.

A key barrier to the model that we previously developed was wider eligibility and new data matching. Extending support to more households in receipt of means tested benefits is straightforward, but the data matching we proposed for other people on lower incomes would take significantly longer to deliver. The current fiscal approaches of both major parties ahead of the election later this year also significantly reduce the scope for a broader scheme.

There are benefits to our previously proposed approach which mean it would still be worth further exploration by policymakers over the longer term. It would improve the government's ability to identify and support low income households who are outside of the benefit system, in the energy market but also more widely across other markets and services.

This would enable the Government to reach struggling households with programmes they're currently excluded from, or introduce targeting for a range of government schemes which are currently universal due to inability to effectively target recipients. However, in the short term we think there is merit in options which provide even more targeted support.

We need a better approach to supporting people with energy bills

To deliver support more quickly we've considered amendments to the WHD which can be delivered more easily, at a cost that is within the existing spending envelope for energy bill support, and which could potentially be paid for through a blend of taxpayer and billpayer funding.

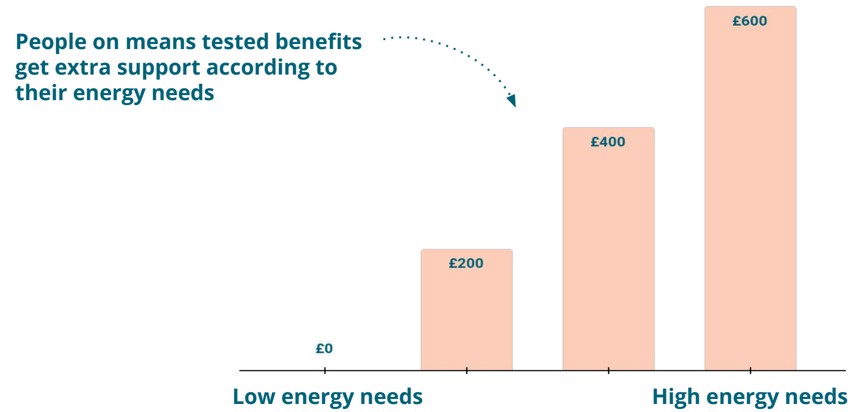
Given uncertainty over future energy costs, any new support should also be more responsive to changing energy prices, so it continues to offer appropriate level of support if prices rise or fall significantly.

We've assessed each approach based on its impact for eligible consumers, using data we hold about Citizens Advice debt clients as a reasonable proxy. Alongside assessing the financial benefits, we've also assessed the total cost of each option, and how well it is targeted and tailored to individual needs.

Our analysis shows that simply increasing the existing WHD is not enough. It is too narrowly targeted, increases the 'cliff edge' of support for those who are not eligible and is not tailored to energy need.

A better approach would be a tiered Warm Home Discount, with expanded eligibility and differential support based on energy need. This could provide support of up to a third of a typical bill (currently around £600) to low income households with the highest energy costs. It would be more tailored to needs and avoids steep thresholds for eligibility by providing a lower level of support to those on low incomes with lower energy costs.

These improvements to the WHD would offer many of the same benefits of better targeting and tailoring as our proposal from last year, but with a lower overall cost that is within the current spending envelope for energy bill support.



It could be funded by improving the targeting of current taxpayer spending - potentially supported by a contribution from bill payers, where this can be offset by savings.

It would help support the groups our research has shown are at particular risk of debt and disconnection - people on means tested benefits and families with children who tend to have higher energy costs. It would also be more effective at reducing the risk of prepay disconnection, as working age people are more likely to be on these meters in the first place.

Detailed assessment of different approaches, and how support could be funded are in the annex of this report.

Energy efficiency is vital - but will take time to deliver

Alongside bill support, energy efficiency is a vital long term solution to fuel poverty. Citizens Advice research has shown that upgrading Great Britain's leaky homes would save consumers £24 billion on their energy bills by 2030.[31]

However, the current approach to rolling out energy efficiency is too slow, and many support schemes are not reaching many of those who need help most. We have found that low awareness of energy efficiency schemes, a lack of personalised advice and high upfront costs are key barriers to insulating homes.

To support those on lower incomes or who aren't able to make changes in their homes we've previously called for:

- a plan to upgrade 13 million inefficient homes by 2030 through a mix of public and private funding, including better targeting of support for low income households[31]
- enhanced requirements for landlords to improve the energy efficiency of their properties[32]

However, even if improved energy efficiency schemes are implemented, they will take years to fully deliver. Improvements should help reduce - but not eliminate - the need for energy bill support.

