National Audit Office

REPORT

# Energy bills support

## Department for Business, Energy & Industrial Strategy

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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 plans to scrutinise retrospectively for errors and sums of money that need 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).

## 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.