NEW ECONOMICS FOUNDATION

WARM HOMES, COOL PLANET

A PACKAGE TO FIX THE UK'S ENERGY PRICE CRISIS

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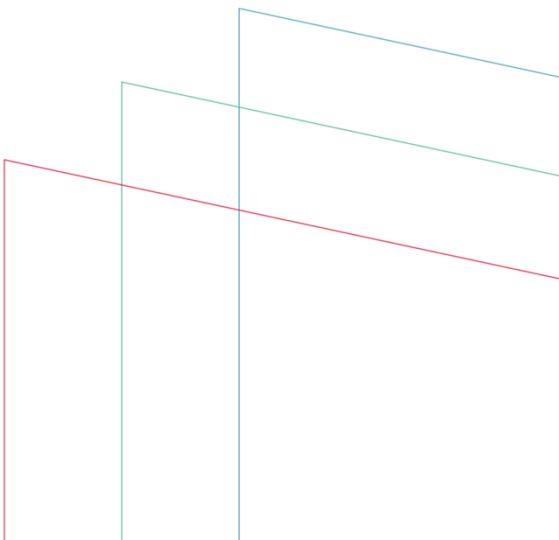

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EXECUTIVE SUMMARY

The UK is in the midst of the deepest squeeze on living standards since records began. Families are feeling the pinch in two ways. First, they are experiencing the increased cost of direct energy consumption, such as heating and lighting a home. The annualised price cap for a typical family paying by direct debit nearly doubled from a little over £1,000 to just under £2,000 between April 2021 and April 2022. But it is about to get far worse. By October 2023 the cap will have risen to over £3,500, and the latest forecast estimates a further rise to more than £6,600 by April 2023, with the cap remaining at around £5,900 for the remainder of the year. By next spring, a typical family are likely to be paying 500% more on domestic enery than they were before the pandemic.

The second way in which gas prices are hurting consumers is indirect. Companies providing goods and services across the economy are facing the same rise in energy costs as families, only the unit price on commercial usage isn't capped in the same way. Most companies are passing on some or all of these underlying costs by marking up the price of their products, or else facing bankruptcy.

The response from the government so far has ticked all the wrong boxes: too little; too late; poorly targeted; and overly complicated. Even if the government's current support were to be extended, by April 2023 family spending across the board will have risen £2,400 more than incomes, on average since April 2023. For example, Liz Truss's proposal to reverse the increase in national insurance contributions would see just 15% of the benefits go to the poorest 50% of the population.

The proposal from opposition parties to freeze the energy price cap would provide welcome respite and should be enacted for an emergency six month period from October 2022, but as a solution it cannot be sustained beyond April 2023. At well over £100bn over 12 months, the cost of continuing a price cap freeze beyond April is eye watering. Freezing the price of energy also does too little to help reduce the UK's exposure to volatile fossil fuel prices, or to help prepare the UK for future economic crises. The government's response to the current high cost of living must provide a stepping stone to both increasing the UK's energy security and efficiency, and a stronger income safety net to deal with future unknown shocks.

To meet this challenge, NEF is proposing a national energy support package to be implemented from April 2023:

1. **Scrap the existing price cap system and replace it with a new system of 'free basic energy'.** Under this system every household would be entitled to a free amount of energy consumption, but would pay a higher marginal cost for energy use above the free amount. Under an illustrative version of this system, the

poorest 10% of families would get the majority of their energy use free. They would then pay around £1,850 on average for their remaining energy. This compares to an average bill of £6,250 for these families under current forecasts for the April 2023 price cap. The richest 10% of families would pay more for their energy compared with the forecast price cap, and the government would also subsidise the overall cost of energy by £14.6bn while prices are elevated, paid for from a temporary increase in borrowing and recouped through a future profit cap on energy suppliers.

2. **Create a new 'energy element' in universal credit and legacy benefits worth £1,000 per year for a single person and £1,650 for a couple, to help the poorest families meet the costs of their energy bills above the new free entitlement.** By the time universal credit is fully rolled out, this payment would become a permanent, seperate new element just as there are currently separate top-ups to support with housing, disability or the costs associated with having children. While the universal credit IT systems are being updated, the payment could be added as a top-up to the main payment in all means tested benefits. The total cost would be £10.6bn over 12 months and this would be paid for by taxing income from capital gains at the same rate as earnings from employment, previously estimated to raise around £12bn a year.
3. **Create a new 'cost of living allowance' paid to all families by direct bank transfer or cheque and worth £750 in the first year from April 2023 to help meet wider increases in prices beyond household energy use.** The cost of this payment would be £21bn over 12 months, and it would be fully funded by reforming the government's windfall tax on oil and gas profits, raising £22.6bn over 12 months. In future years the payment could be targeted by household income or used as part of a financial incentive for families to improve the energy efficiency standard of their home. The payment would also enable the creation of a new system for paying all families quickly in the UK in the event of future economic crises.

On average, 80% of families would receive considerable net support from the NEF national energy support package. Families with the lowest 10% of incomes – household incomes of around £24,000 on average before tax – would receive the equivalent of £6,200 in support on an annualised basis, either in the form of a new cash payment or a reduced energy bill. For a families on average incomes – household incomes worth around £54,000 on average – would receive the equivalent of around £2,300 in support. For families with the lowest 50% of incomes this support would more than offset the rise in spending over and above income growth since April 2021.

The highest income 20% of families would make a net contribution towards paying for this support through the higher cost of energy use above their free amount. On average the richest 10% of families – with pre-tax household incomes of around £212,000 on average – would make a net contribution of less than 4% of income. The next 10% of high-income families – with pre-tax income of around £88,000 on average – would contribute a little over 1% of income. Alternatively, these families could find ways to reduce their energy use.

Overall the NEF national energy support package would provide more than double the support that the government is currently offering, but at less than half the price of freezing the price cap. At the same time, it would incentivise both the government and households to improve energy efficiency and domestic renewable energy generation while also permanently strengthening the UK social security system.

1. INTRODUCTION

Much like the proverbial general preparing for the previous war, the UK appears to be bracing itself for the 1970s. The mistake is likely to be as painful as it is avoidable. With CPI inflation exceeding 10% in July[1] and now expected by some to peak at more than 18% next year,[2] new NEF modelling shows that without further intervention from the government, on average families will see their annual spending rise by £3,100 more than their incomes between April 2021 and April 2023.

The causes of globally spiralling prices started with the release of pent-up demand from worldwide lockdowns, as well as a shift in spending from services to goods at precisely the same time as global supply chains for these goods were disrupted by the pandemic. But this has quickly been subsumed by a shortfall in global gas supplies in particular, compounded by the war in Ukraine and the subsequent sanctions.