This is because while some people save money as a result of efficiency measures, those who have previously been rationing may use the savings to adequately heat their home, rather than reduce their energy spending.

We also need to address the symptoms of the energy affordability crisis

It's vital that we tackle energy affordability to stop more and more families falling into debt. However, an enormous debt pile of £3bn has already been built up[33], which will take a significant time to repay - **repayment plans for electricity debts by prepay customers already last an average of 5 years**.[34] This figure may well increase while bills remain elevated above historic levels.

Many households are rationing their energy usage to stay topped up - especially in winter - and those in debt are at more risk. **People repaying debt through their meter are 4 times more likely to disconnect than those who aren't.** Last winter we also saw alarming numbers of people forced onto prepay meters when they weren't safe for them to use.

Since last winter Ofgem has made important changes to its rules, including:

- new rules on prepay meter force fitting that require more proactive consumer engagement, robust assessment of risk and protection of some of the groups most at risk from cold homes, including people over 75 and children under 2
- debt protections to deliver better engagement with consumers and access to repayment plans, including debt holidays, where necessary
- higher standards on customer service to ensure people can get in touch easily to access support from their supplier

The regulator is also taking a tougher approach to ensuring suppliers comply with its rules. Suppliers are prevented from proceeding with forced prepay meter fitting until compliance with the new rules can be demonstrated. It has also instituted more stringent checks of company processes and required extra commitments from company Boards.

While the steps taken so far should offer some more protection for consumers, energy suppliers remain under pressure from rising debt costs and may respond in ways that harm consumers.

With new limits on force fitting prepay meters, suppliers may seek to increase debt collection activities like use of County Court Judgements (CCJs) and bailiffs to collect debt. These tactics can feel aggressive if sufficient attempts to contact customers and offer debt support have not been made. They can also expose consumers in vulnerable circumstances to mental and physical health risks if used inappropriately.

Suppliers are responsible for the behaviour of external agents they use as part of their debt collection processes, and the same Ofgem protections apply equally for customers. However, as we saw last winter with prepayment meters, without appropriate supervision, firms acting for suppliers can act in ways which don't align with these rules.

We also need to address the symptoms of the energy affordability crisis

To better manage these risks a voluntary commitment by most energy suppliers this winter - developed by Energy UK in consultation with Citizens Advice - requires board-level sign off of policies related to certain debt measures.[35]

Ofgem should maintain close scrutiny of suppliers and consider whether aspects of the voluntary winter agreement should be placed into its guidance.

Ofgem has sought to reduce the pressure on suppliers through its recent proposals for a temporary increase in the price cap of £16 in 2024/25 to pay for higher bad debt costs.[36]

Some rise in consumer prices is inevitable as a result of higher debt, and allowing an appropriate increase should reduce the risk that consumers in debt face inappropriate collection tactics, especially as prepayment as a debt solution has been significantly curtailed. However, the increase will put further pressure on consumer bills and is unlikely to be a sustainable approach to energy debt. This is in part because while the price cap applies equally to all suppliers, each will have a different level of debt within their own portfolio.

Ofgem has already committed to consider other solutions for bad debt early in 2024. Last year we considered some options in our paper Tackling Energy Debt. This included different ways of sharing the debt burden between suppliers, and spreading recovery over a longer period - though this would increase the overall cost, especially if it relies on borrowing at commercial interest rates.

In general, regulatory solutions are likely to be dependent on moving money between consumers in ways which may risk higher costs and unfair outcomes. Government intervention on energy debt could help allocate costs more fairly or support borrowing at lower rates.

Some stakeholders have suggested government-funded debt write-offs, but this could give rise to issues including the fairness of decisions on who gets support, a lack of clarity on why only energy debts should be supported, and risks of perverse incentives if people need a certain level of energy debt in order to access support. There are also risks of rewarding energy suppliers with poor debt management practices and disrupting the level playing field for competition.

A better approach is to **increase funding for third party debt support for energy consumers**, to help manage significantly higher demand as a result of rising energy debt. These services offer a sustainable solution for both consumers and energy suppliers, by considering people's debts across sectors and ensuring they access the best support for their circumstances.

