Research briefing:

Estimating the impact of the April 2022 energy price cap rise on older households in England

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Introduction

The Office of Gas and Electricity Markets (Ofgem) is responsible for the energy price cap, which sets the maximum amount that energy companies can charge per kWh of electricity and gas, to households on standard variable tariffs in Britain. The aim of the cap is to help protect households from paying high prices because they remain with the same energy provider, by ensuring energy companies are able to pass on reasonable costs to customers, but not charge them more than a fair price to make excessive profits.

Ofgem announced on 3rd February 2022 that the energy price cap would rise by 54% from 1st April 2022. This decision was justified on the basis of increases in the global wholesale gas prices over the last six months. Together with the removal of cheaper fixed energy tariffs, and numerous energy suppliers in the UK going burst, the Ofgem announcement will impact the finances of many households.

This paper presents the impact of the Ofgem announcement to increase the energy price cap by 54% from 1st April 2022 and the mitigation measures announced by government on 3rd February 2022. It shows how older households in England, defined as households with at least one person aged 60 or over, will be impacted by this energy price cap increase and how the impact will be felt more by lower income older households. It also presents the methodology behind the analysis.

This paper covers the impact of the rise in the energy price cap on energy spend as a proportion of after-tax income; the impact on the proportion of older households experiencing fuel stress; and a discussion of these impacts. The appendix describes the calculations for the analysis presented in this paper.

Impact on older households in England – energy costs as a proportion of after-tax income

Older households in England currently spend an average of 6% of their after-tax household income on energy and this will rise towards 9% from 1st April 2022[1]. The rise in the energy price cap will have the greatest impact on the lowest income older households.

Older households in the lowest income decile currently spend an average of 12% of their after-tax household income on energy costs. This will rise towards 18% from 1st April 2022 – meaning that these household will be spending on average almost one-fifth of their after-tax income on energy costs. The government announced a £150 council tax rebate to reduce the impact of rises in energy prices[2]. Assuming all households receive this rebate or its equivalent[3], subtracting £150 from the April 2022 energy bill means spending on energy costs of the lowest income older households rising towards 17% of their after-tax income. Older households in the second income decile will see their proportion of after-tax income spent on energy costs rising towards an average of 11% (from 8%), reaching the threshold at which we define households to be in fuel stress[4]. This is presented in Figure 1.

In October 2022, we expect to see a further rise in the energy price cap, which could be a magnitude of 20%[5]. This could see older households in the lowest income decile experiencing a rise in the proportion of their after-tax income spent on energy from an average of 12% today and 18% in April 2022 towards 22% from October 2022. This would mean almost doubling the proportion of their after-tax income having to be spent on energy in the space of a year.

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[1] The figures in this paper assume all older households experience an increase in the price of domestic fuel resulting from the rise in the energy price cap. This will not be the experience of all households - as discussed in the appendix, page 10 - and that is why we use the phrase 'will rise towards' to reflect that the impact will not be fully realised overnight

