National Audit Office

REPORT

Energy bills support

Department for Business, Energy & Industrial Strategy

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Energy bills support

Department for Business, Energy & Industrial Strategy

Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

2 February 2023

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Summary

1 Since Autumn 2021, energy bills have increased significantly due to various factors including an increased global demand for gas following the pandemic and later the impact of Russia's invasion of Ukraine on energy markets. Average annual household bills for gas and electricity increased from £1,277 in winter 2021-22 to £3,549 in winter 2022-23.

2 The government has implemented support schemes to reduce the impact of energy bill increases from this winter. This includes:

- The **Energy Price Guarantee (EPG)**, which reduces the average annual domestic energy bill to £2,500 from October 2022 until March 2023 and £3,000 from April 2023 until April 2024. Energy suppliers charge household bills at the reduced rate and then receive government payments to cover the additional costs they incur for supplying the energy.
- The **Energy Bill Relief Scheme (EBRS),** which provides equivalent support to the EPG for non-domestic organisations, including businesses, voluntary and public sector organisations, from October 2022 to March 2023.
- The **Alternative Fuel Payment**, a £200 one-off payment to households that are not connected to the gas grid and so use alternative fuels, such as oil or liquid gas.
- The **Non-Domestic Alternative Fuel Payment** will provide comparable support to the EBRS for non-domestic consumers off the gas grid, who use alternative fuels such as heating oil. This will comprise a one-off payment of £150. Consumers with the highest use of heating oil (kerosene) will receive an additional top-up payment.
- The **Energy Bills Support Scheme (EBSS). In Great Britain (GB) this** provides a £400 grant for domestic electricity billpayers in six monthly instalments from October 2022. The **Alternative Funding Scheme** provides a grant equivalent to the EBSS for households who do not have domestic contracts with suppliers. In Northern Ireland, government is making a one-off £600 payment combining both the EBSS and AFP schemes.

3 The Department for Business, Energy and Industrial Strategy (BEIS) has overall responsibility for the design and implementation of the energy bill support. HM Treasury supported BEIS in designing the schemes and approved the budget. Ofgem, the regulator of gas and electricity markets in GB, is responsible for monitoring supplier compliance with the obligations of the EBSS and EPG schemes, such as ensuring that bills are reduced to the level required, as well as assessing the need for and taking enforcement action where required across all schemes.

Purpose of this report

4 This report provides the basis for early Parliamentary scrutiny of how BEIS has designed and implemented the energy bills support and the potential costs. We have not concluded on the value for money of the schemes. We expect to revisit performance of these schemes in later reports once more evidence is available about the schemes' costs and benefits.

5 Alongside the interventions which are the focus of this report, BEIS is leading a number of other initiatives relevant to the cost of energy consumption. It is planning to develop new energy market arrangements from 2024 aimed at ensuring the market plays its part in the achievement of net zero. BEIS is developing a new approach to consumer protection in energy markets from April 2024, including exploring options like social tariffs as a part of wider retail market reforms. In November 2022, the government announced a new long-term commitment to drive improvements in energy efficiency to bring down bills for households, businesses and the public sector with an ambition to reduce the UK's final energy consumption from buildings and industry by 15% by 2030 against 2021 levels.

6 This report is in three parts:

- Part One sets out how the energy bill support works and how much BEIS expects it to cost.
- Part Two sets out how BEIS implemented these schemes quickly, to make sure households and businesses were able to receive support in time for this winter.
- Part Three identifies the risks that BEIS must now manage, how it plans to manage them and the future of the schemes.

Key findings

Scheme costs and benefits

7 **The government's current estimate of the schemes' cost is £69 billion.** This is lower than the original estimate of £139 billion at the business case stage because of an increase in the level to which bills are reduced under EPG after April 2023, changes in wholesale gas price and changes in energy demand, and the introduction of the maximum discount for variable tariffs. Such estimates are inherently uncertain and depend on the wholesale costs of electricity and gas, how much energy people and businesses consume and the prevailing temperatures (Figures 2 and 7 and paragraph 1.17).

8 **BEIS wants the schemes to achieve broader economic benefits as well as protecting billpayers.** BEIS intends the schemes to reduce the risk of people disconnecting their energy supply because they are unable to afford it or reducing their energy usage to an extent that it is detrimental to their health. It also wants the schemes to have wider economic benefits, such as reducing inflation and supporting economic growth by limiting the impact of bill increases on consumer demand. BEIS has recognised that this will make measuring the overall benefits of the schemes more challenging because such wider economic benefits are beyond its control and difficult to isolate from other factors (paragraphs 2.9 and 3.21 and Figure 2).

BEIS's implementation of the schemes

9 **BEIS worked quickly to ensure most homes and businesses received support in time for this winter.** BEIS had around three weeks from the then Prime Minister announcing the EPG on 8 September 2022 to its target date to support households by 1 October 2022. It had less than two months to implement the non-domestic EBRS, which commenced on 1 November 2022. BEIS ensured both schemes were up and running on time by going through all of its normal approval steps for implementing new policies to a shortened timetable, deprioritising other activities and using existing energy market structures and processes where possible. BEIS drew lessons from schemes it had implemented quickly to support people and businesses during the COVID-19 pandemic, such as ensuring the Public Sector Fraud Authority was involved earlier in the scheme design to reduce the risk of fraud (paragraph 2.9 and Figure 7).

10 **Homes and businesses in Northern Ireland, and those not connected to mains gas, had to wait longer for support.** This is because the landscape of suppliers is more complex in these markets and, in Northern Ireland, BEIS took on delivery later than for GB schemes - the original plan was for the Northern Ireland Executive to deliver the support. In January 2023, BEIS started making payments for EBSS in Northern Ireland, three months later than in GB. These payments have been combined with the Alternative Fuel Payment, which means that households in Northern Ireland started receiving this payment ahead of eligible households in GB. In GB, BEIS is planning to make payments through the Alternative Fuel Payment in February 2023. In both cases, BEIS made some amendments to how these schemes operated to accommodate different operating conditions in Northern Ireland. There is a risk that the support for people who use alternative fuels may not reach all the intended recipients because it requires consumers to take action, such as apply for support. BEIS has faced similar challenges with the EBSS where support has not reached all consumers, particularly those on prepayment meters. By the end of December 2022, 71% of these customers had redeemed the funding. BEIS is working to raise consumers' awareness of the support that is available. BEIS is yet to announce when the non-domestic Alternative Fuel Payments will be made (paragraphs 2.12 and 2.13).

11 BEIS accepted that implementing schemes at speed brought substantial risks to value for money. The schemes provide almost universal support to homes and businesses. This meant BEIS could implement schemes quickly as it required fewer processes to determine eligibility than if it implemented a more targeted scheme. BEIS acknowledged that this creates value for money risks by providing support to homes and businesses that do not necessarily need it (known as deadweight). Rapid implementation also meant BEIS's assessment of the potential for fraud and error was not as detailed as would normally be the case for such levels of expenditure. BEIS's accounting officer sought and received a direction from the Minister to go ahead with the EPG and EBRS schemes because the risks involved meant she could not provide assurance that they met the requirements of government spending rules (paragraphs 2.7 and 2.10 and Figure 8).

Remaining risks for BEIS to manage

12 The risk of overpayment is greater in the schemes that support businesses than the schemes that support households. It is more straightforward for BEIS to verify that the payments to suppliers on the domestic schemes are accurate because most households are charged a similar tariff and the price cap provides an estimate of the amount suppliers costs should have been. None of these factors are in place in the non-domestic sector and there are around three-times more suppliers to pay. BEIS is collecting detailed information from non-domestic suppliers to support their payment claims, which it scrutinises through pre-and post-payment checks for errors and sums of money to be recovered (paragraph 3.5).

13 BEIS is looking to manage the risk of supplier insolvency. Over 30 suppliers went into insolvency in the 18 months from January 2021. BEIS has implemented measures to reduce the risk of financial support not reaching consumers if a supplier becomes insolvent during the course of the energy bill support. For example, monies are paid in arrears for the EBRS and EPG schemes so that these payments reflect the discounts already applied by suppliers. Ofgem periodically monitors the financial stability of individual suppliers to help provide warning signs of insolvency (paragraphs 3.8 and 3.9).

14 Targeting support in the future should reduce value for money risks but will also require a concerted approach to managing risks of fraud and error. The government has announced that it will consult as soon as is feasible after April 2023 on amending EPG, so domestic high-energy users will have their support capped. The government has also announced that it will reduce support for non-domestic organisations from April 2023, but that energy and trade intensive sectors will receive a higher level of support than other sectors. Implementing rules that determine who is and is not eligible for different levels of support presents new challenges for BEIS, such as obtaining data to verify claims and identifying potential attempts to defraud the schemes. When considering how to increase targeting, BEIS will need a rigorous assessment of the likely losses to fraud and error, alongside the likely improvements in value for money from reduced deadweight (paragraphs 3.19 to 3.21).

Post publication this page was found to contain an error which has been corrected (Please find Published Correction Slip)

Concluding remarks

15 With energy bills rising significantly over the last two years, the government decided to provide homes and businesses with financial support to protect them from these rising costs. BEIS deserves credit for working quickly to introduce the schemes so that most households and businesses have received support in time for winter, and for flexing its approach to approving new programmes and to staffing to enable it to do so.