Families are feeling the pinch in two ways. First, they are experiencing the increased cost on direct energy consumption, such as heating and lighting a home. In the UK, the price of energy in the home is currently capped at a given unit cost for six months, although this is soon to be reduced to a three-month cap from October. But this cap has risen significantly over the past year, with the annualised cost for a typical family paying by direct debit nearly doubling from a little over £1,000 in 2021 to just under £2,000 by April 2022.[3] And it is set to get far worse. Ofgem's latest announcement set the October 2023 cap at a little over £3,500. But the latest forecast estimates a further rise to more than £6,600 by April 2023, remaining at around £5,900 for the rest of the year.[4] By next spring, a typical family are likely to be paying more than six times the amount they were used to before the pandemic.

The second way in which gas prices are hurting consumers is indirect. Companies providing goods and services across the economy are facing the same rise in energy costs as families, only the unit price on commercial usage isn't capped in the same way. Most companies are passing some or all of these underlying costs on by marking up the price of their products. After domestic energy use, the largest contributors to headline inflation have been transport, food and hospitality. These three areas combined have made an even greater contribution to headline CPIH inflation – a version of the consumer price index that includes rent, mortgage costs and council tax – than household bills.[5]

2. THE CURRENT POLICY RESPONSE

2.1 THE BANK OF ENGLAND'S RESPONSE

Broadly speaking, the policy response to the price shock has also been two-fold. First, the Bank of England has started to increase interest rates – including the fastest increase in 27 years from 1.25% to 1.75% in August.[6] According to the Bank, this is not intended primarily to tackle the high headline rates of inflation that we see today, but instead to tackle the mechanisms by which high current inflation may become entrenched in the future.[7]

This approach is extremely risky. The Bank's concern is that at a time of low unemployment and high job vacancies, workers will succeed in negotiating higher wages to offset increased consumer costs. The fear is that this in turn will cause further increases in prices due to increased demand (more money chasing the same goods and services) and higher labour costs for companies.

But whether this so called 'wage-price' spiral could actually come to pass remains highly uncertain. Compared with the 1970s, the UK labour market today is less unionised, with weaker job protections and lower unemployment benefits (as a proportion of average earnings).[8] All of this undermines the ability of workers to negotiate exceptional pay increases, and in turn makes it harder for employers to pass on increased costs to consumers – whose incomes will already be falling in real terms – without losing their custom.

Even if the Bank are right that, without a substantial rise in interest rates, UK inflation would move from 'transitory' to 'spiralling', the treatment of higher interest rates carries substantial adverse side effects – namely deepening the coming recession and increasing unemployment. But if they are wrong, the Bank will have directly compounded the cost of living scandal by suppressing incomes and unnecessarily deepening the recession.

2.2 THE RESPONSE FROM THE GOVERNMENT

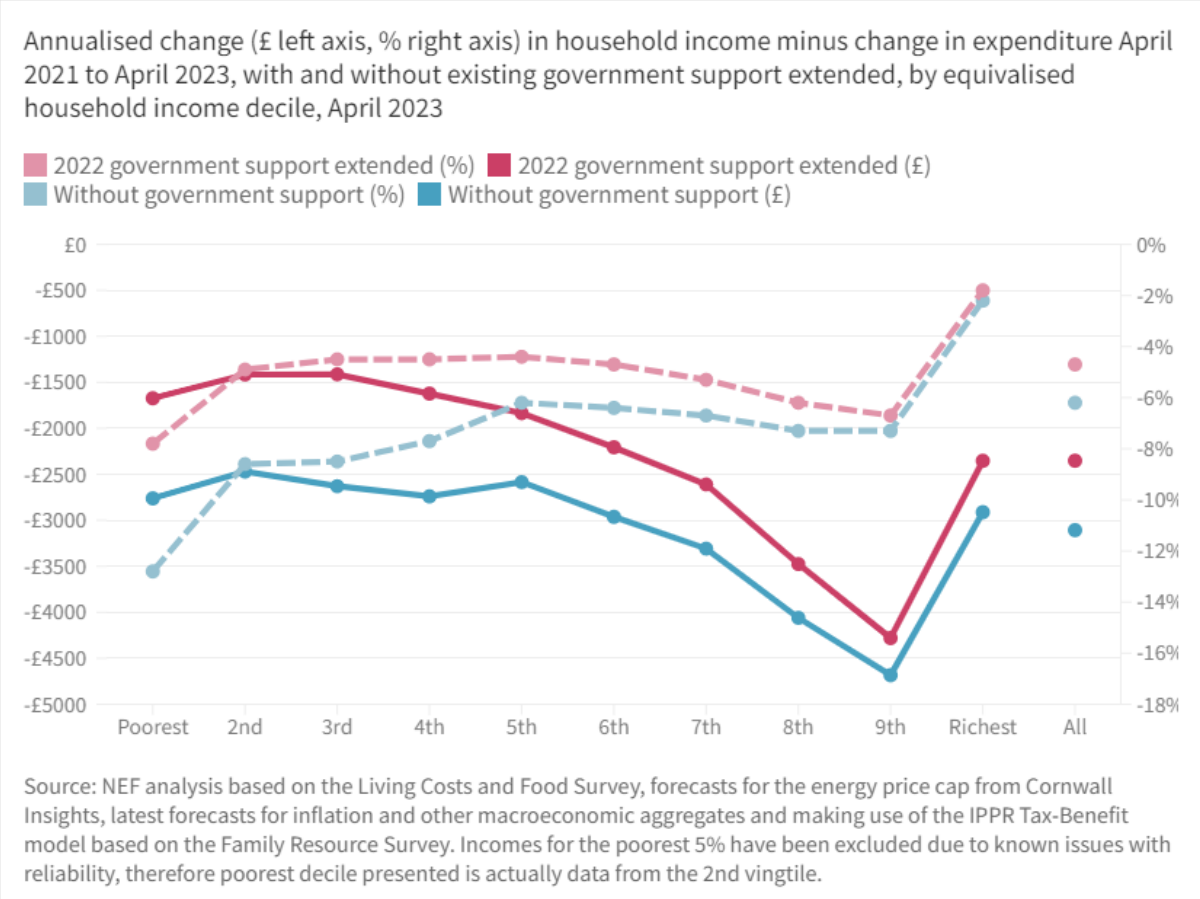
The second part of the policy response has come from the government, in the form of a muddled blend of universal and targeted grants for families to meet rising costs. The initial package of support announced in February 2021 was too little too late, poorly targeted and overly complicated.[9] It was added to at the March spring statement but then was largely ripped up and redone barely a month later at an intervention by the chancellor in May.[10] This third attempt in May contained six months' worth of one-off support, including:

- A £150 payment to families in council tax bands A-D

- A £400 rebate on every household energy bill
- A £650 one-off top up to families in receipt of means-tested benefits
- A £150 payment to individuals receiving financial support for a disability

At the time, this package broadly offset the expected increase in direct household energy price inflation between April and October 2022 for the poorest families. But, as previous NEF research showed, it did not protect against the rise in energy prices already seen prior to April, nor the larger indirect price rises due to the effects of high energy prices elsewhere in the economy.[11]

Figure 1: Without any support from the government, families will on average see their spending rise by £3,100 more than their incomes since April 2021



Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. Incomes for the poorest 5% have been excluded due to known issues with reliability, therefore poorest decile presented is actually data from the 2nd vingtile.