They are proven to have a high return on investment, benefiting individuals but also the public sector and wider society, by solving people's problems and resolving financial challenges that stop them living healthy and productive lives.[37] Debt advice is also beneficial for creditors, because it improves debt recovery and reduces the risk of consumers entering further debt cycles.[38]

Recommendations

We risk crisis levels of debt and disconnection each winter unless urgent action is taken.

The Government should reform the Warm Home Discount to reach more people on low incomes and offer higher levels of financial support to those with the highest energy needs.

This should be accompanied by improved targeting of low income households through energy efficiency schemes, and measures that mean people in rented homes are able to benefit

We're also calling for further action to tackle the symptoms of the energy affordability crisis:

- **The Government should work with Ofgem to develop a joint action plan for energy debt.** This should include increased funding for third party energy debt support.
- **Ofgem should ensure compliance with its new rules on prepay force fitting and debt**. People must be supported by their supplier, with swift enforcement action if companies fall short.
- **Ofgem should monitor the impact of prepay force fitting on consumers** and expand the protections against installation to more groups of consumers if there is evidence of significant harm.

Annex: Detailed options assessment

We've assessed different approaches for support based on some key criteria:

- Number of households supported
- Impact (based on an assessment of the impact for Citizens Advice debt clients)
- Cost (based on the current price cap)
- Tailoring of payments to income and energy needs

Interpreting analysis on the impact of changes on Citizens Advice debt clients

Since 2019, our specialist debt service has helped more than 300,000 people across England and Wales get a handle on their debts, and we help thousands more every month.

Our advisers help them maximise their income and determine what a minimum sustainable budget is - one that will allow them to start paying back their debts without causing hardship. At the end of this process more than half the clients we help have a budget shortfall - a negative budget - which means they don't have enough money to cover essentials.

This process provides us with detailed income, expenditure and debt data which captures the experience of those who are being hit the hardest by the squeeze in living standards.

To model different energy support approaches we used this data to assess which clients would be eligible, and the impact this would have on the average budget shortfall for those who are.

We then measure how much it reduces the average budget shortfall across all our clients - both those who are eligible and those who aren't. This means measures which increase support and widen eligibility have greatest overall impact. For the purposes of this assessment we've assumed that support is paid over the Autumn and Winter - similar to existing schemes.

Approaches for delivering improved bill support

Approach 1: increasing the Warm Home Discount doesn't go far enough and creates steep cliff edges in support

Approach 1a - increase the WHD to £300

- Supports ~3m households who are already targeted by WHD
- Reduces average personal budget deficits across all Citizens Advice debt clients by just £11.70 per month (from -£52.11 to -£40.42) over the Autumn and Winter
- Costs ~£450m (in addition to existing £450m WHD spending) equivalent to ~£16 per household, if fully funded via bills
- The payment is not tailored to energy need or income

Doubling the size of the WHD would have meant it kept pace with rising energy costs over the past 18 months.

If the level of support was pegged to a set percentage of an average bill then support would fall to ~£250 if bills drop by 16% from April 2024. This would reduce the total cost to ~£300m (in addition to the existing £450m WHD spending).

This level of increase would be too low, and too narrowly applied, to meet consumer needs now or in the coming years.

Approach 1b - increase the WHD to £600

- Supports ~3m households who are already targeted by WHD
- Reduces average personal budget deficits across all Citizens Advice debt clients by £23.34 per month (from -£52.11 to -£28.77) over the Autumn and Winter
- Costs ~£1.4bn (in addition to existing £450m WHD spending) equivalent to ~£50 per household, if fully funded via bills.
- Payment is not tailored to energy need or income

This would increase the WHD to the level of support suggested in our Fairer, Warmer, Cheaper report. This identified a discount of 30% of energy bills as a level that could achieve public consent while being feasible and meaningful. However, retaining a narrow eligibility means some households with lower energy costs will still struggle.