16 BEIS recognised that by moving at speed it had to make compromises. For example, the schemes provided almost universal support which could lead to financial support going to households and businesses which did not need it. Rapid implementation meant BEIS could not complete as detailed an assessment of the potential for fraud and error as would normally be the case. The government is considering targeting the next iteration of the schemes. This could reduce the total cost to government of the schemes. Moving to make the schemes more targeted will require BEIS to operate a more sophisticated approach to financial control and to consider the potential increased risk of fraud and error.

Part One

Government's interventions to support energy bills

1.1 This part of the report

- describes the increases in energy prices prior to winter 2022-23;
- describes how the government's energy bills support work;
- sets out the roles and responsibilities of organisations across and outside government involved in designing and implementing the schemes; and
- sets out the estimated cost of the schemes;

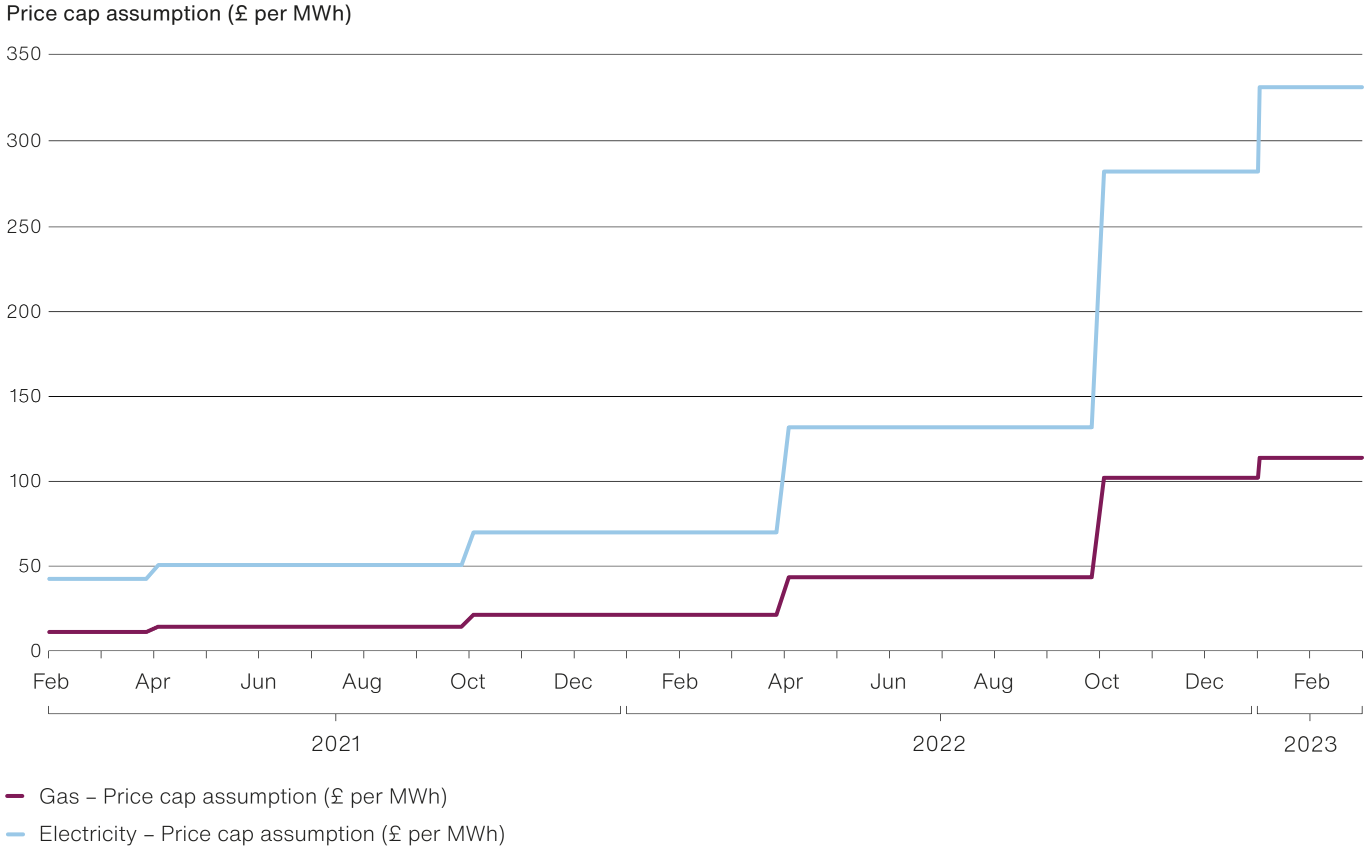
Energy price increases leading up to winter 2022-23

1.2 Energy bills have increased significantly since winter 2021-22 and were set to reach record-high levels over winter 2022-23. Since 2019, the Office of Gas and Electricity Markets (Ofgem) has set a price cap on the price per unit of gas and electricity for customers on standard default tariffs.[1] Between winter 2021-22 and summer 2022, the price cap increased by 54% from £1,277 to £1,971 for an average household that pays for energy through direct debit This was mainly because wholesale energy costs doubled initially because of global demand increasing following the COVID-19 pandemic and then due to the impact on energy markets of Russia's invasion of Ukraine (**Figure 1** overleaf). On 26 August 2022, Ofgem announced the energy price cap would increase by 80% compared to winter 2021-22 to £3,549 per year from 1 October 2022 reflecting a further increase in estimated wholesale costs for energy suppliers.

1 Energy tariffs energy suppliers provide to consumers who has not signed up for a fixed-term contract tariff. Available at: https://researchbriefings.files.parliament.uk/documents/CBP-9491/CBP-9491.pdf

Figure 1
Ofgem's gas price assumption in the default tariff charged to consumers, February 2021 to March 2023

Gas and electricity price assumptions increased 431% and 375% between October 2021 to March 2022 and January to March 2023 impacting the energy price cap



Notes

1. Gas and electricity prices are for Great Britain.
2. Ofgem's price cap limits the rates that suppliers can charge for the standing charge and for each unit of electricity and gas used. It does not cap individual's total bills which depends on how much energy they use.

Source: National Audit Office analysis of Office of Gas and Electricity Markets (Ofgem) data

Energy bills support for Winter 2022-23

1.3 The government announced a series of measures to protect billpayers from price increases over the course of 2022. In February 2022, it announced a £200 upfront reduction on bills from October 2022 to be repaid by customers over five years from April 2023. In May 2022, this became the Energy Bills Support Scheme (EBSS), with the government doubling the payment to £400 and removing the requirement for it to be repaid.

1.4 Since September 2022, the government has announced a series of further schemes (**Figure 2** on pages 12 to 13):

- The **Energy Price Guarantee (EPG)**, which reduces the average domestic energy bill to £2,500 until March 2023 and £3,000 from April 2023 to April 2024.
- The **Energy Bill Relief Scheme (EBRS),** which provides equivalent support to the EPG for non-domestic organisations, including businesses, voluntary and public sector organisations, from October 2022 to March 2023.
- The **Alternative Fuel Payment (AFP)**, a £200 one-off payment to people that are not connected to the gas grid and so use alternative fuels, such as oil or liquid gas.
- The **Non-Domestic Alternative Fuel Payment**, which provides support comparable to the EBRS for non-domestic consumers off the gas grid, who use alternative fuels such as heating oil. This will comprise a one-off payment of £150. Those with the highest use of heating oil (kerosene) will receive an additional top-up payment.

In September 2022, the Department for Business, Energy & Industrial Strategy (BEIS) took on responsibility for delivery of EBSS for Northern Ireland.

Figure 2

Overview of energy bills support introduced for winter 2022-23 by the Department for Business, Energy & Industrial Strategy (BEIS)

The schemes covered both domestic and non-domestic consumers and operated in different ways and over different time frames

Scheme	How it operates	Objectives	Time Period	Eligibility	Estimated total cost[1,2] (£)
Energy Bills Support Scheme (EBSS)	Provides a £400 discount to eligible households to help with their energy bills over winter 2022-23	• Financial support to 29 million domestic consumers • Prevent energy underconsumption • Scheme aligns with existing energy system	Great Britain (GB): October 2022 – March 2023 Northern Ireland (NI): January 2023 –	All households with domestic electricity connection in the UK	12.0 bn
Energy Price Guarantee (EPG)	Reduces unit cost of electricity and gas through government discount. GB: Typical households will pay an average of £2,500 a year, dependent on how much energy they use (increasing to £3,000 from April 2023). NI: Typical households will pay an average of £1,950 a year.	• Reduce annual bills for households • Reduce consumer self-disconnection • Limit increase of fuel poverty • Support supplier market stability • Reduce inflationary pressure	GB: October 2022 – March 2024 NI: November 2022 – March 2024	Domestic customers with contracts with energy suppliers	37.5 bn
Energy Bill Relief Scheme (EBRS)	Reduces unit cost of electricity and gas through government discount. Unit rate set to ensure support is equivalent to EPG. The variable tariff discount is subject to a maximum discount	• Support economic growth • Protect jobs • Mitigate effects of inflation • Preserve the current non-domestic energy market structure	November 2022 – March 2023	Consumers on non-domestic contracts including businesses, voluntary sector organisations, such as charities and public sector organisations such as schools, hospitals and care homes. Non-domestic sector consumers on fixed price contracts agreed before December 2021 will not receive benefit under the scheme because they will have fixed their price before the recent increase in gas prices	18.4 bn
Total estimated cost of the three largest schemes					£67.9 bn