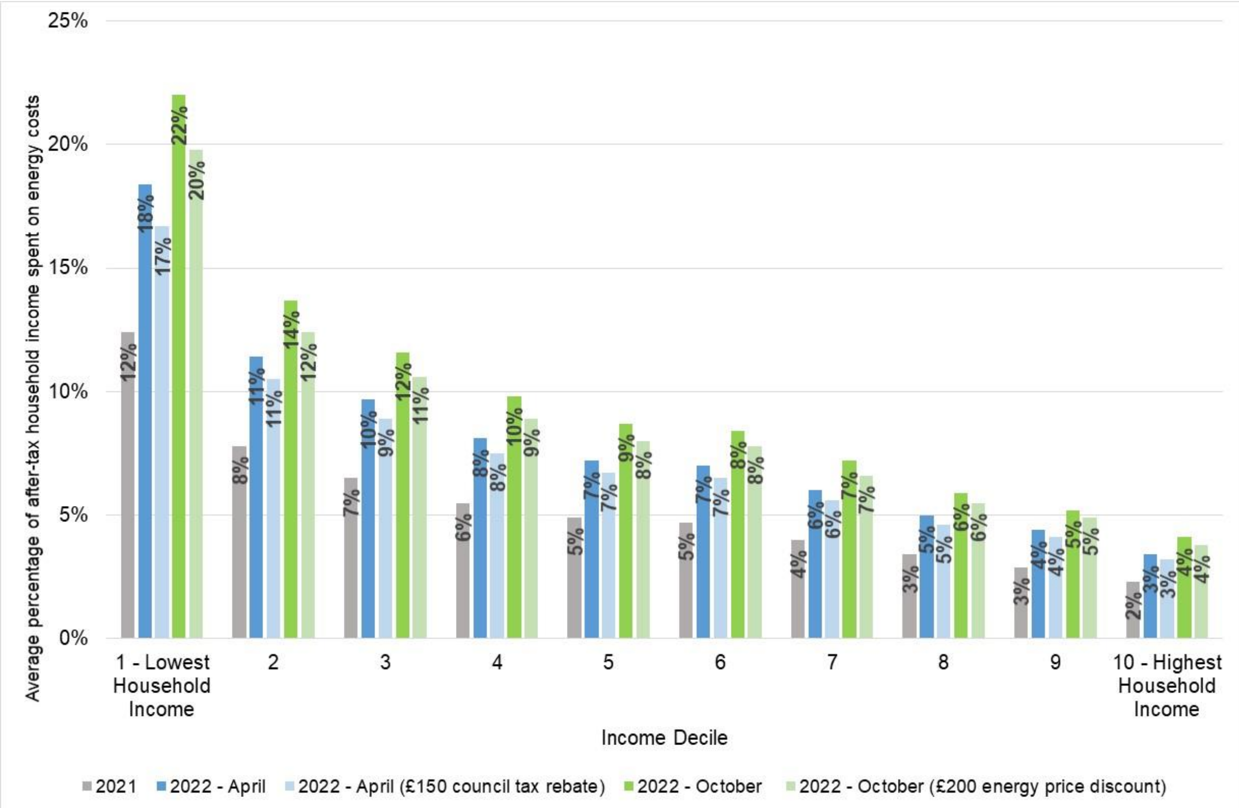
[2] Households whose property is in Council Tax bands A to D will be receive £150 off their Council Tax Bill.

[3] In addition to the council tax rebate, the Government announced a discretionary funding to support vulnerable people and individuals on low incomes that do not pay Council Tax, or that pay Council Tax for properties in Bands E-H

[4] We define households experiencing fuel stress are defined as households spending more than 10% of their after-tax income on energy costs, so as to maintain an adequate standard of warmth

[5] The source of this 20% assumption is presented in Table 1 in the Appendix

Figure 1: Average proportion of household income spent on domestic fuel by older households in England by income decile[6]



Source: Author's analysis of Fuel Poverty Database; BEIS; ONS; OBR

As part of its measures to reduce the impact of rises in energy prices, the Government announced that all households would receive £200 off their energy bills in October 2022[7], to be paid back over the subsequent five years in equal instalments of £40 per year. Subtracting £200 from the October 2022 energy bill means that the poorest older households could be spending on average 20% of their after-tax income on energy costs from October 2022.

Older households in the second income decile could see the proportion of their after-tax income spent on energy costs rising towards 14% on average (12% factoring in the £200 energy bill discount) from October 2022. Older households in the third income could see the proportion of their after-tax income spent on energy costs rising towards an average of 12% (from around 7% today) and thus reaching the threshold at which we define households to be in fuel stress.

[6] The average in this figure represents the mean. The median figures are almost identical to the mean figures as represented in this figure, and therefore the narrative does not differ whether using the mean or median.

[7] In October 2022, households will either have their electricity bill reduced by £200 or be given a bill credit. Households on prepay will receive this amount through their smart meter or be given a voucher or a cheque.