But just four months on, we now know that for most families, the support announced will cover less than half the increase in annualised energy bills in the second half of this year with further dramatic increases still to come. Without an extension of government support, families will on average see their annualised spending rise by £3,100 more than incomes between April 2021 and April 2023 (see Figure 1 above). Even if the government's current support were to be extended to help meet this, spending will have risen £2,400 more than incomes on average. For the lowest income families, this deficit (even after government support) will be worth 8% of disposable income. All of this is after taking account of increases in income across the board, including the Bank of

England's forecast for higher nominal wages, as well as means-tested benefits being uprated in line with inflation.

2.3 OTHER PROPOSALS TO ADDRESS ENERGY PRICES

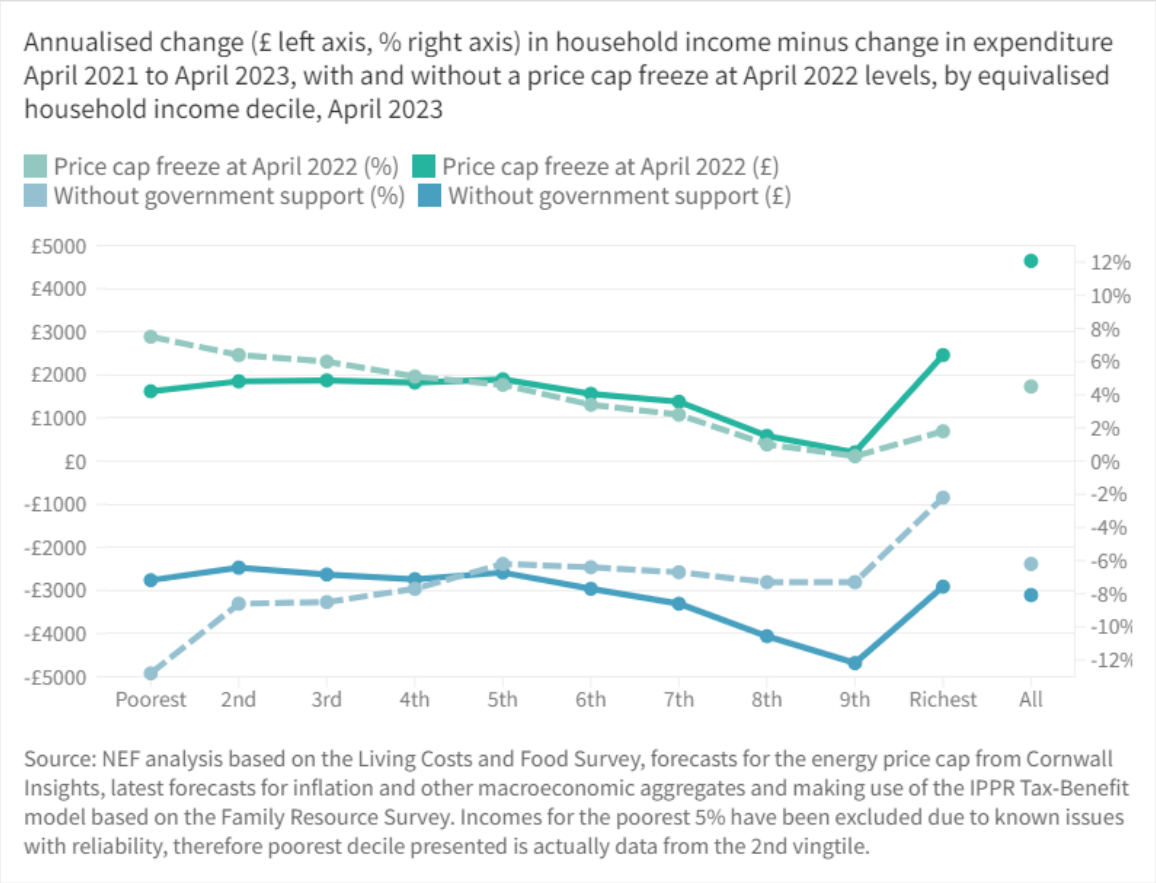
Against this backdrop, it is almost certain that the government will have to go even further than a simple extension to current support. However they have been slow to announce new plans, choosing instead to defer to the new prime minister – either Liz Truss or Rishi Sunak – who is due to take office after the Conservative leadership contest concludes on 5 September. However the plans mooted so far by the leadership candidates contain more of the same problems as the government's response so far. Sunak's proposal to repeat £10bn worth of direct payments is likely to have a similar distributional shape to the government's current support.[12] Truss' proposals are even more problematic, since they are particularly poorly targeted. For example her proposal to reverse the increase in national insurance contributions at a cost of over £10bn is significantly skewed towards higher income families. It would see 28% of the support go the highest income 20% of families while just 15% would go to the poorest half of the population.[13]

Opposition parties have, however, already made their move. The Liberal Democrats, the Labour party and the Green party have each proposed different versions of a plan to freeze the cap on household energy bills. Labour's proposals have been the most detailed so far, setting out plans to freeze the price cap for households who pay by direct debit for six months at April 2022 levels, as well as equivalent interventions for families paying by pre-payment meter and standard credit, respectively.[14] Our modelling shows that if this proposal were extended beyond April 2023 it would more than offset the hole in family finances since April 2021 for all income deciles on average (see Figure 2 below).

Unlike both current government support and that proposed by Conservative leadership candidates so far, a price cap freeze is calibrated broadly at the right scale of response to the depth of the cost of living scandal facing the UK. However it is not a viable solution beyond the next six months.

The first reason for this is cost. At the time of announcement, Labour estimated that their proposal would cost £28.9bn from October 2022 to March 2023. Since then, however, the forecast increase in the price has risen again significantly, meaning this cost is likely to be higher. But beyond April the problem gets even larger. If energy prices were to stay at their forecast peak, the new cost could reach £130.2bn over 12 months from April 2023, roughly equal to the cost of the entire NHS in England. If the average energy price does fall back a bit later in 2023, in line with the latest forecasts, then the total cost of a 12-month price freeze from April would still be more than £116.6bn.

Figure 2: Stopping the price cap rise could stop the majority of people of being worse-off in 2023



Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. Incomes for the poorest 5% have been excluded due to known issues with reliability, therefore poorest decile presented is actually data from the 2nd vingtile.

Freezing the price cap for everyone also dampens the incentive for those who can afford it to use less energy, either by improving their energy efficiency or otherwise reducing their consumption. This is a challenge, both from the point of view of the wider climate crisis and the UK's longer term energy security.