Figure 2 *continued*

Overview of energy bills support introduced for winter 2022-23 by the Department for Business, Energy & Industrial Strategy (BEIS)

Scheme	How it operates	Objectives	Time Period	Eligibility	Estimated total cost[1,2] (£)
Domestic Alternative Fuel Payment	One-off £200 payment for those who use alternative fuels like heating oil	• Financial support to domestic customers who use alternative fuels such as biomass or heating oil to meet energy costs	January – February 2023	GB: Households that use alternative fuels for heating instead of mains gas NI: All domestic consumers however they heat their homes	708 mn
Non-domestic Alternative Fuel Payment	£150 to help with additional top-up payments for large users of heating oil	• Financial support to non-domestic customers who use alternative fuels such as biomass or heating oil to meet energy costs	BEIS yet to publish information	All UK non-domestic consumers who are off the grid and use alternative fuels	112 mn
EBSS Alternative Funding (GB)	£400 payment for domestic consumers with no contract with energy suppliers	• Supports households in GB who are not eligible for £400 under the EBSS	From February 2023	Domestic customers who do not receive the EBSS including people living in houseboats and mobile homes.	£362 mn
EBSS Alternative Funding (NI)	£400 payment for domestic consumers with no contract with energy suppliers	• Supports households in NI who are not eligible for £400 under the EBSS	From February 2023	Domestic customers who do not receive the EBSS including people living in houseboats and mobile homes	
Total estimated cost of the other schemes					**£1.2 bn**
Tot estimated cost of the schemes					**£69.1 bn**

Note

1 Estimated cost for each scheme does not include administrative costs.

2 Estimated costs for EBSS, EPG and EBRS were set out in HM Treasury's Autumn Statement 2022. Estimated costs for the other schemes were made by BEIS.

Source: National Audit Office review of Department for Business, Energy & Industrial Strategy and Office for Budget Responsibility data and documentation

How the schemes work

Energy Bills Support Scheme

1.5 Under the EBSS in Great Britain (GB), suppliers directly apply a monthly discount of £66 or £67 to every households' electricity bill by reducing the amount charged.[2] Suppliers receive payments from BEIS based on their expected customer numbers, and then subsequently reconcile this to actual payments made on a monthly basis. Households with traditional prepayment meters receive the discount either through a redeemable voucher or an automatic credit when topping up their meter.

1.6 In December 2022, the government announced the Alternative Funding Scheme for households such as people who live in park homes that do not have individual contracts with energy suppliers. The government estimated that the scheme will apply to approximately one million households which consists of a disproportionately larger number of older and more vulnerable consumers than the wider population in Great Britain. After considering the options for the delivery mechanism, the government decided to deliver the scheme through local authorities in Great Britain building on the lessons learnt through delivering schemes through the pandemic.

Energy Price Guarantee and Energy Bill Relief Scheme

1.7 The EPG and EBRS both work in a similar way by capping unit prices for all consumers who have energy contracts with energy suppliers. For EPG, suppliers apply the cap by charging consumers a fixed rate per unit of energy: 34p per kilowatt hour (kWh) for electricity and 10p per kWh for gas. These rates are based on Ofgem calculating that typical households consume 2,900 kWh of electricity and 12,000 kWh of gas based on median consumption values. For EBRS, the government aimed to set the cost of energy used by non-domestic consumers so that the wholesale price portion of the unit price is equivalent to the wholesale element of the EPG and cost of green levies (that is, not including other charges, such as network costs): 21.1p per kWh for electricity and 7.5p per kWh for gas. For EBRS, variable tariffs are subject to a maximum discount of 34.5p per kWh for electricity and 9.1p per kWh for gas.

2 Suppliers applied a £66 discount to energy bills in October and November 2022, rising to £67 each month from December 2022 through to March 2023.

1.8 Suppliers charge consumers the discounted rate and receive government payments to make up the shortfall on what it cost to provide the energy. For EPG, BEIS has used the estimated wholesale energy cost to suppliers in Ofgem's price cap methodology to calculate its contribution per unit of energy required to bring consumers' costs to the capped level. Ofgem sets the price cap quarterly and announced its price cap for January to March 2023 in November 2022. Ofgem's price cap does not apply to the non-domestic market. Therefore for EBRS BEIS publishes the weekly wholesale market reference price which it uses to calculate the discount against the government-supported price.

1.9 BEIS has adapted both schemes for consumers with certain types of bill:

- On EPG, around six million customers receive a discount on their unit rate instead of suppliers reducing the rate to a fixed level. This includes households on variable tariffs not subject to the price cap. For example, certain 100% renewable energy tariffs, prepayment meters and households that are on a fixed rate tariff. These households will receive a discount of up to 17p per kWh for electricity and 4.2p per kWh for gas from October to December 2022. From January 2023, the discounts will increase to 31.8p per kWh for electricity and 6.4p per kWh for gas to reflect the increase in Ofgem's price cap to £4,279. The unit price will not be discounted to below the standard variable tariff rate set by EPG (£2,500 during October 2022 – March 2023 and £3,000 between April 2023 – March 2024).

- Households in Northern Ireland received the same discount as households in Great Britain up to December 2022.[3] BEIS expects energy prices in Northern Ireland to be lower than in Great Britain during January to March 2023. Consequently, Ministers agreed to a specific discount rate for Northern Ireland during this to avoid excessively high subsidies for Northern Ireland households. The new discount rate is aimed at keeping a typical bill for Northern Ireland households static from November 2022 to March 2023.

1.10 For both the EPG and EBRS, BEIS has contracted Elexon and Xoserve to manage payments to suppliers for electricity and gas respectively.[4] These companies operate the balancing and settlements of energy - their role is to compare how much energy generators/shippers said they would produce/ship and suppliers said they would consume with the actual volumes that are generated/shipped and used. Elexon and Xoserve look to make sure that everyone is paid or billed accurately for any differences.. Elexon and Xoserve will manage payments to suppliers for EPG and EBRS in a similar way to how they manage the balancing and settlement processes.

3 The actual discount received by households in Northern Ireland was increased slightly because the scheme began in November 2022, compared to in Great Britain where it began in October 2022. The higher discount is intended to 'make up' for the subsidy NI households would have received in October 2022.

4 For the Northern Ireland scheme, BEIS carries out this role.

Alternative Fuel Payment

1.11 The government promised that both domestic and non-domestic consumers who use alternative fuels for heating would receive the benefits of the schemes. Approximately 2 million households that use alternative fuels for heating instead of mains gas and do not benefit from the EPG in the UK will receive £200 through the AFP scheme. The government has also committed to a fixed £150 payment to all UK non-domestic consumers who are off the gas grid and use alternative fuels, with additional top-up payments for large users of heating oil. Most consumers eligible for the AFP scheme in GB will receive payment automatically through their electricity supplier.[5]

Northern Ireland

1.12 The schemes described in paragraphs 1.5 to 1.11 operate in broadly the same way in Northern Ireland with some differences (**Figure 3**). In Northern Ireland suppliers are providing a one-off £600 payment (combining the £400 EBSS with the £200 AFP. The payments are administered differently for EPG and EBRS because settlement bodies do not exist in Northern Ireland in the same way that they do in Great Britain. The Northern Ireland Distribution Network sends BEIS information about, for example, energy consumed, so that BEIS can then make payments to suppliers. The Utility Regulator, which is responsible for regulating the electricity, gas, water and sewerage industries in Northern Ireland, is responsible for taking enforcement action against suppliers which do not comply with the schemes' rules.

Roles and responsibilities

1.13 BEIS and HM Treasury worked collaboratively in designing and implementing the schemes. BEIS has overall responsibility for energy affordability and HM Treasury plays a key role on the fiscal side of the schemes given that it allocates budgets to departments and manages the affordability of the schemes to the public purse. Ofgem, responsible for monitoring and enforcing compliance with the schemes, assisted BEIS in designing the schemes using its industry expertise. For the domestic sector, Ofgem will continue to estimate the GB price cap. **Figure 4** on page 18 expands these roles.

5 For customers who are unable to receive the funding automatically - for example, households in Great Britain without a direct relationship with an electricity supplier, the government has said it will make sure will there is a route for those households to apply for and receive the £200 support.