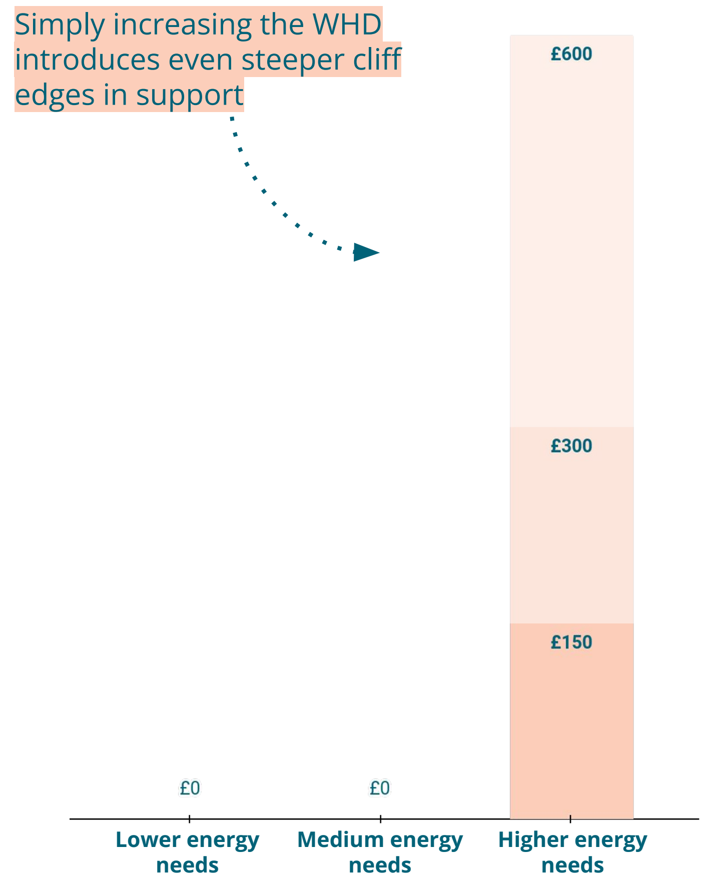
If the level of support was pegged to a percentage of an average bill then support would fall to ~£500 if bills drop by 16% from April 2024. This would reduce the total cost to ~£1.1bn (in addition to the existing £450m WHD spending).

Approaches for delivering improved bill support - increasing the Warm Home Discount

Issues with approaches that simply increase the WHD

These changes would have very low administrative complexity as the scheme would function as it currently does, although a mechanism to regularly review support levels would need to be considered. However, providing a single rate of support means this is a relatively blunt mechanism which is not tailored to need. Increasing the level of support would substantially increase the cliff edge between those who are eligible and those who aren't.

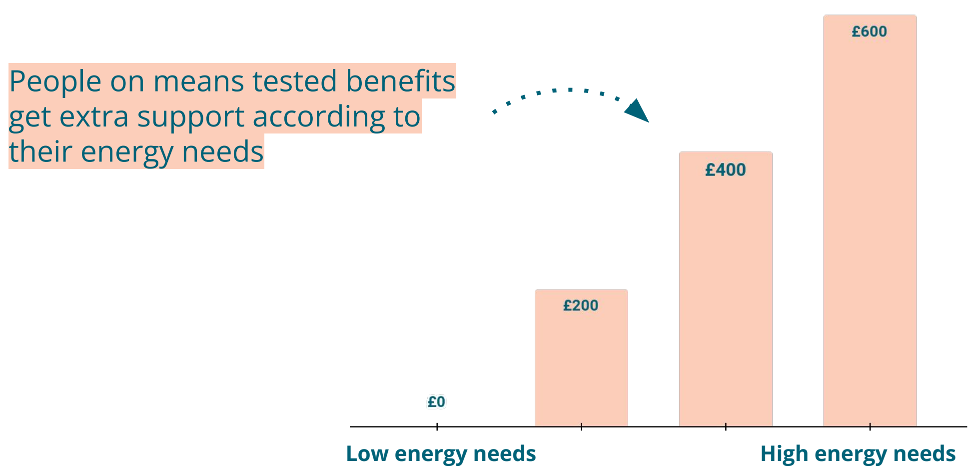
While the current scheme is somewhat targeted at those with higher energy costs, low income pensioners receive support regardless of their heating needs. The targeting of support could be improved by applying the high energy cost test to all recipients, though this would mean some pensioners who currently get support would lose out. Pensioners make up around 15% of fuel poor households, but receive over 30% of WHD rebates.[39]



Approaches for delivering improved bill support - a tiered Warm Home Discount

Approach 2: A tiered Warm Home Discount effectively targets support and tailors it to energy need

- ✓ Supports 5-6 million households (out of 7.8 million GB households on means tested benefits[40]) with up to £600
- ✓ Reduces average personal budget deficits across all Citizens Advice debt clients by around £43 per month (from -£52.11 to -£8.77) over the Autumn and Winter[41]
- ✓ Costs ~£1.9bn (in addition to existing £450m spending on WHD). This is equivalent to an extra ~£70 per household, if fully funded via bills.
- ⊖ Payments are tailored to energy need but not income



How this approach would work

The current WHD works by matching households on eligible means tested benefits, assessing their energy needs based on the characteristics of their house, and providing support for those above a single 'high cost' threshold.