Finally, simply continuing to freeze the price cap does little to address the wider crisis in terms of incomes. Rising costs only become a crisis when incomes fail to keep up. The current living standards squeeze is therefore a crisis of incomes, as well as prices. At the forefront of this issue is the UK's threadbare income safety net. Relative to earnings, the UK currently has the least generous safety net since the creation of the welfare state,[15] as well as one of the weakest and least responsive unemployment safety nets among advanced economies globally.[16]

The social security system is now so weak that, no matter the crisis, the government has to intervene with emergency income top-ups get the country through, from furlough, to the £20 uplift on universal credit, to rebates on energy bills and payments by council tax bands. Far more desirable would be to build a safety net that is sufficiently generous, broad-based and responsive enough by design to deal with shocks – whether price- or income-based – without requiring the government to reinvent the wheel each time.

Extending the price cap may tackle the current disease, but the next disease will almost certainly be completely different and we would have done nothing to strengthen the UK's economic immune system.

3. A NATIONAL ENERGY SUPPORT PACKAGE

We support opposition party calls for an emergency freeze in the price cap from October to April 2023. However, for the reasons discussed above, we do not believe this is either a viable or desirable response to high energy prices beyond the next few months. The additional time and breathing space provided from a price cap freeze should be used to deliver a more comprehensive and longer lasting package of support. In this paper we set out proposals to address the high cost of living from April 2023 onwards. Our package has three elements:

- **Free basic emergy:** Scrap the existing price cap system and replace it with a new system of 'free basic energy' and a redistribution of the cost of household energy bills.
- **Universal credit energy element:** Create a new 'energy element' in universal credit and legacy benefits worth £1,000 per year for a single person and £1,650 for a couple, to help the poorest families meet the costs of their energy bills above the new free entitlement.
- **Cost of living allowance:** Create a new 'cost of living allowance' paid to all families and worth £750 in the first year from April 2023 to help meet wider increases in prices beyond household energy use.

3.1 FREE BASIC ENERGY

We propose that the price cap system should be scrapped and replaced with a new system of 'free basic energy'. This could operate in the form of a so-called 'rising block tariff', where every family is entitled to a level of free energy consumption, but with a higher marginal cost of energy above this.

The advantage of such a system is that it could enable a lower average cost of energy for households which tend to consume less energy (on average families with lower incomes) compared with the present price cap system (even with the cap frozen at 2022 levels). But the marginal cost of additional energy consumption would be higher than the current cap, incentivising greater efficiency and reduced consumption. This, in turn, will reduce both our dependence on, and our exposure to, volatile global fossil fuel prices.

Exploring the full potential for such a proposal requires more detailed modelling and research which will be the subject of future NEF publications, including examining options to vary the level of free entitlement based on a social tariff taking into account considerations such as income and disability. But for illustrative purposes here we model

the effects of a system that sees the first 8,000 kilowatt hours of gas and 2,000 kilowatt hours of electricity free of charge, irrespective of tariff. This would ensure that on average the poorest 10% of households would receive just under 90% of their energy consumption for free. Above this, the unit cost of both gas and electricity consumption are set at a rate just under three times higher than their respective forecast direct debit price cap for April 2023, at 87p and £2.61 per kilowatt hour respectively.

This illustrative system would also include a temporary subsidy to energy retailers of around £14.6bn per year from April 2023 onwards, less than 13% of the cost of freezing the price cap at April 2022 levels. We propose that the government need not announce new tax rises to meet this temporary cost during elevated energy prices, just as the government did not announce new taxes to pay for the majority of their package of support earlier this year. This means extra temporary spending from the government would be met through higher borrowing, which is the most efficient and cost-effective way of spreading the cost of a temporary crisis across time and would dampen the effects of the coming recession. Once energy prices come down, the amount of free energy available to families could also be reduced to ensure the whole system was fiscally neutral. The government could also recoup the costs of this additional borrowing through a long-term profit cap on energy suppliers.

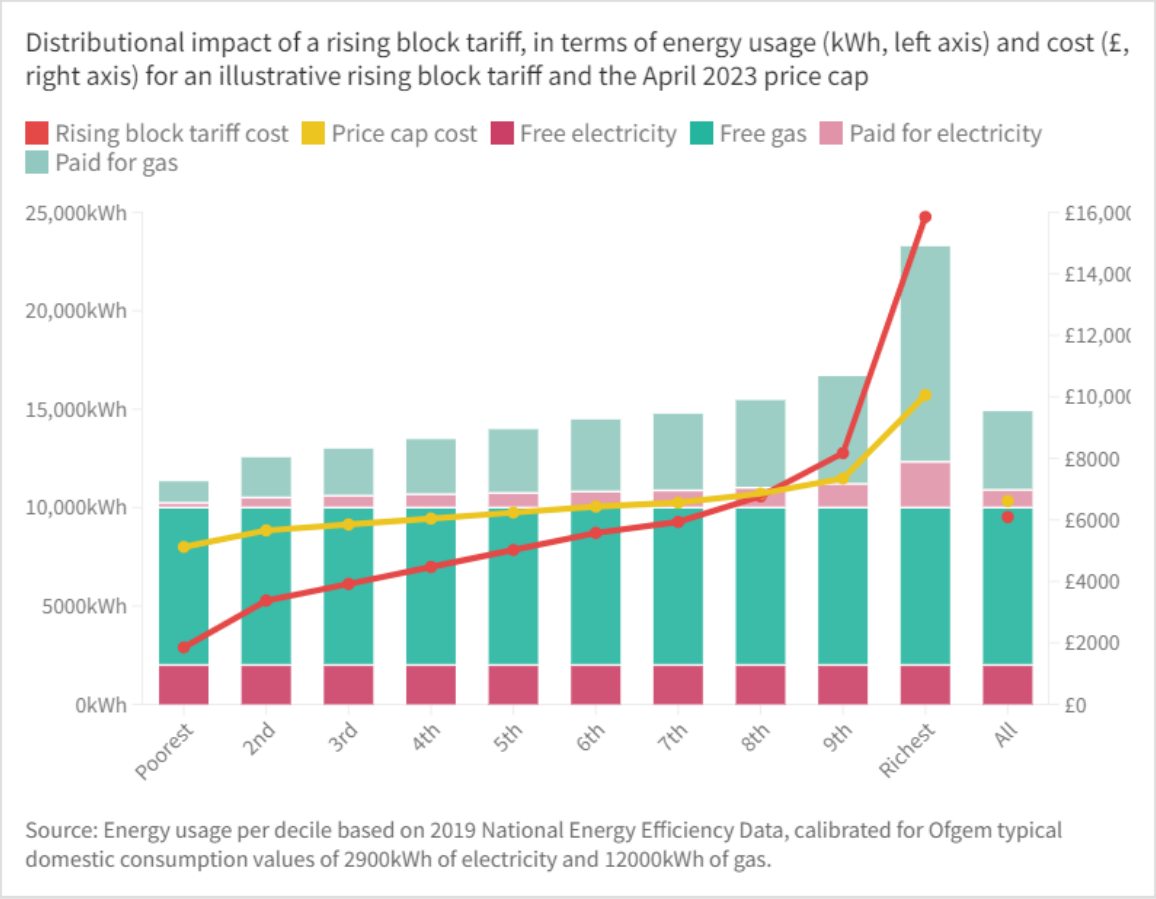
As Figure 3 below shows, the 'free basic energy' proposal would see all households outside the top 10% of incomes receive more than half of their energy free of charge on average. Most families would also see their cost of energy fall well below that implied by the April 2023 price cap, with the largest average benefit for families in the lowest income deciles.