Figure 3

Differences between the Great Britain (GB) and Northern Ireland (NI) schemes

The schemes are broadly similar in GB and NI apart from timing differences and the Domestic Alternative Fuel Payment (AFP) which is available universally in NI (unlike in GB)

Scheme	Difference
Energy Price Guarantee	The fixed-price tariff discount is higher in NI than in GB: 19.9p per kilowatt hours (kWh) for electricity and 4.8p per kWh for gas to account for the scheme beginning a month later, in November 2022. The fixed-price tariff discount is higher than in GB: 19.9p/ kWh for electricity and 4.8p/ kWh for gas to account for the scheme beginning a month later, in November 2022. From January to March 2023, the discount in NI is 13.6p/ kWh for electricity and 3.9p/ kWh for gas in comparison to 31.8p/ kWh for electricity and 6.4p/ kWh for gas in GB. The Department for Business, Energy & Industrial Strategy (BEIS) set the lower rate to maintain typical household bills in NI in January to March 2023 the same as November to December 2022 and reflects the lower energy prices in NI compared with GB.
Energy Bills Support Scheme (EBSS)	GB households began receiving discounts on electricity bills each month from October 2022 to March 2023, totalling £400. NI households will receive a single £600 payment from January 2023 combing the £400 EBSS payment and £200 AFP. This reflects the delayed commencement of the scheme in the design as well as the government's intention to deliver benefits during winter 2022-23.
Domestic Alternative Fuel Payment (AFP)	GB households that use alternative fuels for heating such as heating oil instead of mains gas will receive £200 payments. NI households will receive this payment regardless of how they heat their homes, as part of the £600 combined EBSS AFP NI payment. This payment is delivered as a lump sum cash payment, rather than a discount on bills.

Source: National Audit Office review of Department for Business, Energy & Industrial Strategy documentation

Cost of the schemes

1.14 The total costs of the two largest schemes, EPG and EBRS, are uncertain because they depend on the demand for energy and how much that energy costs. Both variables depend in turn on wider factors, such as the stability of global energy supplies, the prevailing temperature and consumer behaviours (**Figure 5** on page 19).

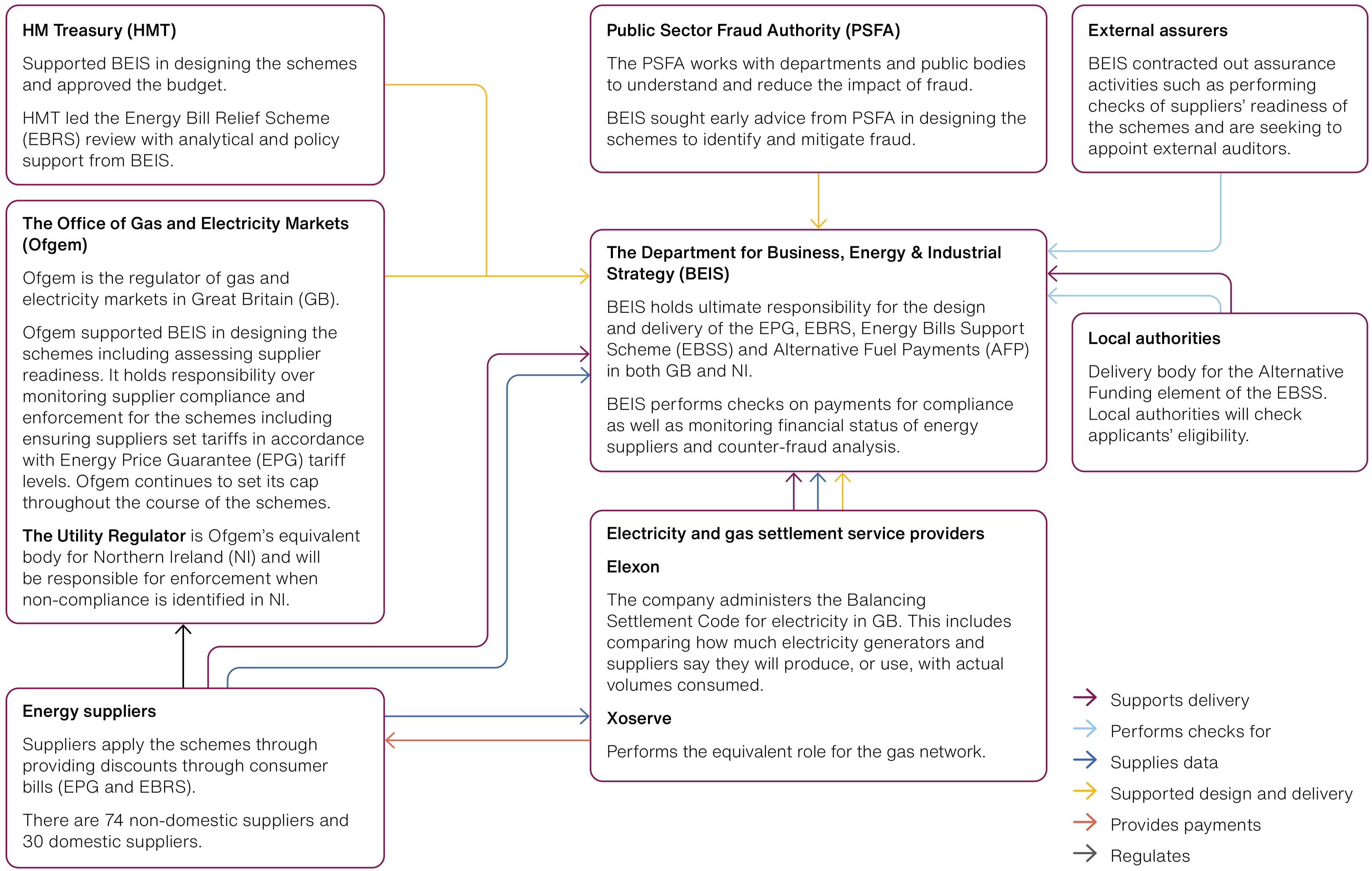
Demand

1.15 BEIS has estimated the number of energy users eligible for each scheme and their usage this winter based on energy supplier data from previous years. It expects some change on usage patterns this year, in part because of increased energy costs (even with the government interventions) and because of the potential impact of the weather. However, it expects overall usage to be relatively inelastic (that is, if people need their heating on they will have to put it on and are likely to prioritise energy expenses over other costs they face when choosing where to cut back).

Figure 4

Government and external organisations' roles and responsibilities of the schemes

The Department for Business, Energy & Industrial Strategy has primary responsibility for the design and delivery of government's schemes providing financial support against the background of rising energy prices

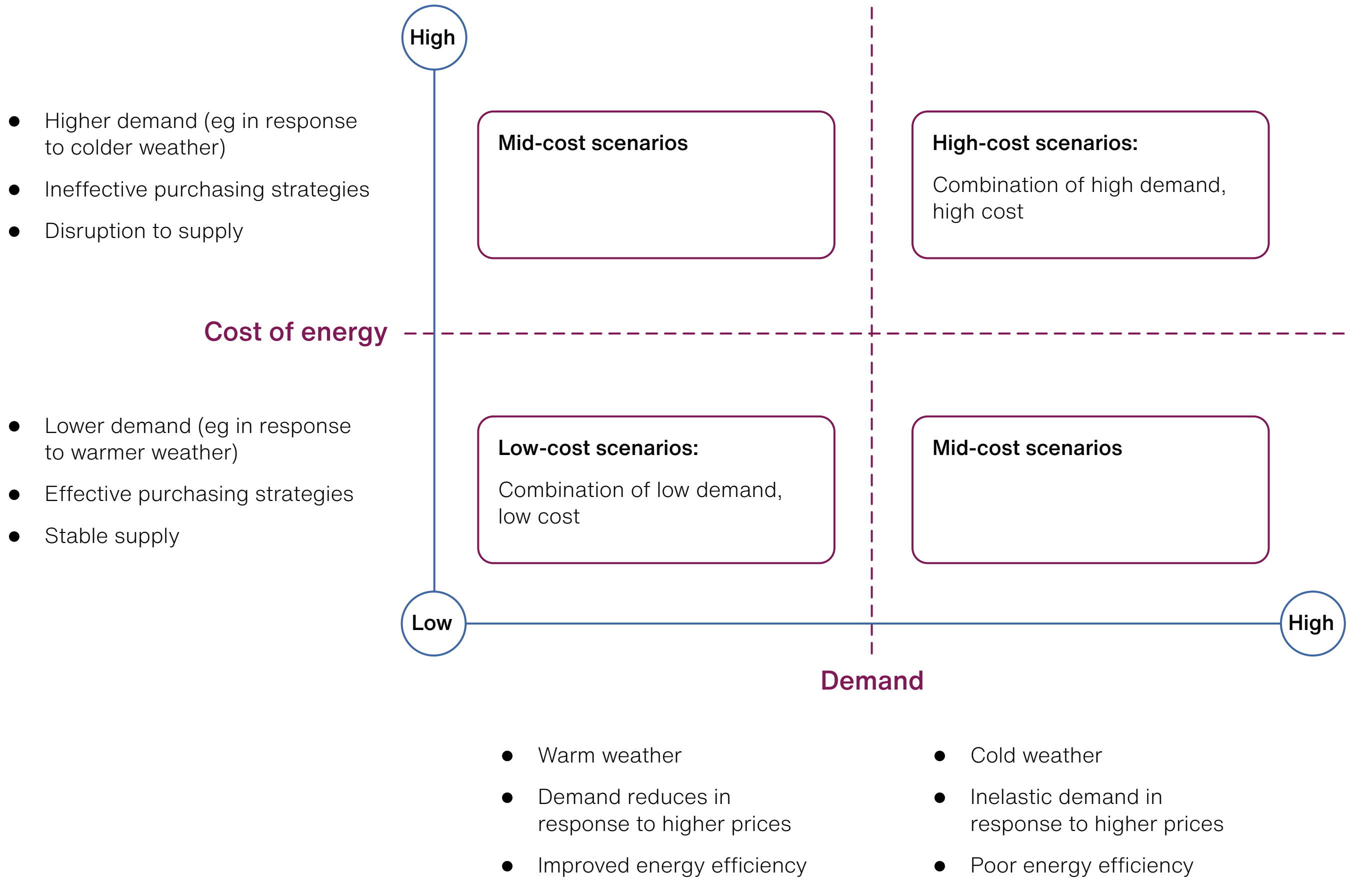


Source: National Audit Office review of Department for Business, Energy & Industrial Strategy documentation

