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Y Gweinidog Cyfiawnder Cymdeithasol
Minister for Social Justice

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Llywodraeth Cymru
Welsh Government

Rt Hon Kwasi Kwarteng MP
Secretary of State
Business, Energy & Industrial Strategy
1 Victoria Street
London
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Kwasi.kwarteng@beis.gov.uk

11 January 2022

Dear Kwasi,

We are writing to express the Welsh Government's deep concern about the increase in domestic energy prices and the impact this is having on households in Wales. We are particularly concerned about lower income households at risk of, or already living in, fuel poverty prior to the increase that came into effect in October.

It is reasonable to expect the 145,000 households estimated to be at risk of fuel poverty in 2018 are now in fuel poverty. This means almost a third of households in Wales are likely to be struggling to meet the cost of their domestic energy needs, making real the decision "to heat or to eat" for far too many households this winter. Further increases in domestic energy prices in 2022 will serve only to exacerbate an already desperate situation. We expect the revised estimates of fuel poverty in Wales to be available for consideration in April, which will no doubt confirm our expectations.

The turbulence experienced in the global wholesale energy markets this past six months has exposed weaknesses in the current UK energy market, exposing both households and wider energy markets to financial pressure. The call for evidence you announced on 15 December, to inform a review of the Energy Retail Market Strategy is therefore welcomed.

Your desire to understand how the retail market can help achieve the best outcomes for consumers, no matter how they engage, is important, as is the energy sector's contribution to achieving our shared net zero ambitions. Of particular importance is how the retail market and the energy price cap should evolve to enable a lowest-cost, flexible and resilient energy system that continues to protect consumers.

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Rydym yn croesawu derbyn gohebiaeth yn Gymraeg. Byddwn yn ateb gohebiaeth a dderbynnir yn Gymraeg yn Gymraeg ac ni fydd gohebu yn Gymraeg yn arwain at oedi.

We welcome receiving correspondence in Welsh. Any correspondence received in Welsh will be answered in Welsh and corresponding in Welsh will not lead to a delay in responding.

The Welsh Government has long held the view that environmental and social policy costs imposed on household energy bills should be met by general taxation. The social policy costs, are in our view, a regressive and unfair tax, imposed on households who are least able to pay. Removing these costs, which account for 15% of energy bills on average, would provide some immediate respite for hard pressed households. We trust once the call for evidence has closed on 16 January, swift action will be taken to better support households in 2022.

As part of your review, serious consideration should be given to the introduction of a differentiated domestic energy tariff cap or social energy tariff targeted to better support lower income households. A lower cap set to safeguard lower income households against unaffordable price increases will ensure the most vulnerable in our society can maintain a satisfactory heating regime. Households better placed to meet these additional costs will continue to be protected by a cap set at a higher rate, thus protecting energy suppliers from the risks and costs associated with bad debt.

In the short term, action is needed to support lower income households. The announcement of the £500m Household Support Fund in October, whilst welcome, fell short of the support needed now by householders. By utilising the £25m in consequential funding, and a further £26.7m from our reserves, the Welsh Government is providing lower income and vulnerable households with immediate help with living costs. We are offering Welsh households on Universal Credit, and other working-age benefits, a £100 one-off payment this winter to help with fuel bills.

The Welsh Government is also providing additional support for low income householders who are reliant on heating oil and liquid gas through our Discretionary Assistance Fund. Despite our best efforts, these emergency measures from the Welsh Government will not fully compensate households who are losing more than £1,000 a year, following the UK Government's decisions to reduce Universal Credit and Working Tax Credit uplift payments.

Further increases in domestic energy bills expected in April will not be sustainable. In our view, additional measures are needed to support households now and in the future. The timing and scale of the increase to the Warm Home Discount payment to eligible households from £140 to £150 from next year, whilst welcome, should be reconsidered. We believe the UK Government should offer immediate support to struggling households this year by awarding a further rebate to beneficiaries of this year's Warm Home Discount, with additional funding being made available to support households who had not claimed the benefit this year. The proposed increase of £150 payable through the scheme in future years should also be increased to better reflect the increased costs being experienced by lower income households.

Energy suppliers are currently able to write off certain levels of household energy debt. You should give consideration to an expansion of debt write off, introducing a matched funding element to the scheme, the costs to be met by Government. Not only will this reduce energy debt more quickly, but will better support energy suppliers to manage the risk and costs associated with the management of household energy debt.

2022 promises to be a hard and challenging year for many families, who will struggle to maintain warm and healthy homes. The Welsh Government is doing what we can to reduce the impact of and support those living in poverty. Despite the steps we have taken, the support we are able to offer households in Wales to safeguard them against the cost of living crisis can in no way replace the lost income households will experience in 2022.

The increase in the Local Housing Allowance (LHA) rates to the 30th percentile for Housing Benefit and Universal Credit recipients living in the Private Rented Sector was a welcome response to the Covid-19 crisis. The LHA rates, however, were frozen in 2021 and the announcement that the rates will not be increased until at least the beginning of the 2023 financial year, with no guarantee of an uplift then, is a disappointment. Consequently, the LHA rates in payment up until the 31 March 2023 will be reflective of the rental market for the period October 2018 – September 2019.

This is against a backdrop of one of Britain's largest on-line property companies reporting that rents in the Private Rented Sector outside of London are rising at their fastest rate for 13 years. Inevitably this will create an affordability and accessibility crisis for tenants in the private rented sector. An additional pressure on the cost of living crisis we are currently experiencing, for tenants in the least thermally efficient housing in the UK.

We urge the UK Government to provide additional support, through schemes such as the Warm Home Discount and other winter fuel payments this winter to lessen the burden on hard pressed families.

This correspondence is being copied to the Secretary of State for Wales.



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