HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

3 February 2022

TO: ALL MPs

Dear Colleague,

HELPING WITH THE COST OF LIVING: ENERGY BILLS REBATE

As the UK economy continues its recovery from the pandemic, we must confront the global inflationary pressures caused by the *world* economy coming swiftly back to life. Much of this inflation is being driven by the rising cost of energy due to increased demand worldwide – and that feeds through into pressures on the cost of living.

We must be honest that there are limited levers the government has to deal with these global problems. We have already taken steps: reducing the Universal Credit taper rate, increasing the National Living Wage, freezing fuel duty for the twelfth year in a row, and launching a £500 million Household Support Fund to help the lowest-income households with their bills.

But we recognise that we must go further to help families with pressures on the cost of living. We must also be honest that over time, households will need to adjust to higher energy costs – but government can help ensure the adjustment to higher prices is smaller initially and spread over a longer period.

Following Ofgem's confirmation this morning that the energy price cap will rise by £700 from April, we are today announcing a **three-part plan** to help with household fuel bills immediately and protect people against half of this increase – **worth £350 per household, in a total package of support worth £8.6 billion.**

The cost of energy is rising worldwide as economies recover – particularly the wholesale cost of gas

Inflation is rising in countries in Europe as well as the United States. Inflation in the Eurozone is at the highest on record: up to 6.1 per cent in Spain and 5.1 per cent in Germany; while it has increased to 7 per cent in the US – the highest since 1982. In the UK, inflation is currently at 5.4 per cent. As economies are re-opening following the lifting of coronavirus restrictions, people are spending again leading to higher demand – especially for goods, rather than services – whilst factories are trying to get back to normal production, meaning lower supply. That therefore means HIGHER prices for ordinary goods such as food and clothing.

Countries are also experiencing higher costs for energy – particularly gas. This is partly because of increased demand from Europe and China as countries transition away from

coal. Wholesale gas prices are also global in nature – so prices are much the same wherever you go. Even Norway, one of the biggest producers of gas in the world, is experiencing record electricity prices. Wholesale gas prices are currently around five and a half times higher than the average – pushing up both gas *and* electricity bills.

Ofgem have today announced the energy price cap will increase. The new cap, which will come into effect on 1 April, will rise to £1,980 – almost £700 higher for the average household. That is why we are taking action today through **three measures** to support working families. This package protects households by £350 – half of the £700 increase announced today – as well as spreading the cost of the price cap increase over several years, and provides additional support directly to households which need it most.

(1) A £200 'smoothing' rebate on energy bills for all households, to be paid back over the next five years

All households in England, Scotland and Wales with electricity meters will receive a £200 rebate on electricity costs from their supplier this October. It will be clearly identifiable as a line on electricity bills and repaid over five years at a flat rate of £40 per year, with no interest, starting in April 2023. Ofgem will increase the price cap to reflect the additional cost to be recovered from consumers in future years, and energy companies will reimburse the government. This rebate will not affect the price cap level.

The policy will apply GB-wide. Energy policy is devolved in Northern Ireland: it is not regulated by Ofgem and therefore BEIS have limited powers over energy. We will apply the Barnett formula to both the rebate and the repayment, meaning funding is provided to the Northern Ireland Executive in line with the rebate in 2022-2023, and is then recovered in future years.

BEIS will work closely with industry on how best to deliver this policy, and will consult later in the Spring.

(2) A non-repayable £150 cash rebate for homes in Council Tax bands A-D

The government will fund local authorities to give all households in England in Council Tax bands A-D a one-off council tax rebate of £150 in 2022-23. We expect the vast majority of people who pay by Direct Debit to receive the money in April. For people who do not pay by Direct Debit, their councils will be ready to process their claims in April.

80 per cent of all households in England (including 92 per cent of homes in the North East; 86 per cent in the West Midlands; and 89 per cent in Yorkshire and the Humber) will benefit from the rebate and discretionary funding. This also includes 95 per cent of rented properties (but excluding second homes and empty properties). The average annual gross household income for properties in band D is almost £50,000 – compared with a median

annual household income of £29,900. The annual household income of a band E-H property which is *not* eligible is £79,000.

Council Tax is England-only; the devolved governments will receive £565 million in Barnett: £290 million for Scotland; £175 million for Wales; £100 million for the Northern Ireland Executive.

DLUHC will publish guidance for local authorities on Monday 7 February, and lay amendments to Council Tax regulations shortly after. Funding will be available from March.

(3) £144 million of discretionary funding for local authorities to support households not eligible for the council tax rebate

We will also provide £144 million of discretionary funding for local authorities to support households not eligible – including properties in bands A-D that are exempt from council tax, and households on lower incomes in higher bands. The Barnett formula will apply.