Figure 5

Factors that have an impact on the potential cost of energy bills support

Demand for and the cost of energy are the two key factors which will impact on the final cost of government's energy bills support



Source: National Audit Office

Cost of energy

1.16 The cost of the schemes also depends on how much the wholesale cost of gas and electricity exceeds what suppliers can bill consumers through the schemes. For its estimate of EPG and EBRS costs, BEIS has used estimate for the wholesale cost of gas and electricity that suppliers incur (Ofgem price cap for EPG). Ofgem has set its price cap until March 2023. The amount that government will need to reimburse suppliers of domestic consumers from April 2023 is uncertain. Ofgem will announce the price cap for April to June 2023 in February 2023. The Office for Budget Responsibility's (OBR's) central estimate of EPG costs in 2023-24 is £12.8 billion but in a high-gas price scenario it estimates this could be £84 billion. For EBRS the OBR's central estimate is £18 billion but in the event of a high gas price it estimates this could be £32 billion in 2022-23.

1.17 BEIS initially estimated a wide range of potential costs for the EPG and EBRS schemes, illustrating the uncertainty. BEIS estimated in its business case for EPG that the scheme would cost between £16 billion and £304 billion over two years (central estimate £97 billion) and that the EBRS would cost between £20 billion and £44 billion (central estimate £29 billion) over winter 2022-23. These original estimates have now been superseded. BEIS, HM Treasuy and the OBR have refined these estimates to reflect, for example, an increase in the level to which bills are reduced under EPG to £3,000 from £2,500 after April 2023, changes in wholesale gas price and changes in energy demand, and the introduction of the maximum discount for variable tariffs. **Figure 6** compares the original and current estimates. The original estimate across all the schemes at the business case stage was £139 billion.

1.18 There is less uncertainty around the costs of the EBSS and AFP schemes because the amount the government has committed to pay has been fixed in advance. BEIS estimates these costs by multiplying the numbers of eligible households by the applicable payment rate (EBSS: £400, AFP: £200).

Costs to date

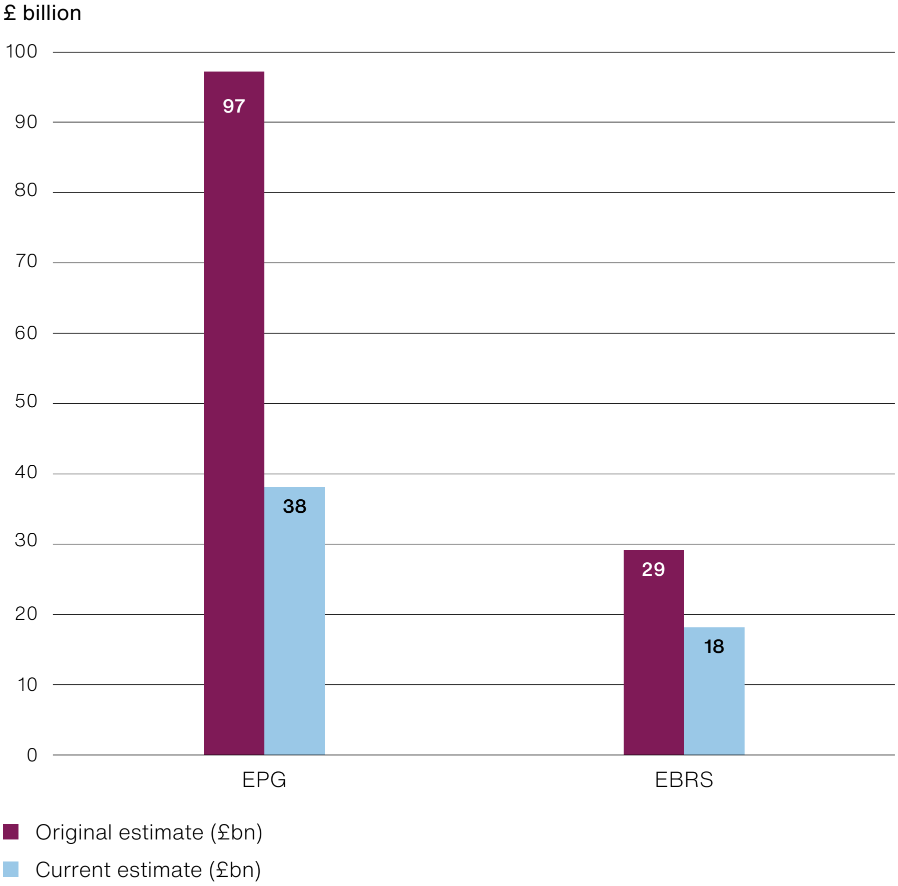
1.19 To date BEIS has paid out a total of £16.3 billion across EPG, EBRS and EBSS.

- EPG: £7.0 billion (29 December 2022).
- EBRS: £1.6 billion (31 December 2022).
- EBSS: £7.7 billion (31 December 2022).

Figure 6

Potential total costs (original and current estimate) – Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS)

Estimates of the total costs of the EPG and the EBRS have fallen since the two schemes were introduced



Note

1 Costs for each scheme does not include administrative costs.

Source: National Audit Office

Part Two

Government's approach to implementing its interventions

2.1 This part of the report sets out how the Department for Business, Energy & Industrial Strategy (BEIS) designed and implemented the energy bills support to ensure households and businesses received support in time for this winter. We have focused on the schemes BEIS announced in September 2022 because of the magnitude of the costs and the speed at which it needed to act.

The need to implement EPG and EBRS at speed

2.2 Towards the end of summer 2022, BEIS considered several options for intervention given it judged existing financial support measures, including the Energy Bills Support Scheme (EBSS), were insufficient to help mitigate the scale of increase in energy bills. The new Prime Minister announced the schemes on 8 September 2022. BEIS needed to implement the Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS) quickly, with the schemes commencing in October and November respectively. This meant completing the milestones towards implementation more quickly than it had earlier in the year when implementing the EBSS (**Figure 7**).[6]

2.3 BEIS needed to introduce the EPG and EBRS in time for winter 2022-23 when demand for energy would increase as the weather got colder. BEIS concluded the colder weather combined with the increase in energy prices could result in some households underheating their homes or disconnecting their energy supply and so government support was required to prevent negative health impacts, particularly for vulnerable households. BEIS also concluded that businesses that could not afford their energy bills might become insolvent and parts of the third sector might close, resulting in increased unemployment, a loss of output and support for vulnerable parts of society, and reduction in longer-term capital investments. The schemes also aimed to reduce the pressures from energy prices on overall inflation.

6 The GB domestic scheme started on 1 October 2022 and NI scheme started on 1 November 2022.

Figure 7

Timings of major milestones for the Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS) compared with the Energy Bills Support Scheme (EBSS)

The Department for Business, Energy & Industrial Strategy (BEIS) omitted steps during designing of the EPG and EBRS as it had to deliver them at a much quicker speed than the EBSS

Notes

1 Not held means that government did not deliver the milestone for the scheme.

2 Dates are for milestones for the schemes in Great Britain.

Source: National Audit Office analysis of Department for Business, Energy & Industrial Strategy documentation

Scheme design

2.4 BEIS designed the schemes to provide universal support to households and businesses to ensure it could implement them quickly. Both the domestic EPG and non-domestic EBRS schemes provide the same level of support per unit of energy regardless of the recipient's circumstances, such as level of demand, finances or location. This is because the analysis and processes needed to target support at certain groups would have taken too long to complete, especially given the limits of the data the government holds. For example, while government holds data on households receiving means-tested benefits, BEIS considered that support should also extend to middle-income households but does not hold data that would enable it to isolate this group from higher earners. Any attempts to reduce support for some groups, such as people who own multiple homes, risked inadvertently excluding those that needed the support. Also, BEIS did not hold sufficient data on high-energy users to isolate such groups.

2.5 BEIS considered expanding the EBSS for domestic users, which it had been in the process of implementing since April 2022. This provides a £400 discount on all household bills paid in six monthly instalments from October 2022. However, it did not pursue this option because the support provided is not proportional to energy demand and because of the challenges with making sure this support reaches disadvantaged households on pre-payment meters (see paragraph 3.13). It concluded other options, such as removing green levies and energy VAT from bills would not be sufficient on their own as they are in combination worth about £320 on an average bill compared with an increase of £1,580.

2.6 For non-domestic recipients, BEIS considered a fixed discount that would be the same for all recipients, similar to EBSS that it had already implemented for domestic users. This may have been easier to administer than the fixed-unit price scheme it implemented given the limited data available in the non-domestic sector on tariffs. But it discounted this option because of the far greater variation of gas and electricity usage between different sectors and because some businesses will have agreed long-term fixed-price tariffs before bills began increasing, which means they do not require further support.