Under our illustrative system of free basic energy, most households, but especially the richest 20% on average, could make significant savings from reduced energy consumption. The premium on the paid-for share of energy use means the potential savings are far higher than under any current or forecast energy price cap system. Combining strong incentives to reduce marginal energy use while also lowering average bills for the vast majority of households is the ideal shape of response for addressing a cost of living and energy security crisis, in the context of a wider environmental crisis.

This should be accompanied by an emergency, government-backed mass-insulation programme to deliver basic measures such as loft or cavity wall insulation, draught proofing and thermostatic radiator valves for millions of homes that need it.[17] These measures will typically cost under £1000 per home and can be undertaken within a day and without needing a significant intervention on upskilling the workforce. Additional government grants and loans would be made available upfront to finance the work, but

at current energy prices these interventions would also pay for themselves within one to two years.

Figure 3: Free basic energy could save the poorest households thousands come April 2023



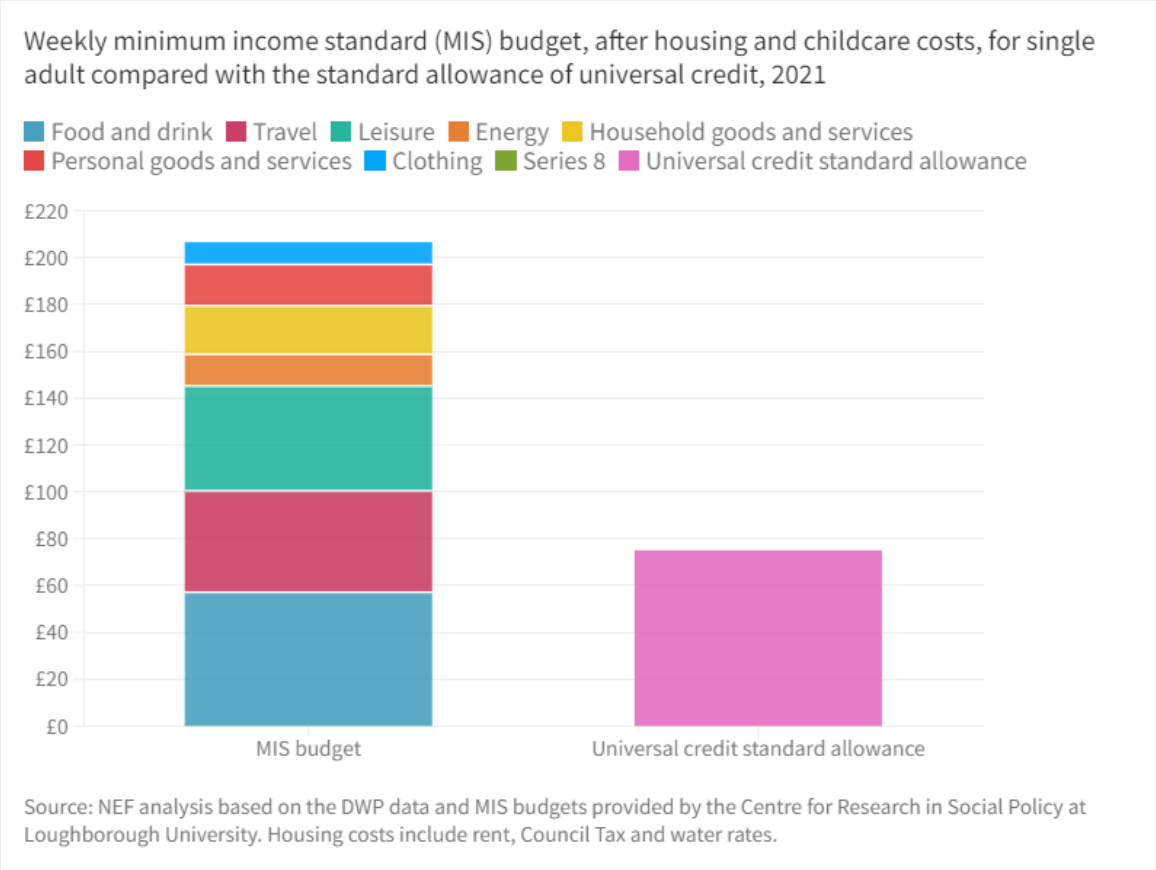
Further research is needed to understand the varying behavioural effects under a system of free basic energy, but if households did choose to reduce their energy consumption the government would need to contribute more to meet the cost of free energy in the sytem. They could do this either by increasing the premium on paid-for energy, increasing the subsidy to energy providers or varying or lowering the free energy entitlement for households.

3.2 A NEW 'ENERGY ELEMENT' FOR MEANS-TESTED BENEFITS

We propose a new payment in universal credit, and an equivalent top-up to legacy benefits, to help the poorest households cover the remaining cost of energy. Universal credit fails to pay enough to meet the cost of living. Even before the recent price rises, energy bills were a significant portion of essential family expenditure, and yet the standard allowance of universal credit does not provide enough to cover these costs after other vital expenditure such as food, travel and personal goods and services such as

going to the dentist (see Figure 4 below). This situation will be made much worse over the coming years with the elevated costs of energy.

Figure 4: The standard allowance of universal credit falls far short of the essential basket of goods, even before the recent rise in the cost of living



We propose that support for energy costs is taken outside of the standard allowance of universal credit, and is met by a new separate payment in the same way as housing, children and disability. We propose that the value of the new payment starts at £1,000 for a single adult household, and £1,650 for a couple. Our modelling shows that on average this would be enough to cover the average cost of energy for the 10% lowest income households under our 'free basic energy' proposal (see above), but this payment may need to be higher depending on the price and system for energy distribution. While universal credit computer systems are updated to accommodate this change, and while families on legacy benefits are still migrating onto universal credit, we propose that the new payment is made as an equivalent top-up to all working-age means-tested benefits.