We are also continuing with plans to increase the Warm Homes Discount and extend eligibility by one-third to 3 million vulnerable households (worth £150).

Why a VAT cut isn't the right approach

Our approach gets more help to those who need it most – and faster. A VAT cut would benefit households by only £89 per year – or approximately £7.40 per month – and is worth £2.5 billion. Instead, our council tax rebate benefits middle-income households by £150 this year, and is worth £3.6 billion: that's over £1 billion more generous. We expect the vast majority of people who pay by Direct Debit will receive the money this April.

Reducing VAT would not be targeted and would benefit wealthy households. For example, a household with £78,000 annual income, living in a 5-bedroom house and spending £8,250 per year on energy bills would save £393 per year. However, a family in social housing with £24,000 annual income and spending £930 on energy, would save just £44 per year.

There is also no guarantee businesses would pass on the saving. VAT is built into the price cap – but 20 per cent of households are on fixed-price deals and thus don't benefit from the price cap. There is therefore no guarantee that a VAT cut would be passed on to them.

And reducing VAT would erode the tax base permanently. It would be difficult to reverse a 'temporary' VAT cut, and would become a permanent £2.5 billion spending pressure at a time when we need to restore our public finances to sustainable and responsible levels.

Reducing VAT would also not be possible in Northern Ireland.

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This is a progressive package that builds on our support throughout the pandemic

This government's policies throughout the pandemic have benefitted the poorest the most. Distributional Analysis published at Autumn Budget 2021 shows the decisions of this government over this Parliament have been HIGHLY progressive and most benefitted those on lower incomes. This is also true for the government's interventions during the pandemic, which evidence shows supported the poorest households the most.

This is a progressive package. Larger payments will go to lower income households as a proportion of net household income. For example, a payment of £150 to households in Council Tax bands A-D, combined with a rebate to all households of £200, will be worth 2.5 per cent of net income in 2022-23 to the poorest tenth of households – compared with less than 0.5 per cent to the richest tenth.

Over this Parliament we are investing over £3 billion to help improve energy efficiency in almost 500,000 low-income, fuel poor households – delivering average bill savings of nearly £300 every year. This is being delivered through:

- **Social Housing Decarbonisation Fund:** saving homes £270 per year, worth £3.8 billion for 250,000 vulnerable households, with no cost to the tenant as the upgrade is funded by landlord and government
- **Home Upgrade Grants:** £10,000-£25,000 government grants delivered through councils, with only a one-third contribution from landlords, saving homes £350 per year for 246,000 homes
- **Boiler Upgrade Scheme:** £500 million to provide nearly 100,000 households with a £5,000 grant to replace their boiler with low carbon heating technologies

And to support households at risk of fuel poverty through their bills, the government is also providing:

- **Warm Homes Discount:** £140 rebate on energy bills each for over 2.2 million low-income households. The government is continuing with plans to increase the rebate to £150 and expand eligibility by one-third to 3 million vulnerable households
- **Winter Fuel Payments:** £300 for 8 million pensioners, worth £2 billion
- **Cold weather payments:** £25 per week in cold weather, supporting 4 million vulnerable households
- **Energy Company Obligation:** £290 saving on bills for 133,000 people in fuel poverty, worth £1 billion

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We have introduced several other measures to help households with the cost of living

To make sure work pays, and to help the lowest-income families in the country, we cut the Universal Credit taper rate by 8 pence, taking it down from the current 63p to 55p. We also increased the Work Allowance by £500; taken together, this is a tax cut for 2 million low-income families worth £2.2 billion this year, or an extra £1,000 in their pocket. For example, a single mother of two working full-time on the National Living Wage will be better off by around £1,200 a year – while a working couple with two children, both paid the National Living Wage, one working full-time and one part-time, will be better off by £1,800 every year.

The National Living Wage will increase on 1 April 2022 by 6.6 per cent to £9.50 per hour for those over the age of 23 – an increase worth over £1,000 to over 2 million full-time workers this year; over £5,000 for a full-time worker since the introduction of the National Living Wage by a Conservative government in 2016; and over £6,000 since 2010. We are committed to going further, so that the National Living Wage reaches two-thirds of median earnings for those over 21 and over by 2024.

Due to rising global oil prices, the average cost of filling up the typical family car has gone up significantly in recent weeks. That is why we froze fuel duty for the twelfth year in a row, a £1.5 billion tax cut, meaning the average driver has saved £1,900 since 2010.

We also introduced a £500 million Household Support Fund is aimed at low-income families to help them with the cost of living. The fund is distributed through local authorities in England who have discretion over exactly how the funding is used.

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