Impact on older households in England – experiencing fuel stress

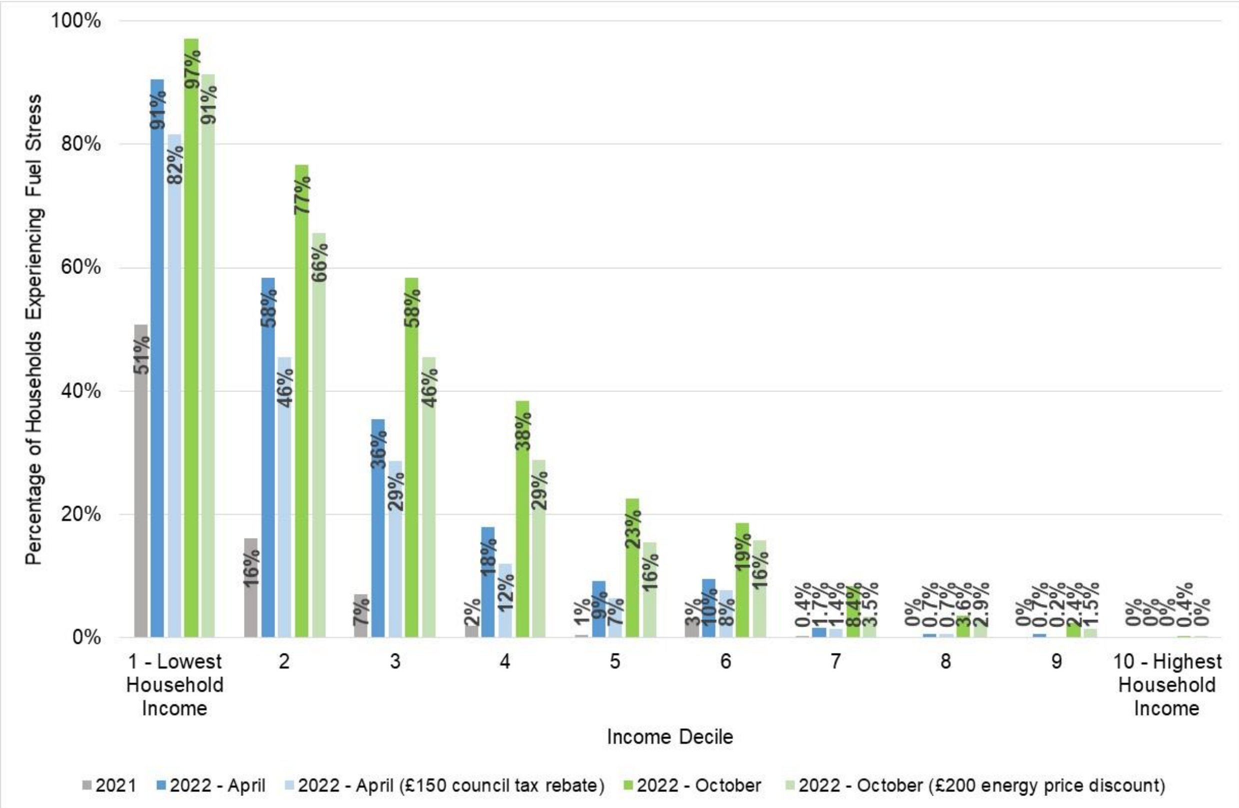
Today 12% of older households in England are experiencing fuel stress and this will rise towards around 29% from 1st April 2022 and could rise further to 42% from October 2022. We define households experiencing fuel stress as households spending more than 10% of their after-tax income on energy costs, so as to maintain an adequate standard of warmth. Figure 2 presents these by income decile and shows how the impact will be felt most by lower income older households.

Half (51%) of older households in the lowest income decile in England are currently experiencing fuel stress. This will rise towards around 91% from 1st April 2022 (82% factoring in the £150 council tax rebate) and could rise further towards around 97% from October 2022 (91% factoring in the £200 discount).

For older households in England in the second income decile, the 1st April 2022 increase in the energy price cap will result towards 58% of these households experiencing fuel stress (46% factoring in the £150 council tax rebate) from around 16% today. From October 2022 the proportion of older households in England in the second income decile experiencing fuel stress could rise towards around 77% (66% factoring in the £200 energy bill discount).

For older households in England in the third income decile, the 1st April 2022 increase in the energy price cap will lead towards 36% of these households experiencing fuel stress (29% factoring in the £150 council tax rebate) from around 7% today. From October 2022 the proportion of older households in England in the third income decile experiencing fuel stress could rise towards 58% (46% factoring in the £200 energy bill discount).