The cost of this new payment would be £10.6bn a year from April 2023. We propose it is paid for on a permanent basis by equalising the rate of tax on capital gains with income tax by removing additional allowances and increasing the headline rate, which has previously been estimated to bring in around £12bn a year.[18]

3.3 A NEW 'COST OF LIVING ALLOWANCE'

We propose the introduction of a new £750 'cost of living allowance' to every family in the country, paid for out of a higher windfall tax on oil and gas profits. This payment would be intended as broad-based support to help families meet rising prices beyond energy, for as long as prices remain elevated. For those families already receiving a household level benefit such as universal credit, working tax credits or pension credit, the new payment could be added to existing payments automatically. For all other families, a simple opt-in service would be created, with option to complete online, via post or at a local authority office. Each household would need to share proof of address and identification, national insurance numbers–and bank account numbers. Households could then choose to have the payment paid into a lead bank account, split equally between adults, or made out as cheques if required.

The new system would establish the first means for the government to pay cash support to all households in the country, which could be used as a powerful means of welfare support in future. National insurance numbers would also allow the government to link households with their HMRC data, giving the option to target future payments by household income if needed (outside of means-tested benefits, the government can currently only target support by individual income, which could lead to over-supporting or under-supporting at the household level).

The new payment could also be used to ensure fewer people miss out on other payments they are already entitled to. Underclaiming of means-tested benefits is a significant issue in the UK. In universal credit alone, nearly 400,000 families miss out on more than £7,000 on average annually.[19] At the point of submitting the required personal information to claim the 'cost of living allowance', the new system could provide a quick assessment of whether a household might be entitled to further financial support, and invite them to submit further information to complete a claim for either universal credit or pension credit as appropriate.

The £750 payment would cost £21bn per year and would be fully funded from the additional revenue generated by the government's energy profits levy, following two reforms previously recommended by NEF[20]:

- Increase the headline rate of tax on oil and gas profits from 65% to 85%, the rate required to return the sector's post-tax profits to their pre-pandemic norm.
- Abolish the 91% tax relief on oil and gas extraction.

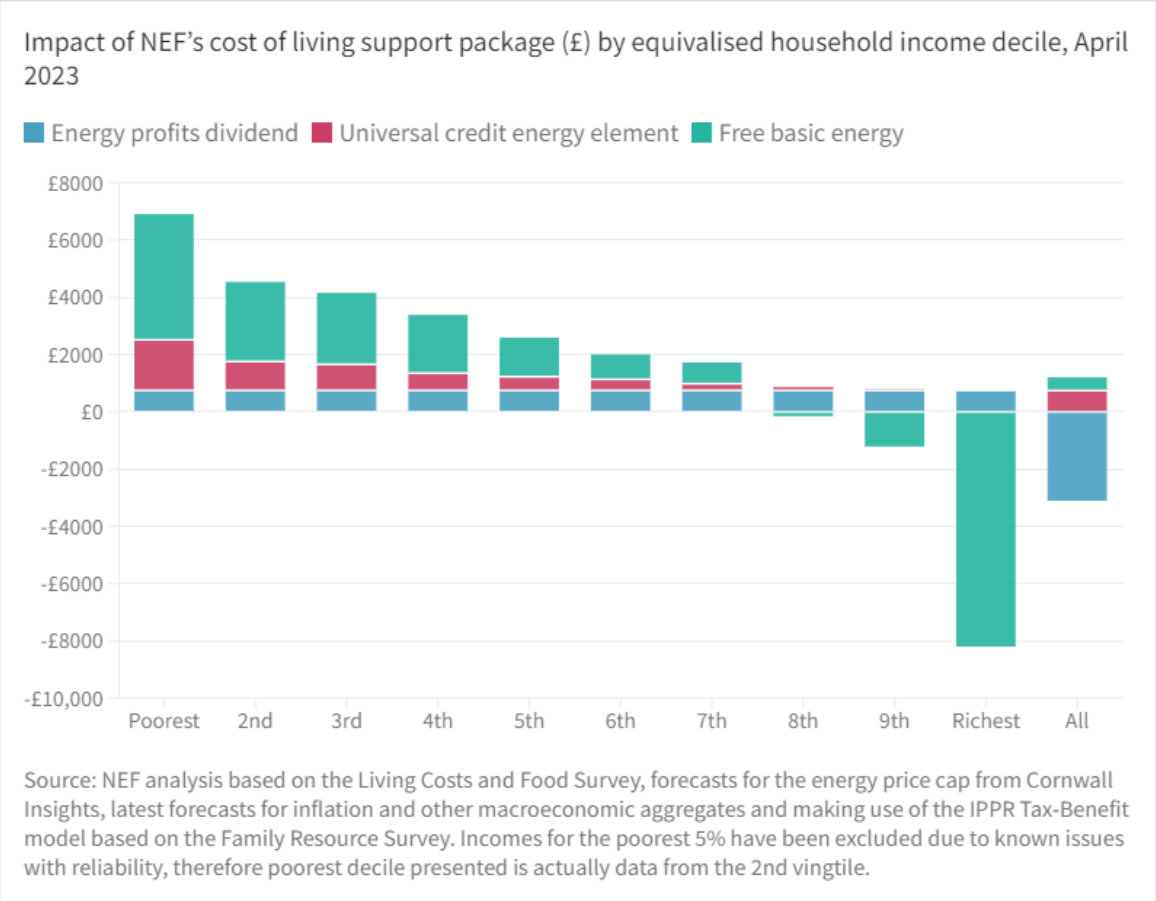
While oil prices are proving more stable, future gas prices are notoriously difficult to forecast in the present climate. But based on the current spot price for gas, we estimate our reforms would generate around £22.6bn in revenue over 12 months, up from the £5bn initially forecast by the Treasury in May (due to a combination of a higher headline

rate of tax, abolished tax relief and higher gas profits). This current spot price could go down as well as up, but forecasts currently have it going on an upward trajectory into next year.

3.4 IMPACT OF NEF'S POLICY PROPOSALS

The combined effect of our package has a number of significant advantages. Support is broad-based but also well targeted for the lowest income families. On average, every family outside of the highest income 20% of households will receive significant net support from the government, worth well over £1,000 on average and, in the case of the lowest income families, worth up to just over £6,000 a year on average (Figure 5).