A tiered approach would use the same mechanism but have multiple thresholds, so that those above the first threshold get a higher payment, and decreasing levels of support for those with lower energy needs.

This would expand support and remove the steep cliff edges that would arise from simply increasing the existing WHD.We modelled support that provides a maximum of £600. This is in line with the level of support provided our earlier proposal for bill support:

- 3 tier option - out of 7.8 million GB households on means tested benefits, this would provide £600 to the 2.6m households with the highest energy costs, £300 to the next 2.6m households, and nothing for 2.6m households with the lowest costs.
- 4 tier option - this would give £600 to the top quarter (1.95m households), with subsequent quarters receiving £400, £200 and nothing for the bottom quarter.

Our modelling shows the average impact on Citizens Advice clients of both options is the same, though the support is distributed differently.

Further consideration of some aspects of how this support is designed are required. For example, increasing the number of tiers could increase the tailoring of support to energy needs, though it could also add to the complexity of the scheme.

We modelled tiers based on giving equal numbers of recipients distributed across the different levels of support. The energy thresholds could be adapted so more or fewer households were in a particular tier, based on a more detailed analysis of the needs of households on eligible benefits.

This approach would be more costly than simply increasing the existing WHD, but would be well within the current total spending envelope for energy bill support while making significant improvements to fuel poverty targeting.

If the level of support was a fixed percentage of an average energy bill then maximum support would fall to around £500 if bills drop by 16% from April, with equivalent reductions to other tiers. This would reduce the cost to ~£1.5bn (in addition to existing £450m spending on WHD).

Delivering tailored support would require assessing the energy needs of recipients on Pension Credit Guarantee Credit, who currently receive support regardless of energy need. This could mean pensioner households who don't reach the first threshold miss out. A 'no losers' approach could continue to guarantee at least £150 in support for these households, with more for those with higher energy needs, though this would require additional funding.

Policymakers should also consider whether WHD should continue to only top up support for households on means tested benefits with higher energy costs. The approaches we modelled follow this principle, so that those in the lowest energy band receive nothing.

An alternative that provides a minimum level of support to all households on means tested benefits would increase costs, but also have some benefits. It would help offset some of the costs of the transition to net zero for more low income households, including higher standing charges, which make up a larger part of the bill for lower users. It would also enable a minimum level of automatic support in Scotland where data matching based on energy needs isn't currently possible.

Changes to further improve the targeting and tailoring of support could be delivered in future, but are beyond the scope of what's possible in the near term. This could include tailoring of payments based on household income within the means tested benefits cohort, though this would require further progress with the Universal Credit roll out.[42]

Over time tailoring for energy need could be improved through greater take up and improvement of Energy Performance Certificates (EPCs), which could improve assessment of the efficiency of properties.

Approach 3: A new bill support scheme based on our earlier proposal is more complex and expensive to deliver but would provide the most benefits

- Designed to support up to 12 million households with average support of around £350 based on current bills, though the breadth of support should be reviewed if bills fall
- Reduces average personal budget deficits across all Citizens Advice debt clients by £57.70 per month (from -£52.11 to £5.59) over the Autumn and Winter
- Costs ~£4.3bn. This is equivalent to ~£155 per household, if fully funded via bills.
- Fully tailored to energy need and income