Risk of 'deadweight'

2.7 BEIS accepted that schemes providing universal support would lead to 'deadweight' - government providing financial support to households which would have been able to manage their energy costs without the risk of dangerous underconsumption, even without that support. BEIS told us that it did not have access to a dataset necessary to determine the numbers of households that would experience harm in the absence of its support schemes. Instead it used an illustrative benchmark of whether households would spend more or less than 10% of total expenditure after housing costs on energy. The illustration showed that while nearly all households would be above this threshold without support approximately 40% of households would fall below it with the support in place.

2.8 In October 2022, we reported on the employment support schemes introduced in response to the COVID-19 pandemic.[7] Among other things, we emphasised the importance of quantifying deadweight when assessing the benefit of different, more targeted, scheme options to reduce the future cost of the scheme. In the same report, we reported on the cost savings government achieved under the Self-Employment Income Support Scheme by introducing a requirement that claimants submit a self-declaration that their profits would be significantly impacted.

How BEIS, the Office of Gas and Electricity Markets (Ofgem) and HM Treasury implemented the schemes for Great Britain (GB) quickly

2.9 Beyond the scheme design, BEIS, the Office of Gas and Electricity Markets (Ofgem) and HM Treasury took a number of steps to design and then introduce EPG and EBRS quickly.

- **Condensed approvals processes:** The schemes were subject to HM Treasury's Treasury Approval Process (TAP) to ensure spending reflects the priorities of government and meet the criteria set out in HM Treasury's Managing Public Money.[8] HM Treasury told us BEIS's Project and Investment Committee and TAP approval ran in parallel. In standard practice, departmental assurance is obtained prior to HM Treasury approval.[9] HM Treasury told us this did not hinder the quality of the schemes' design but brought the TAP earlier in the process when the business case was not as polished as it would be for projects with more time. BEIS also worked on aspects of scheme design in parallel, for example, designing a process to check supplier compliance under the EBRS while it was developing and understanding non-compliance issues.

- **Reprioritising resources**: Both HM Treasury and BEIS reprioritised work internally or brought in staff in from elsewhere within government. Ofgem told us that in supporting BEIS with designing the schemes, it reprioritised and delayed other planned work. This includes work on the long-term future of the retail market.

- **Learning from the pandemic**: BEIS told us that its experience from implementing projects at speed during the pandemic led to it collaborating from the outset with the Public Sector Fraud Authority (PSFA), part of government.[10] The PSFA supported BEIS to better understand the fraud risks across the schemes. BEIS will deliver EBSS Alternative Funding through local authorities building on expertise and structures developed through its experience through the pandemic.

7 Comptroller and Auditor General, *Delivery of employment in response to the Covid-19 pandemic*, Session 2022-23, HC656, National Audit Office, October 2022. Available at: www.nao.org.uk/wp-content/uploads/2022/10/NAO-report-Delivery-of-employment-support-schemes-in-response-to-the-COVID-19-pandemic.pdf

8 HM Treasury's Managing Public Money (March 2022). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1089622/MPM_Spring_21_with_annexes_040322__1_.pdf

9 The Projects and Investment Committee is a sub-committee of the Executive Committee in the Department for Business Energy & Industrial Strategy responsible for approving new investment proposals and projects.

10 The Public Sector Fraud Authority works with departments and public bodies to understand and reduce the impact of fraud.

- **Not assessing benefits:** BEIS did not estimate monetised benefits of the schemes at the design phase. BEIS told us economic benefits such as impact on controlling inflation were difficult to measure but that it is working on a benefit realisation plan to monitor them.
- **Paying suppliers considered at high risk of not being prepared to deliver the scheme:** BEIS analysed suppliers' readiness to deliver the schemes by asking suppliers questions, for example on their processes and systems. BEIS told us a few suppliers were rated at high risk of not being prepared for delivering the schemes.

Ministerial directions

2.10 BEIS sought a ministerial direction for the EPG including the Alternative Fuel Payment scheme (AFP) on 29 September 2022 and then the EBRS on 24 October 2022. In seeking these directions, BEIS's accounting officer considered the four accounting officer tests set out in HM Treasury's *Managing Public Money* **(Figure 8)**.[11] BEIS's Accounting Officer acknowledged the need for government support while recognising the "inevitable challenges in assessing and implementing [interventions] of this scale at speed" and that both interventions poses risks and present 'a very large exposure of public money'.

Issues that have arisen since implementation

2.11 Implementing the schemes quickly has meant that BEIS was unable to identify some issues with the schemes' design prior to them beginning. This includes:

- payments at the beginning of the EPG were based on energy supplied to a supplier and not on actual billed volumes which are typically 2%–5% lower. BEIS is working on this issue so suppliers do not receive payments on energy not billed to consumers. It will be able to recover any overpayments it calculates it has already made by deducting these from future payments it makes to suppliers over the remainder of the schemes; and.
- non-standard claims on the non-domestic scheme. BEIS prioritised the design of the EBRS to deliver grants through licensed energy suppliers, resulting in an estimated 10% of non-domestic energy volumes supplied through non-licensed suppliers not being able to access the scheme. Examples include major energy users who receive their energy through suppliers operating under licence exemptions or in other non-standard ways, such as purchasing energy directly from refineries, power plants or the wholesale market. Eligible organisations need to apply for the scheme, confirm their eligibility and pass a due diligence check to claim the grants. The claim process started in 2023 with payments starting at the end of January.

11 HM Treasury Managing Public Money (March 2022). Available at: https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1089622/MPM_Spring_21_with_annexes_040322__1_.pdf

Figure 8

Ministerial directions – an overview

The Department for Business, Energy & Industrial Strategy's (BEIS's) Accounting Officer sought and received ministerial directions for the Energy Price Guarantee (EPG) and Energy Bill Relief Scheme (EBRS) – both covered three of the four tests

Accounting Officer test	Energy Price Guarantee[1]	Energy Bill Relief Scheme[2]
Feasibility	The Accounting Officer highlighted that, in order to make sure the scheme was delivered in full and to get benefit to consumers quickly, BEIS was proceeding without full enforcement powers at the outset, operating on the assumption that the consent of Parliament will be given to the legislation that the government will seek to introduce.[3]	While BEIS had a "clear critical path to launch [the scheme]", the accounting officer highlighted how the pace of the scheme's development meant there were "inevitable risks".[4]
Propriety	The Accounting Officer noted that, while working alongside the Public Sector Fraud Authority to manage the potential risks of fraud and gaming of the scheme, the scale of expenditure meant that even small rates of fraud would have significant financial impacts. A temporary over-allocation to suppliers in the early months was also noted. The Accounting Officer was not able to give full assurance on the fraud risks relating to the associated support schemes, particularly in Northern Ireland where the market is regulated in a different way requiring BEIS to develop what it described as "bespoke solutions".	Having identified the potential risks of fraud and error in the schemes, the Accounting Officer highlighted BEIS's work with the Public Sector Fraud Authority to manage these risks.
Value for money	The Accounting Officer noted that while the benefits of the EPG were considerable (limiting what was described as an "intolerable rise in fuel poverty and a welfare crisis across the UK") much of the intended benefit could not be straightforwardly quantified, compared with the very significant cost. The Accounting Officer also noted that, due to the pace of implementation, a full evaluation of how this intervention compared with potential alternatives was not possible. Therefore the Accounting Officer was not able to give full assurance at this stage. The Accounting Officer also concluded that many of the benefits went beyond their remit and that the evaluation of the scheme will depend on its role as a macroeconomic intervention – driving down inflation and pushing up economic growth.	The Accounting Officer identified that "much of the intended benefit [could] not be quantified, compared to the obvious taxpayer costs". In addition, the Accounting Officer concluded that "many of the benefits will ultimately depend on its role as a macroeconomic intervention – driving down inflation and pushing up economic growth". The Accounting Officer concluded that because the scheme was universal and untargeted it will "contain significant deadweight".

Notes

1 Accounting officers will seek a ministerial direction to carry out a spending proposal if they consider that it could create risks around regularity, propriety, value for money, or feasibility.

2 The request for ministerial direction for the EPG was sent on 29 September 2022 and is available at: www.gov.uk/government/publications/energy-price-guarantee-ministerial-direction

3 The request for ministerial direction for the EBRS was sent on 24 October 2022 and is available at: www.gov.uk/government/publications/energy-bill-relief-scheme-ministerial-direction

4 The ministerial direction relates to both schemes in Great Britain and Northern Ireland.

Source: National Audit Office summary of publicly available information

Northern Ireland and Alternative Fuel Payment schemes

2.12 The schemes to support households in Northern Ireland (NI) and households in Great Britain (GB) that use alternatives to mains gas for heating have taken BEIS longer to implement, with it making payments later than for EPG and EBRS.