Figure 5: NEF's national energy support package would boost incomes for 80% of families



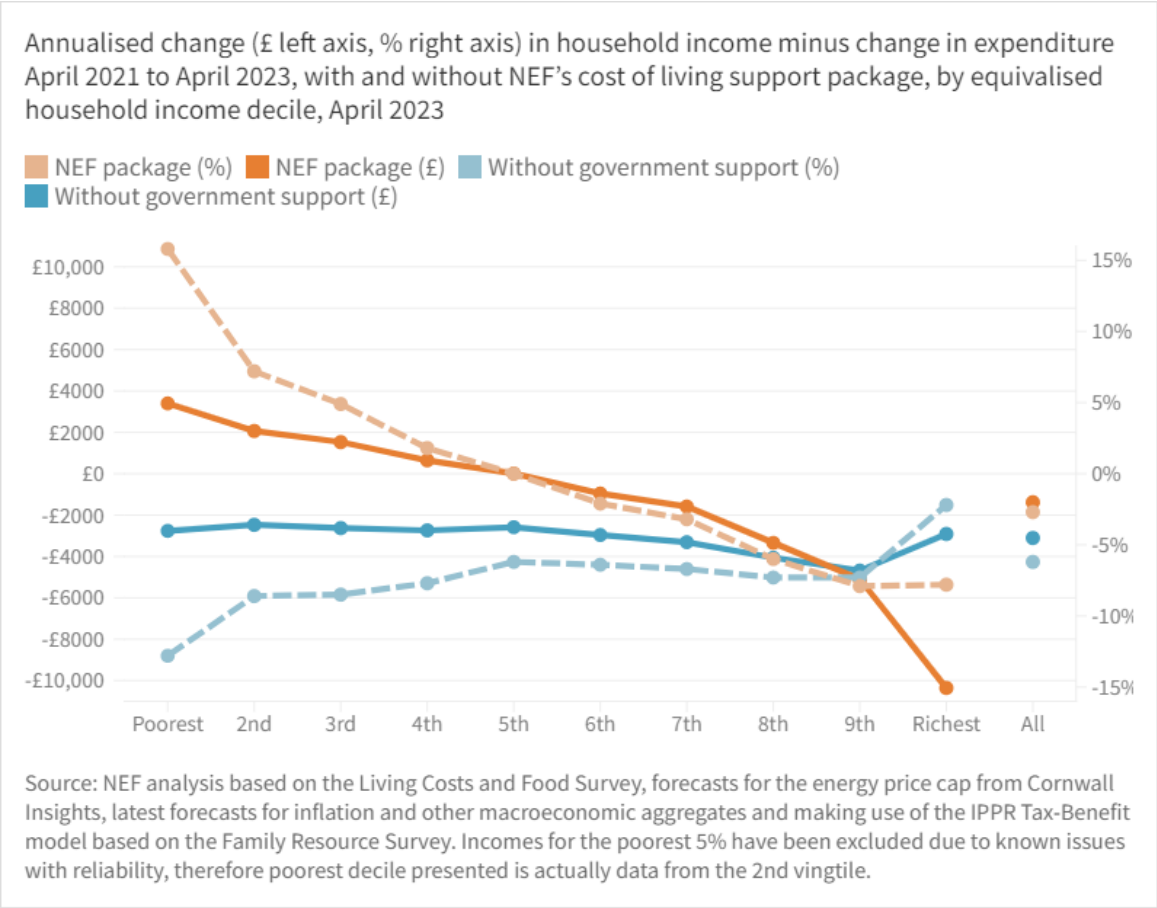
The very highest income families would receive support through the new 'cost of living allowance' but overall they will be asked to make a contribution towards supporting the cost of living for others, primarily through higher energy prices on consumption above their free entitlement. This will also provide a powerful incentive for the very highest energy consuming households to improve energy efficiency or reduce their

consumption, supporting the drive towards increased energy security and net zero carbon emissions.

We forecast average household incomes before tax in the 9th and 10th deciles at £88,000 and £212,000 (respectively) in April 2023, and these groups also have far more significant savings than the rest of the population on average. The net contribution being asked of these groups sits at just over 1% and less than 4% of income respectively.

The support in the NEF package will see the squeeze on living standards for the poorest 50% of families between April 2021 and April 2023 fully reversed, with the lowest income families significantly better-off on average than they were two years ago (see Figure 6). This level and shape of average support would help even those low-income families with especially high energy usage, for example due to a disability, get the support they need to maintain living standards in real terms.

Figure 6: NEF's national energy support package would reverse the squeeze in the cost of living for 50% of families on average

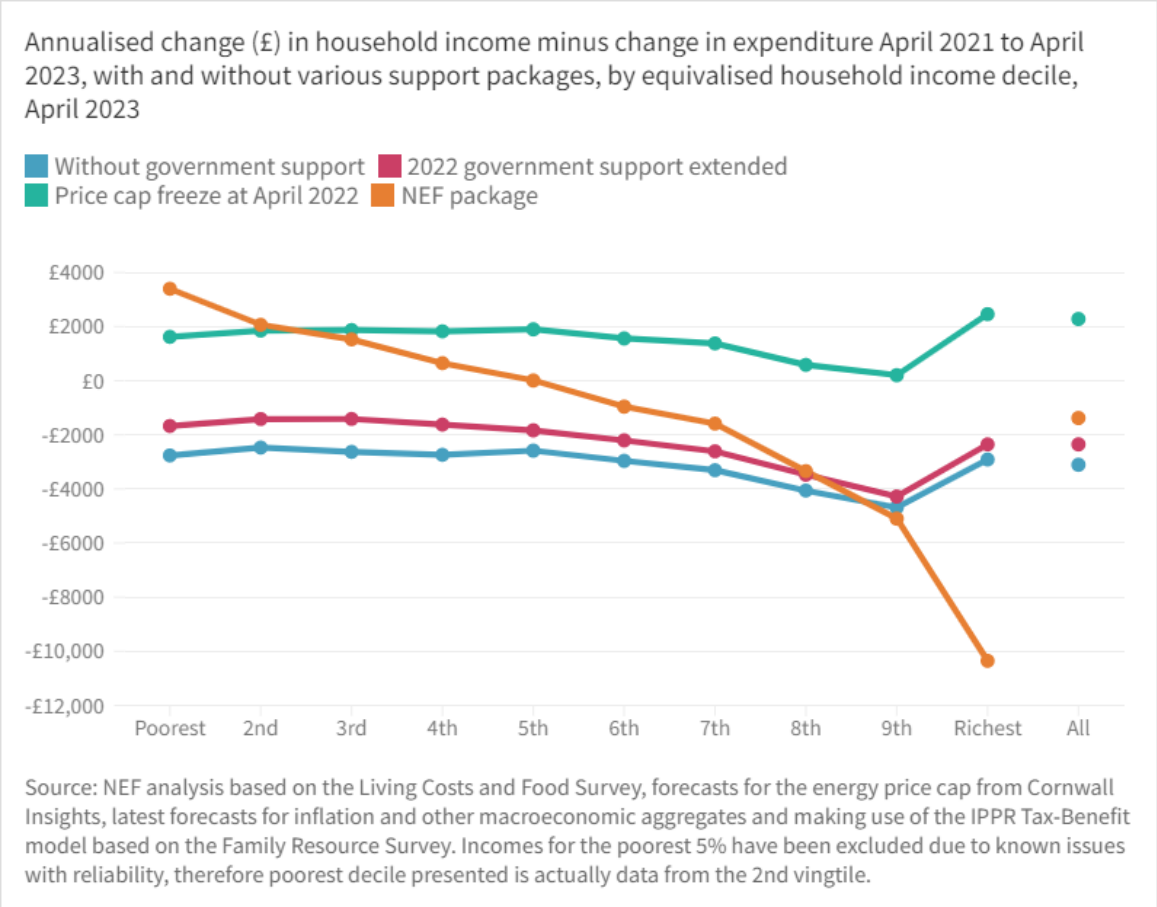


Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. Incomes for the poorest 5% have been excluded due to known issues with reliability, therefore poorest decile presented is actually data from the 2nd vingtile.