How this approach would work

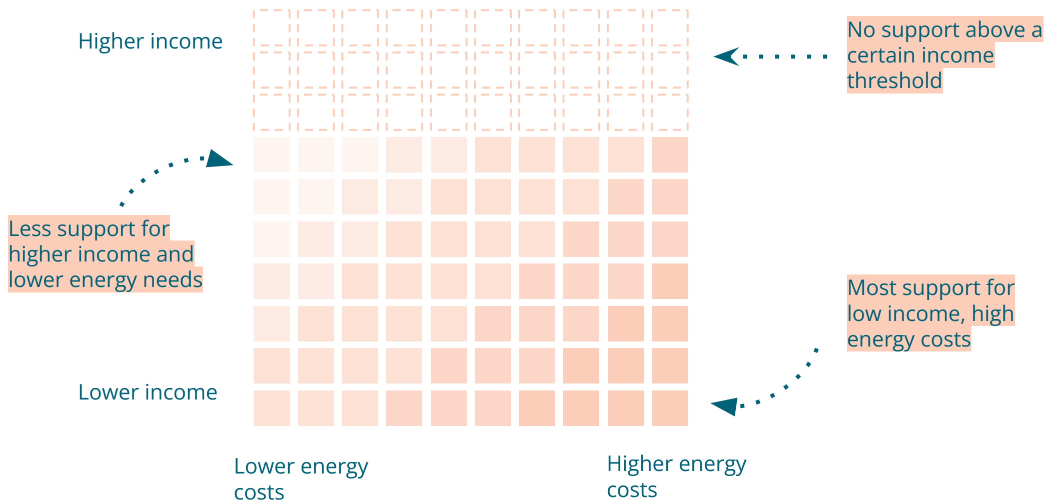
This is based on the preferred approach from our report Fairer, Warmer, Cheaper - a 'formula-based lump sum'.

The framework enables targeting of households on lower incomes who don't claim benefits, but would rely on new sharing of government data on personal incomes. This approach avoids cliff edges in support, including for low income households outside the benefits system. This also means it could be an effective means of providing crisis support, without resorting to the expensive universal mechanisms the Government relied on in 2022/23.

The support it provides is a lump sum, tailored based on household income and actual energy usage data, shared by energy suppliers, rather than modelled energy needs in the WHD. Using real usage data means the scheme could operate in Scotland, which doesn't have access to the current data matching used for the WHD.

The upper limit for support is set at half the value of the energy bill (currently around £1,000) though in practice only a very small number of households with the lowest incomes and highest energy costs would receive this level of support.

The level of support provided is fully flexible to changes in energy bills. The upper limit of support would fall to around £840 if bills drop by 16% from April, reducing the average support to around £300 and the cost of the scheme to £3.6bn.

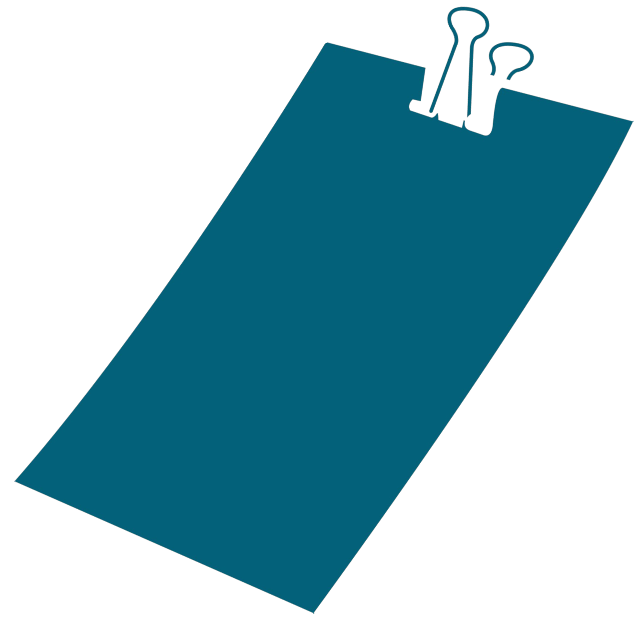


This approach aligns well with energy efficiency programmes, as the size of payments and the cost of the scheme should reduce over time as these help cut energy costs. A lump sum payment means recipients also benefit from efficient usage within the payment period, though as this will reduce payments in subsequent periods, it could somewhat dampen efficiency incentives.

The **major barriers to this scheme are setting up new data matching processes** which employ more sophisticated analysis of incomes at household level. These are likely to take time to resolve, though the level of work required is hard to fully assess without more analysis by the Government.

The proposal was developed in a context of exceptionally high energy prices and government support for all households. Lower prices may mean the scheme now reaches more households than necessary. It could be made more targeted by introducing a de minimis support level, so that if tailored payments fall below a set level they are not made. This would reduce the total cost but it would likely remain **more expensive than the current spending envelope for energy bill support**. This does not appear feasible in the short term.

The scheme would also need more detailed consideration of certain issues. It would need to provide the right level of support to households who are rationing their energy usage, perhaps by cross-checking usage data against other data about the home. It would also need to ensure it remains appropriately tailored to essential energy needs, even as domestic energy demand for some households may increase during the transition to net zero.



How would support be delivered in practice?