- All households (approximately 836,000) in NI will receive a single, one-off payment of £600 - made up of £400 under EBSS and £200 of support under the AFP from 16 January 2023. In GB the first EBSS payment was made in October 2022. The NI market has a separate set of suppliers, a different regulator and generation serves the island of Ireland, with which BEIS was less familiar compared with the GB market. It also began delivering EBSS later than in GB because the original plan was for the Northern Ireland Executive to deliver support. BEIS took on delivery at the end of August 2022 at the request of the Northern Ireland Executive due to the lack of a functioning Executive.
- Most households in GB that use alternatives to mains gas for heating will receive their £200 AFP in February 2023 via an automatic payment to their electricity supplier. Around 3% of households eligible for the grant will need to apply for the payment via an online portal from February 2023 for reasons including not having a direct relationship with an electricity supplier. It has taken BEIS time to establish the application and payment process from scratch. BEIS initially considered local authorities for making this payment but concluded that they did not have sufficient capacity to do so. It therefore had to develop other approaches for distributing the grant.
- BEIS is yet to publish when the non-domestic AFP will be paid. BEIS told us that electricity suppliers will deliver the payments and eligible consumers for the top-up element will have to apply through a portal via a third-party delivery partner.

2.13 As with EPG and EBRS, BEIS identified a risk of 'deadweight' for the NI support scheme and AFP. All households in NI receive the £200 AFP regardless of how they heat their homes, which includes households that use mains gas for heating and so are already receiving support from the EPG (32%). In GB, while the £200 AFP is meant to be for those who do not use mains gas for heating it is automatically paid via electricity suppliers, meaning that some households that use electricity as well as gas for heating will also receive the payment.

Part Three

Future risks to be managed

3.1 This part of the report sets out the remaining risks that government needs to manage with its energy bills support, including as it considers options for replacing or ending the current schemes.

Energy bills support risks

Fraud and error

3.2 At the start of the schemes, the Department for Business, Energy & Industrial Strategy (BEIS) assessed that the risk of fraud and error for both the Energy Price Guarantee (EPG) and the Energy Bill Relief Scheme (EBRS) was high and that the impact would be high given the scale of the schemes. The risks stem from the untested nature of the scheme design and the pace of delivery meaning there could be insufficient checks on errors in claims and payments as well as lack of capacity and capability within government to perform them. However, BEIS told us the schemes' fraud risks are lower than schemes introduced in response to the COVID-19 pandemic because there is no application process, and that the universal nature of the schemes means there are fewer opportunities for the money to be passed onto people who do not qualify for the schemes.

3.3 BEIS assessed the potential causes of fraud and error such as suppliers manipulating the volume of energy supplied to consumers and making fraudulent claims for energy that consumers do not use, or increasing energy bills specifically to receive payments through the EBRS. It was also concerned about the risk of third parties using 'phishing' scams to communicate with customers to obtain bank details or other personal details to use for fraudulent purposes.

3.4 BEIS has put in measures from the design phase of the projects to reduce these risks. This includes putting in place private law contracts for initial protection and enforcement against misuse of funds and making payments to suppliers in arrears after energy has been supplied to consumers. For EBRS, BEIS contracted a third-party organisation to assess supplier readiness for the EBRS including their internal processes and ability to accurately perform payment calculations. BEIS told us it had worked with the Office of Gas and Electricity Markets (Ofgem)to make sure suppliers at high risk were passing payments to consumers and requested further evidence from them, such as copies of bills. It also organised communication campaigns for the schemes to help consumers understand they do not need to apply to the schemes and help reduce the risk they get caught by phishing scams.

3.5 The risks of error are greater for EBRS (the non-domestic scheme) than for EPG (the domestic scheme). This is because:

- energy usage and intensity varies significantly more for the non-domestic sector from industry to industry compared with the domestic sector. For example, a large factory consumes substantially more energy than a small business such as a chip shop, although both are eligible for support;
- for each consumer, BEIS uses a 'reference price' for the wholesale cost of energy against which it compares the government supported price to calculate the payment it should make to the supplier. For the non-domestic scheme, the reference price depends on the type of contract each consumer has. For example, for a fixed-price contract with a discount, BEIS will apply the price it is ready to support against the day-to-day wholesale reference price on the day the contract was signed. Variable-rate contracts are based on an average price for the last ten working days of September;
- there is less transparency for Ofgem on the tariffs that businesses are charged for their energy. Some businesses negotiate energy bills via brokers and many will be on bespoke tariffs. In contrast, approximately 80% of households are currently paying the same standard variable tariff determined by the price cap. The price cap does not apply to non-domestic consumers;
- there are 74 suppliers on the non-domestic side (UK), more than double of that on the domestic side (29);[12] and
- BEIS considers the risk to be higher for businesses that procure gas and electricity from a supplier that is not licensed (considered to be up to 10% of all non-domestic gas and electricity consumption). The unlicensed supply is not regulated by Ofgem or its NI equivalent, The Utility Regulator, which means if payments are made in error, there are limited enforcement powers or mechanisms to act as a deterrent or to recoup funding.

12 Supplier figures correct as of September 2022 (domestic) and October 2022 (non-domestic).

3.6 BEIS is requiring suppliers to provide detailed reconciliations to underpin their payment claims; including meter data; tariff information; and data on businesses, for example, size of the organisation, turnover, and meter addresses. BEIS has appointed specialist accountancy providers to assess these data for outliers and inconsistencies that could indicate erroneous claims, which it will then work with Ofgem to recover using its compliance functions.

3.7 There is a higher risk of fraud and error on the schemes to support households and businesses in NI and that use alternative fuels to gas, although the costs of these are far lower than for the EPG and EBRS:

- **Northern Ireland:** In Great Britain (GB), Ofgem has the power to request information from suppliers, with suppliers being in breach of their licence obligations if they provide false information. While this arrangement does not exist in NI, BEIS will be carrying out compliance activity. Also, the balancing settlement process which forms part of the independent checks in GB does not exist in NI.

- **Alternative fuel payments:** BEIS is implementing a top-up scheme providing additional support for businesses that are larger users of heating oil. BEIS told us businesses will need to apply for this support. BEIS plans to work with HM Revenue & Customs to help identify and prevent fraud, but accepts that the risk of fraud is higher than for the schemes where it makes payments to suppliers without the need for an application process.

Supplier insolvency

3.8 Between January 2021 and July 2022, 31 domestic energy suppliers went insolvent. There is a risk that if more suppliers become insolvent, the payments that BEIS makes to those suppliers through its support schemes, do not reach consumers as intended. To mitigate this risk, BEIS pays suppliers on a frequent basis to reduce the cash balance of support payments that suppliers hold. It also pays EPG and EBRS monies in arrears, meaning payments reflect bill discounts which suppliers have already given. For EPG, BEIS required each supplier to provide representation at the start of the scheme stating that no insolvency event had occurred in relation to it. For EBRS, BEIS monitors supplier insolvency assessments from Ofgem and reviews payments to suppliers which are either declared insolvent or are at risk of becoming insolvent.

3.9 Ofgem has strengthened its monitoring of suppliers' financial resilience since the multiple supplier failures from January 2022. Financial stress testing includes determining how sensitive suppliers are to factors such as wholesale gas prices, customer bad debt and cold winters. It also requires supplier boards to undertake self-assessments of their management controls to provide assurance to Ofgem. BEIS uses this information to review payments to suppliers that are at risk of becoming insolvent.

3.10 BEIS considers that this monitoring will need to identify the early signs of potential supplier insolvency so that it can stop payments going to suppliers as soon as possible rather than trying to get money back once they have fallen into insolvency. However, it will need to balance this against the risk that withholding payments could contribute to a supplier's insolvency. BEIS expects the highest risk of supplier insolvency to be when EBRS and EPG ends. To mitigate this, Elexon and Xoserve will retain the final three weekly payments during an end-of-scheme reconciliation process which will last for 14 months after the scheme.

3.11 Ofgem will need to balance the risk of supplier insolvency with potential impacts on public spending on the energy bill support when considering changes to its price cap methodology. The price cap is the reference price for the EPG, with government paying the difference between the price cap and the EPG limit. Ofgem sets the price cap by calculating how much it costs an efficient supplier to provide gas and/or electricity to a customer. The Energy Prices Act 2022 updated Ofgem's duties to include an obligation to take account of the impact on public spending when considering its methodology for setting the cap, since a higher cap increases the amount government pays suppliers through the EPG.

Ensuring support reaches eligible homes and businesses

3.12 BEIS needs to ensure that all eligible recipients receive support. BEIS has designed the EPG and EBRS schemes in a way that reduces this risk, by requiring suppliers to discount bills, with no application process. BEIS has also ensured that suppliers are subject to open book accounting, giving it a transparent view of public funds held under the scheme in their bank accounts not yet transferred to customers.

3.13 For the EBSS, BEIS has had issues ensuring support reaches households with prepayment meters. Customers on these meters access the monthly discount in one of two ways – via a redeemable voucher sent by text, email or post by their energy supplier or by an automatic credit when topping up the prepayment key.[13] By the end of December 2022, BEIS had authorised suppliers to issue £399 million in vouchers to two million traditional prepayment meter customers but 71% of customers had redeemed them. This is slightly higher than in November 2022 (66%). Vouchers expire after 90 days but can be reissued by the supplier on request. Suppliers must make a minimum of three attempts to contact customers who have not redeemed their vouchers. All vouchers must be redeemed by 30 June 2023 - just over 90 days after the scheme finishes. BEIS told us that it considered voucher redemption was likely to be affected by a number of factors including the weather (people might hold on to vouchers in anticipation of a cold snap), voucher loss, and some people not opening their post. BEIS is working to promote awareness amongst prepayment customers of the vouchers.