Figure 2: Proportion of older households in England experiencing fuel stress by income decile

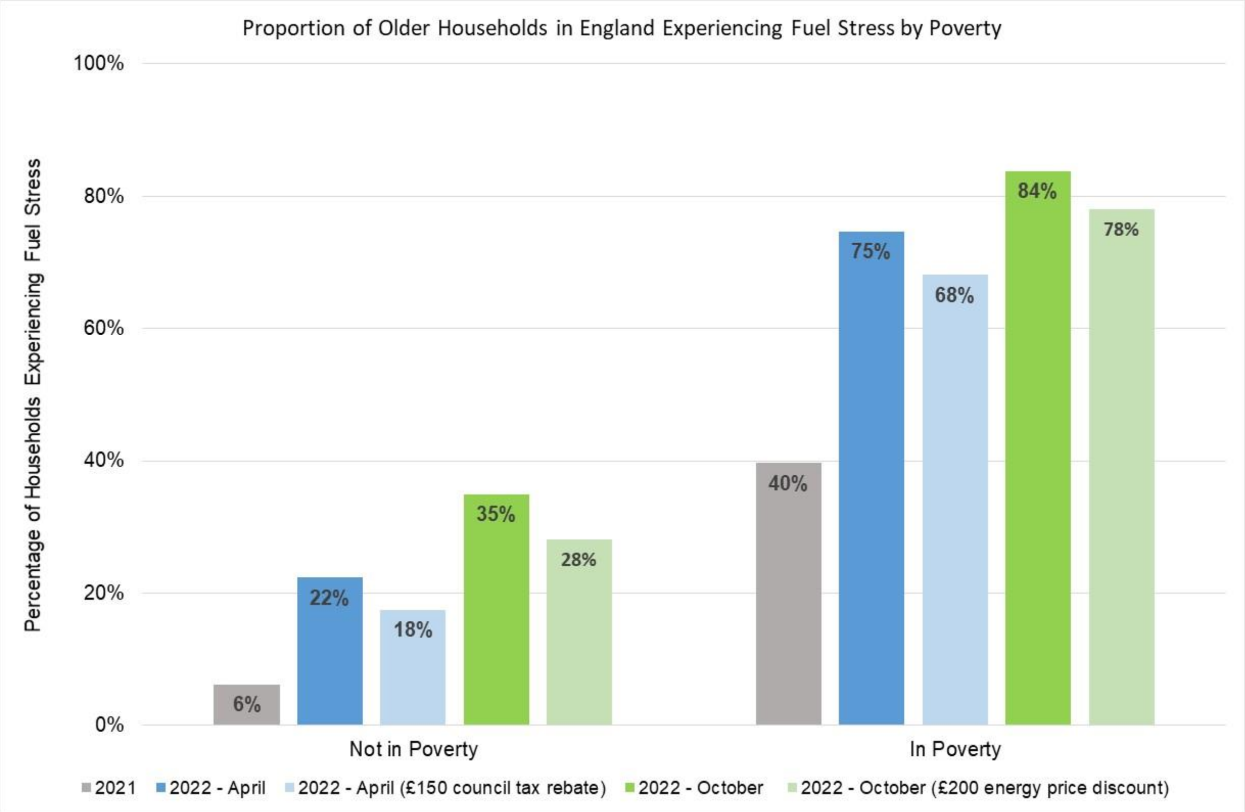


Source: Author's analysis of Fuel Poverty Database; BEIS; ONS; OBR

The impact of the energy price rises can also be seen in older households in England who are in income deciles 4 to 6 – the middle of the after-tax income distribution. Today almost none of these older households experience fuel stress; a proportion that will rise towards 18% from 1st April 2022 for older households in income decile 4, and towards 9% and 10% respectively for older households in income deciles 5 and 6. From October 2022 these figures could rise further towards around 38% for older households in income decile 4, and towards 23% and 19% respectively for older households in income deciles 5 and 6. The impact of the mitigation measures are shown in figure 2.