Across the approaches there are some issues which need to be considered in relation to how support would be delivered:

How frequently support is reviewed

This could be done annually based on current or predicted prices, with support levels increased or decreased if there are significant changes in energy prices outside predetermined tolerances.

Reviews could also account for changing energy costs. As energy efficiency improves, the need for additional support should fall and payments could be reduced. This could be supported by including efficiency in assessments of energy needs under the WHD, though this would require wider take up of EPCs.

How frequently support payments are made

Support is currently provided in a single lump sum over the winter, when costs are highest for those who pay in arrears or via prepay. For higher levels of support there may be benefits of smaller payments over the winter, particularly for people who prepay for energy who will need to manage the support across a number of months.

More frequent payments could also enable more regular checks on eligibility, which currently occur annually, and pick up people moving in and out of receipt of benefits.

How to support households in Scotland and Northern Ireland

Automatically providing support to more people through the WHD is more complex in Scotland, and may take some time to deliver. Northern Ireland has a separate energy system. We've previously called for the Scottish and UK Governments to work together on how the WHD could work better for households in Scotland.

In the short term Scotland could use its share of additional WHD funding to increase the level of flat rate support and/or increase the number of recipients, or add additional criteria to the scheme to enable differential levels of support in the Scottish scheme.

Northern Ireland has a separate energy market, but funding could be used to develop new support or enhance existing schemes.

How would support be delivered in practice?

As well as addressing delivery of rebates under these schemes, there also needs to be consideration of support for people who may miss out. As with the current WHD, some households who would otherwise be eligible may miss out because they are on a non-domestic contract or where their landlord controls the account.

To help overcome these barriers we've also called for improvements to consumer rights for customers on non-domestic contracts and for tenants to more easily take control of their energy supply to access support like the WHD.[44] However, these changes may take some time and would still leave some who can't be reached through the main scheme.

Secondary mechanisms - like those that are already in place for people who live in park homes - are likely to continue to be needed and should be expanded to cover a wider range of consumers.

Energy bill support schemes are also targeted based on enduring energy needs and low incomes can also never encompass all those who might need support. For example, schemes can't account for temporary increases in energy need due to changes in circumstances like periods of acute illness or pregnancy.

It's important that there is complementary support that's available, including energy efficiency schemes to reduce costs and help from energy suppliers and charities to support a wider cohort based on individual circumstances. The WHD already enables some funding through 'industry initiatives' - a more flexible funding pot that suppliers can use to support people who don't receive rebates. This could be retained and potentially expanded under improvements to the scheme.

To get support where it's needed most it's also important that companies can more easily identify people who need help - and that people can more easily ask, or be supported by others to do so. There are systems in place across essential services sectors (called Priority Services Registers) but they are too complex, don't work together, and don't take account of financial vulnerability. This places significant burdens on consumers and companies.

We set out how a single, cross-sector service could simplify this process and provide better support in our paper Closing the Gap, and the Government has subsequently proposed that it will coordinate work on a multi-sector Priority Services Register.[45]

How could energy bill support be funded?

While the costs associated with a tiered Warm Home Discount are significantly lower than our previous proposals, we recognise that they must be funded. The Government could do so by raising new taxes or borrowing, though the fiscal approaches of both major parties constrain this option.

There could be ways to improve the targeting of nearly £2.5bn already spent on bill support. This is made up of £2bn on the Winter Fuel Payment funded by taxpayers, and £450m on WHD funded by energy bill payers.

The Winter Fuel Payment (WFP) currently provides support to all pensioners, regardless of income or energy need. This is worth looking at again for 2 key reasons:

- When WFP was introduced in 1997, 45% of pensioners lived in absolute poverty but this has now fallen to 12% - lower than any other key demographic group[46] - and average pensioner incomes (after housing costs) have risen above those of average working age households.[47]

- The core £200 level of support provided by the WFP has not increased since 2001, though extra support for over 80s has been added, and at times it has been accompanied by one-off payments.[48] Had the core support kept pace with inflation it would now be worth £350.[49]

The success of other policies to improve pensioner incomes means that the need for WFPs as an energy bill support has fallen away for many. At the same time, the lack of uprating means the support that's provided has become much less meaningful, leaving those who do still rely on it struggling to make ends meet.