13 Each supplier is responsible for notifying its traditional prepayment customers as to how they will access the government's discount.

3.14 The risk is higher of support not reaching eligible recipients where they are required to apply for the support. This includes the EBSS Alternative Funding Payment in GB and recipients of the Alternative Fuel Payment without a direct relationship to an electricity supplier. For both, eligible individuals are required to apply for the scheme through a portal managed by BEIS. BEIS is exploring mitigating this risk, often particularly high in vulnerable groups, through measures including developing an approach that allows for bulk and paper applications, as well as a communication plan.

Capacity and capability in government

3.15 BEIS needs to ensure it has sufficient capacity to continue managing the schemes and develop replacement schemes. BEIS is continuing to recruit people to manage the schemes. In December 2022, BEIS identified that 68% of positions across the schemes remained unfilled. BEIS is yet to secure a formal budget to cover administrative expenditure to deliver the work for the schemes, but reasonable expenditure has been agreed.

3.16 BEIS is now focusing on identifying where longer-term resource is needed once officials from other parts of the department return to their home teams. BEIS will need to ensure it maintains adequate resources to oversee the reconciliation process for the schemes, due to last 14 months after the scheme ends. It will also need to ensure that it devotes sufficient resources to recovering funds it determines were overpaid in the first phase of the schemes.

3.17 We have seen on past schemes the need for departments to maintain resources after scheme closure. For example, the Green Homes Grant voucher scheme employed more than 50% of its staff six months after scheme closure. In October 2022, we reported on HMRC's post-payment compliance work to recover COVID-19 employment support grants paid in error or where they were not needed. We recommended that HMRC uses its data on the results of different compliance interventions when it deploys its compliance staff. We also recommended that HM Treasury ensured sufficient resources were available to departments where it is cost-effective to tackle fraud and error.

3.18 BEIS's resourcing plan may also need to be flexible to accommodate the uncertainty around future energy prices. For example, BEIS may not need to make payments through the EPG if there are periods when the market prices for energy fall so that domestic annual bills are below £3,000, which is the government supported level for the EPG after April 2023. This may enable BEIS to reduce the number of people administering the scheme, although it would need to be ready to redeploy capacity again should prices rise requiring further payments to suppliers.

Reviewing the schemes

EBRS (non-domestic)

3.19 When the government introduced the EBRS, it planned to review the scheme within three months of the scheme launch to consider how it will continue to support vulnerable sectors after the scheme ends in March 2023. HM Treasury has led this review. On 9 January 2023, HM Treasury announced that it would replace EBRS with the Energy Bill Discount Scheme, which will support non-domestic consumers for 12 months from April 2023. This scheme gives consumers a discount on their energy bills if wholesale prices are above a certain threshold. Non-domestic energy users in certain energy and trade-intensive sectors will receive a higher level of support (**Figure 9**). Consumers eligible for the higher levels of support will have to apply for it - BEIS will publish details on how this application process will work in due course. Applying a set discount on market prices, in contrast to the approach on EBRS where the government discounted prices to a set level, means the maximum cost of the scheme depends only on variations in consumer demand, rather than both demand and price as was the case for the EBRS. HM Treasury estimates the scheme cost will be capped at £5.5 billion based on estimated volumes of demand.

EPG (domestic scheme)

3.20 HM Treasury and BEIS are reviewing the EPG through an affordability and mid-point review. They plan to consult on amending the scheme as soon as is feasible after April 2023 so households with non-critical excessive energy consumption have their state support capped, while most continue to benefit from the scheme. They also plan to ensure that vulnerable high energy users, such as those with medical requirements, are not put at risk. HM Treasury has told us it has no plans to extend EBSS beyond April 2023.

3.21 The reviews of schemes and development of their replacements are an opportunity for BEIS and HM Treasury to consider the potential costs and benefits of different scheme designs. This includes considering the potential for different scheme designs to present new risks, such as targeting some sectors for support leading to being considered unlawful State Aid and the potential to increase the risk of supplier insolvency if reducing government support results in higher levels of non-payment of bills. Moving from a universal to a targeted approach will present challenges in determining who is and who is not eligible for support, and in identifying potential attempts to defraud the schemes. BEIS will need to consider the likely losses to fraud and error, alongside the improvements in value for money from reduced deadweight that could result from increased targeting.

Figure 9

Maximum discounts given to non-domestic consumers through the Energy Bill Discount Scheme

Consumers in energy and trade intensive industries will receive higher discounts than consumers in other sectors from April 2023

	Electricity	Gas
Energy and trade-intensive industries	£89 per megawatt hour (MWh) with a price threshold of £185 per MWh	£40 per MWh with a price threshold of £99 per MWh
All other non-domestic organisations	£19.61 per MWh with a price threshold of £302 per MWh	£6.97 per MWh with a price threshold of £107 per MWh

Source: National Audit Office summary of publicly available information

Longer term outlook

3.22 BEIS is leading on developing a new approach to consumer protection in energy markets from April 2024, including exploring options such as social tariffs as a part of wider retail market reforms. The objective of this new approach will be to deliver a fair deal for consumers, ensure the energy market is resilient and investable over the long-term, and support an efficient and flexible energy system. BEIS told us that it does not expect wholesale gas prices to be much above £3,000 in April 2024, meaning withdrawing the EPG at that point would not have a sudden significant impact on consumers' bills.

3.23 The primary objectives of the schemes were to reduce or avoid under-consumption of energy and its associated negative impacts. In November 2022, government announced a new long-term commitment to drive improvements in energy efficiency to bring down bills for households, businesses and the public sector. The ambition for a 15% reduction of the UK's final energy consumption from buildings and industry by 2030 against 2021 levels.

3.24 BEIS also needs to consider the future role of energy suppliers in achieving net zero as it reviews and updates its support schemes. In our report *The energy supplier market* we concluded that there was a risk that Ofgem's reform of the supplier market could hinder the supplier market from contributing to achieving net zero. BEIS has told us that the reviews of these support schemes will inform future policy design on net zero as new data will be available on, for example, energy efficiency options and demand flexibility in the non-domestic sector.

Appendix One

Our audit approach

Our scope

1 We examined the government's schemes (Energy Bills Support Scheme, Energy Price Guarantee, Energy Bill Relief Scheme and Alternative Fuel Payments) to reduce the impact of energy bill increases from winter 2022-23.

2 This report provides the basis for early Parliamentary scrutiny of how the Department for Business, Energy & Industrial Strategy (BEIS) has designed and implemented the energy bills support and the potential costs. We have not concluded on the value for money of the schemes. We expect to revisit performance of these schemes in later reports once more evidence is available about their costs and benefits. This reports covers:

- how the energy bills support work and how much BEIS expects it to cost;
- how BEIS implemented these schemes quickly, to make sure households and businesses were able to receive support in time for this winter; and
- the risks that BEIS must now manage and how it plans to manage them.

Methods

3 In examining these issues, we drew on a variety of evidence sources, which we analysed between September 2022 and January 2023. We reviewed BEIS documents on the schemes, including: business cases; risk registers; board minutes and data on scheme spending.

4 We interviewed officials at BEIS, HM Treasury, the Public Sector Fraud Authority, Office for Budget Responsibility, the Office of Gas and Electricity Markets (Ofgem), the Infrastructure Project Authority and the Government Internal Audit Agency. We also interviewed Energy UK, the trade association for the energy industry.

5 We used these interviews to understand:

- the sequence of events and decisions by government in designing and implementing the schemes;
- the roles and responsibilities of BEIS, HM Treasury and Ofgem;
- the key risks of the schemes and how government is managing them; and
- the government's future plan for the schemes.

6 The schemes are still ongoing and data on payments made through the schemes shows a snapshot at 31 December 2022.

CORRECTION SLIP

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Correction One:

In paragraph 12, final sentence on page 7, an error needs to be corrected. The final sentence currently reads as follows "BEIS is collecting detailed information from non-domestic suppliers to support their payment claims, which it plans to scrutinise retrospectively for errors and sums of money that need to be recovered." It should read "BEIS is collecting detailed information from non-domestic suppliers to support their payment claims, which it scrutinises through pre-and post-payment checks for errors and sums of money to be recovered."

The text currently reads:

12 The risk of overpayment is greater in the schemes that support businesses than the schemes that support households. It is more straightforward for BEIS to verify that the payments to suppliers on the domestic schemes are accurate because most households are charged a similar tariff and the price cap provides an estimate of the amount suppliers costs should have been. None of these factors are in place in the non-domestic sector and there are around three-times more suppliers to pay. BEIS is collecting detailed information from non-domestic suppliers to support their payment claims, which it plans to scrutinise retrospectively for errors and sums of money that need to be recovered (paragraph 3.5).

The text should read:

12 The risk of overpayment is greater in the schemes that support businesses than the schemes that support households. It is more straightforward for BEIS to verify that the payments to suppliers on the domestic schemes are accurate because most households are charged a similar tariff and the price cap provides an estimate of the amount suppliers costs should have been. None of these factors are in place in the non-domestic sector and there are around three-times more suppliers to pay. BEIS is collecting detailed information from non-domestic suppliers to support their payment claims, which it scrutinises through pre-and post-payment checks for errors and sums of money to be recovered (paragraph 3.5).

BACK

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