The impact of the energy price rise will be greatest on those older households with the lowest income, and therefore the poorest older households will struggle the most. Today 40% of older households living in poverty[8] in England are currently experiencing fuel stress. This will rise towards around 75% from 1st April 2022 (68% factoring in the £150 council tax rebate) and could rise further towards around 84% from October 2022 (78% factoring in the £200 discount). This would mean an almost doubling of the proportion of older households in poverty that experience fuel stress in the space of a year.

Figure 3: Proportion of older households in England experiencing fuel stress by poverty



Source: Author's analysis of Fuel Poverty Database; BEIS; ONS; OBR

The impact of the energy price rises can also be see in older households in England who are not living in poverty. Today 6% of these older households experience fuel stress; a proportion that will more than triple towards 22% from 1st April 2022, and could rise further to 35% from October 2022. The impact of the mitigation measures are shown in figure 3.

[8] We define older households to be living in poverty if their after-tax household income (after housing costs) is below 60% of the median after-tax income (after housing costs)

Discussion

The increase in the energy price cap from 1st April 2022, and the projected increase from October 2022, will make life difficult for poorer older households. The proportion of older households living in poverty which are experiencing fuel stress will almost double, from around 40% today to 75% from April 2022 and possibly 84% from October 2022. Among those living in poverty, it will be those older households with the lowest income that will struggle most.

The proportion of after-tax income spent on energy costs by the lowest-income tenth of older households will increase from around 12% towards 18% (April 2022) and could rise further to 22% (October 2022), and almost all of these households will experience fuel stress – a measure that was previously the definition of households being in fuel poverty[9].

The impact will also be felt by other low income older households, with towards three-in-five and one-in-three older households from the second and third income deciles respectively, experiencing fuel stress from April 2022; and possibly rising towards around three-in-four and three-in-five respectively from October 2022. Older households in the middle of the after-tax income distribution will also be impacted, with towards two-in-five (from the fourth income decile), towards one-in-four (from the fifth income decile) and one-in-five (from the sixth income deciles) possibly experiencing fuel stress from October 2022.

In response to the increase in the energy price cap from April 2022 the Government announced measures to mitigate some of the impact. However, with these being a one-off payment and a loan to be paid back over five years, they will provide little cushioning in comparison to the size of the impact of the rise in the energy cap.

With inflation expected to remain relatively high during the course of 2022[10], the increases in the energy price cap and the limited government support will mean poorer older households will struggle and likely need to consider cutting back on other spending – including essentials if they are to keep warm through colder periods.

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[9] The 10% definition of fuel poverty was used to calculate the fuel poverty statistics in England from 2001 to 2011.

[10] The Bank of England Monetary Policy Report (February 2022) forecasts the annual rate of inflation in 2022 to be 5.75%, with a peak of 7.25% in April 2022.

Appendix – Methodology

This appendix presents the assumptions, calculations and datasets used to estimate the impact on older households of the rise in the energy price cap in April 2022, the projected rise in October 2022, and the mitigation measures. For the purposes of this analysis, older households are defined as households where the oldest person is aged 60 or over.

The starting point for the analysis was the Fuel Poverty Database 2018. This database is derived from the 2018 English Housing Survey, which is a national survey, designed to build a picture of people's housing circumstances and the condition of the housing stock in England. The fieldwork was carried out between April 2017 and March 2019, with April 2018 the midpoint and this the reference date for the database. At the time of the analysis, the Fuel Poverty 2018 database was the latest available version[11].

We took information on energy spend and full household income (after-tax) for the year 2018 from the Fuel Poverty 2018 database. The next step was to project these energy spend and full household income figures into future years for each of the sampled households. Table 1 below shows the assumptions made in the annual change in energy prices since 2018, and Table 2 shows the assumptions made in the annual change in household income since 2018. These assume energy consumption and tax paid as a proportion of income per household in subsequent years is the same as in 2018.

[11] At the time of writing the UK Data Service had received the English Housing Survey: Fuel Poverty 2019 database and expected to be able to release it by the end of February 2022.