A more targeted approach would enable low income pensioners who receive Pension Credit and have high energy needs to receive enhanced levels of support. To ensure they benefit overall from reforms, they would need to receive a baseline of support equivalent to the WFP through the WHD. Not all eligible households currently receive Pension Credit, so the Government would also need to take steps to improve take up.[50]

Another way to fund support is via cross-subsidies between consumers. These already add £19 to bills to pay for WHD, alongside a wider range of policy costs which add a total of around £150 to average energy bills.[51]

We foresee a blended approach to funding energy bill support continuing in the future, with government spending continuing to make the larger contribution. However, it is also worth exploring how better targeted energy bill support will impact costs in the energy system, and whether the contribution from bill payers remains appropriate.

It's not feasible that levies on bills could fund the full cost of support. This would lead to bills rising by up to £70 to pay for a tiered WHD, which would make life harder for consumers on low and middle incomes who aren't eligible for support. It would also cancel out a portion of the benefit for those who do receive help.

In general, levies are not a fair way to recover costs compared to taxation, which is more progressive. Levies on electricity also make it more expensive for consumers to adopt low carbon heat pumps - we explored these issues in our paper, Balancing Act.

Despite this, the urgent need for support means it's worth exploring if the WHD 'levy' on bills could make a contribution to the extra cost of support, particularly if it can be demonstrated that this is offset by savings elsewhere.

Making energy more affordable should prevent higher energy costs down the road. It would lead to fewer consumers getting into debt and reduce the supplier bad debt costs which are currently putting upward pressure on prices. Further modelling of these impacts should be a priority for policymakers.

There may also be small savings that can be made in relation to other levies. The Government is considering changes to the Renewables Obligation from 2027, which could reduce the size of this levy on bills.[52] Savings like these - which may be replicable from other legacy schemes like the Feed-In Tariff - could offset a higher contribution on bills to support energy affordability.

There are also likely to be significantly wider benefits from providing additional support.[53] It could enable energy market reforms, which should lower costs overall but may see some consumers lose out, by offsetting these distributional impacts.

This includes market wide half hourly settlement, which will enable more time of use pricing, rebalancing of policy levies to incentivise electrification, and retail market reforms to enable more specialisation by energy suppliers, which we explored in our recent report Ripping Off the Band-Aids. The benefits of these changes could help offset costs related to additional bill support.

At the same time, there would be significant wider societal benefits, including improved development of children growing up in warmer homes and lower costs to the NHS from cold weather related illness.

More targeted support based on energy needs could also reduce the Government's reliance on other parts of the welfare system to top up living costs in less targeted ways, like the Cost of Living payments which go to all recipients of means tested benefits at a flat rate.

Other approaches are likely to take longer to deliver or are not targeted

We've not assessed other approaches that have been suggested as ways to provide support with energy bills, because they are not targeted, are more expensive or could not be delivered quickly enough.

Introducing Rising Block Tariffs - these provide all consumers with some low cost or free units of energy, and increase the cost of units for people who use more.

Our previous analysis has shown that because income and energy use are only loosely correlated, they would see some low income consumers lose out.[53] Additional policies would be required to mitigate these impacts, including additional bill support for certain consumers.

It's unclear whether this approach can support the more flexible energy usage we need in future, and the level of change would also have significant competition implications and take a significant time to deliver.

Changing the way certain costs are recovered through energy prices - Ofgem is already proposing changes to pricing that will save people who prepay around £50.[54]

We support these changes because people on prepay may not have a choice of payment method and face the risk of disconnection. However, it will mean prices rise by around £20 for Direct Debit customers, some of whom will also be struggling.

Ofgem has also launched a review of whether standing charges - which make up a larger part of the bill for low energy users - should be reduced. This could save some lower usage households around £15 a year, but would result in higher unit rates, including for people who struggle to reduce their usage, including some on low incomes or with certain disabilities.

Pricing interventions can be justified, but as they simply move money around the system they would not meaningfully improve affordability. Their poorly targeted nature would make some struggling households even worse off.[55]

Increasing household incomes - it's vital that households are able to afford their essentials, but for many working age households who rely wholly on benefits or use them to supplement their income, this is not the case.

This is because incomes have risen more slowly than living costs, while increases in benefits and wages haven't kept pace with the actual inflation they face.[56]

Even if incomes increase more meaningfully over the longer term, some households would still struggle with higher energy costs due to the significant variations in energy needs that drive fuel poverty. This means there is also an important ongoing role for targeted help for those with higher energy costs, both through energy bill support and energy efficiency schemes.

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Contributors: Alex Belsham-Harris, Tom Brooke-Bullard, Lauren Howarth, Will Johnstone, Jess Roper