For almost all families, the NEF package is significantly more generous than an extension of the government's current support would be, and also significantly cheaper and better targeted than extending a freeze in the price cap beyond the next six months. It also retains, and even strengthens, the incentive for families and the government to reduce energy consumption and increase renewable energy generation. Our package

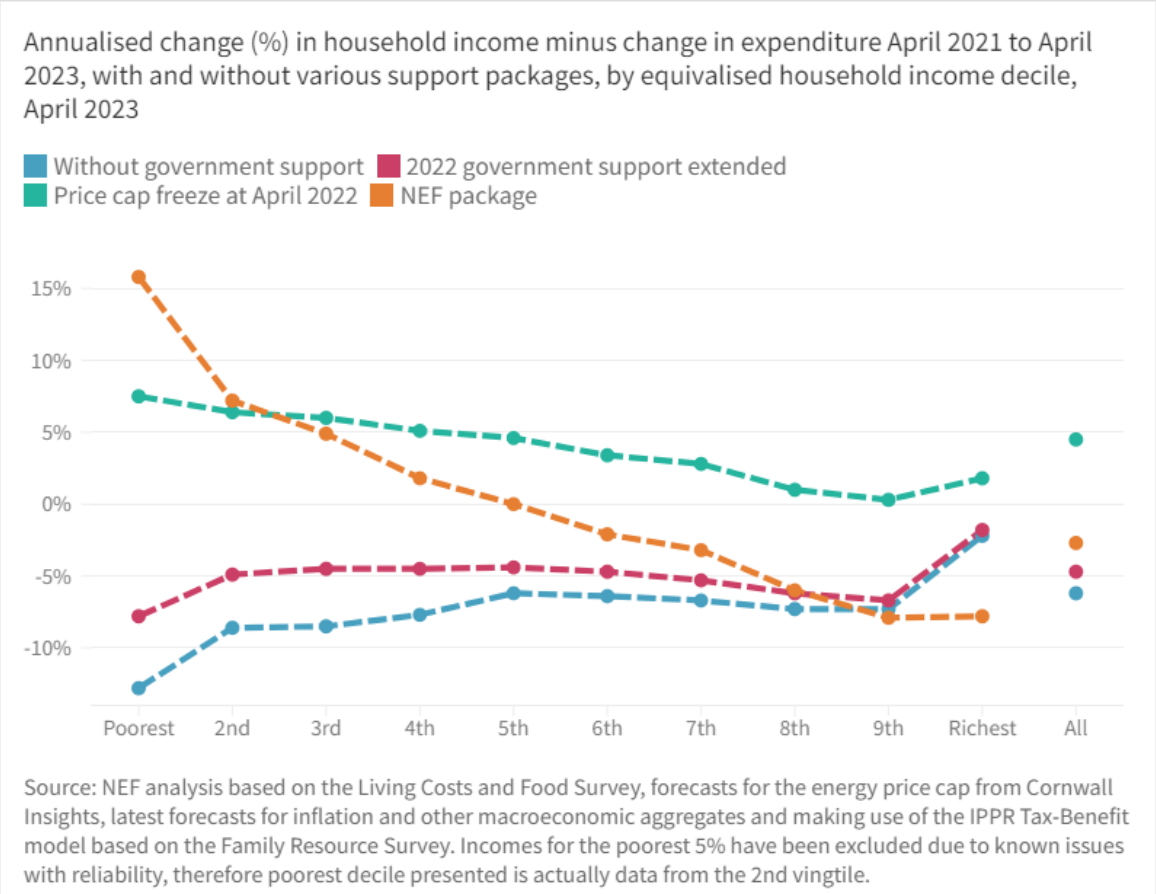
comes to a total cost of £46.2bn over 12 months from April 2023, compared to a cost of £20.6bn to extend the government's current support and £116.6bn for freezing the price cap at April 2021 levels (Table 1 below).

Figure 7: NEF's national energy support package would be more effective than an extension of existing government support, and more progressive and cost-effective than an extended freeze in the price cap (£)



Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. Incomes for the poorest 5% have been excluded due to known issues with reliability, therefore poorest decile presented is actually data from the 2nd vingtile.

Figure 8: NEF's national energy support package would be more effective than an extension of existing government support, and more progressive and cost-effective than an extended freeze in the price cap (%)



Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. Incomes for the poorest 5% have been excluded due to known issues with reliability, therefore poorest decile presented is actually data from the 2nd vingtile.

Table 1: NEF's national energy support package would cost less than half as much as a 12-month freeze in the price cap

Annualised fiscal impact of various support packages, from April 2023

	Cost (£bn)	NEF revenue proposals (£bn)
Extend existing government support	20.6	-
Price cap frozen at April 2022 levels	116.6	-
NEF package	46.2	-
Of which		
Free basic energy	*14.6*	*14.6 (additional borrowing)*
New energy element in UC	*10.6*	*12.0 (equalising capital gains with income tax)*
Cost of living allowance	*21.0*	*22.6 (oil and gas windfall tax)*

Source: NEF analysis based on the Living Costs and Food Survey, forecasts for the energy price cap from Cornwall Insights, latest forecasts for inflation and other macroeconomic aggregates and making use of the IPPR Tax-Benefit model based on the Family Resource Survey. The cost of freezing the energy price cap at April 2022 levels beyond April 2023 is based on the average price cap forecast by Cornwall Insights for Q2-Q4 2023.[21] Revenue estimates for a higher windfall tax follow the same method set out previously by NEF, but updated for increase oil and gas price.[22] Revenue estimates for capital gains tax based on IPPR calculations.[23]

4. CONCLUSION

In the end, there is only one viable answer to the UK's exposure to rising and volatile fossil fuel prices: a national mission to improve energy efficiency and clean energy generation. Alongside bringing new renewable energy generation on online as fast as possible, this must now include a Great Homes Upgrade as proposed by NEF last year starting with an emergency government-backed home insulation programme.[1]

But it is not enough to prepare only for the crises we can already see. Most economic shocks, from pandemics to financial contagion, are not forecastable. That is why it is also essential that the UK has a social security system fit for the challenges of the 21st century – both known and unknown. We can do this by responding to the current crisis in a way that builds towards NEF's proposals for a new Living Income.[2] As Mike Mansfield, a US senate majority leader for 16 years during the height of the cold war, once said "the crisis you have to worry about most is the one you don't see coming".

[1] For further information on NEF's campaign for a Great Homes Upgrade, see https://greathomesupgrade.org/
[2] For further information on NEF's campaign for a Living income, see https://livingincome.org.uk/

ENDNOTES

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