Table 1: Assumptions for change in the price of domestic energy since 2018

Year	% Change	Source
2018-2019	+ 4.5%	Quarterly Energy Prices, UK, Quarter 4 (October-December) 2019 Publication Date: 26/03/2020 Link to publication
2019-2020	+ 3.3%	Quarterly Energy Prices, UK, Quarter 4 (October-December) 2020 Publication Date: 25/03/2021 Link to publication
2020-2021	+ 6.0%	Quarterly Energy Prices UK July to September and estimates for 2021 Publication Date: 23/12/2021 Link to publication
2021-2022 (April)	+ 54%	Ofgem Announcement – rise in energy price cap from 1st April 2022 Announcement Date: 03/02/2022 Link to Announcement
2021-2022 (October)	+ 20%	Money Saving Expert Publication date: 08/02/2022 Link to publication

Table 2: Assumptions for change in household income since 2018

Year	% Change	Source
2019	+ 2.5%	ONS, Regional Gross Disposable Households Income, UK: 1997 to 2019 Publication Date: 14/10/2021 Link to publication
2020	+ 0.3%	Table 2.7 (real Household Disposable Income row + CPI row) Office for Budget Responsibility Economic and Fiscal Outlook: October 2021 Publication Date: 27/10/2021 Link to publication
2021	+ 3.4%	
2022	+ 4.3%	

For the year 2022, the projected energy spend for each of the sampled households was also adjusted for the two mitigation measures announced by government.

From the projected April 2022 energy spend for each of the sampled households, £150 was subtracted to reflect the government announcement that every household with a Council Tax banding A to D would receive a £150 council tax rebate. As the 2018 Fuel Poverty database does not include the Council Tax banding, the £150 was subtracted from all the sampled households. This means that the analysis will have attributed a deduction to some households that will not receive it, because for example they live in a home with Council Tax banding E to H or they are not liable for council tax. This means that the analysis slightly overestimates the impact of this mitigation measure. The magnitude of such an overestimation may however be minimal as the Government also announced a discretionary fund to support those households that will not benefit from the £150 Council Tax rebate.

From the projected October 2022 energy spend for each of the sampled households, £200 was subtracted, to reflect the government announcement that every household will receive £200 off their energy bills in October 2022 to be paid back over the subsequent five years in equal instalments of £40 per year.

After projecting spend on energy and household income since 2018 the next step is to estimate, for each household and each subsequent year since 2018, the proportion of after-tax household income that is spent on energy costs and flag those households for whom this figure is more than 10% as experiencing fuel stress.

The final step is to calculated weighted figures as presented in this paper. The weighting factor provided in the dataset is applied to each household to make the dataset representative of the national level of fuel poverty, taking account of the sampling techniques used and issues of non-response within the English Housing Survey.

The weighted figures presented in this paper assume that the impact of the increase in the energy price cap will affect all households in England similarly. There are households in England on a fixed term energy contract who will not immediately be impacted by the rise in the energy price cap. This analysis predicts an increase in energy costs for households that will not be experienced immediately, and may overestimate the immediate impact of the increase in the energy price cap. The size of this impact is unclear, but as fixed term energy contracts end and/or energy companies go out of business, households are likely to find that the standard energy tariff is the cheapest available and therefore in time the figures presented in this paper will represent the situation experienced by older households in England. Some older households currently on a fixed term contract may experience an even greater price rise when moving to a standard tariff, which may mean the figures present underestimate the impact of the rise in the energy price cap. This is the reason the figures presented in this paper are flagged as 'will increase towards' to reflect that the impact will not be overnight.

About Age UK

Age UK is the country's largest charity dedicated to helping everyone make the most of later life. Our vision is to make the UK a great place to grow older. Our ambition is that all 11.8 million older people across the UK can:

- Have enough money to live without the fear of poverty in later life
- Enjoy life and feel well
- Receive high quality health and care
- Be comfortable and secure at home
- Feel valued and able to participate

Age UK includes the charity, its charitable and trading subsidiaries, and national charities (Age Cymru, Age Scotland and Age NI). Age UK is a charitable company limited by guarantee and registered in England (registered charity no. 1128267 and registered company no. 6825798). The registered address is 7th Floor, One America Square, 17 Crosswall, London, EC3N 2LB