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Affording warm homes

The case for a social tariff to address fuel poverty

Affording warm homes: the case for a social tariff to address fuel poverty

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Contents

Summary

Energy is a necessity. Everyone should be able to turn their heating on when it is cold without fear of falling into debt.

The fossil fuel price shock, sparked by the Covid pandemic and Russia's war on Ukraine, has caused a cost of living crisis. It has lowered living standards, led to record levels of household energy debt and pushed millions into fuel poverty. Although energy bills have since subsided from their record highs, they remain hundreds of pounds above the level before the energy crisis took hold.

Households in Britain have been more exposed to these fluctuations than those in other countries because of an over reliance on gas. Most homes in Britain still use gas boilers for heating and there is a high proportion of energy inefficient properties. The country also burns large amounts of gas every year to generate power and balance the electricity grid, which means electricity prices are often determined by the price of gas rather than lower cost renewables, like wind or solar.

Emergency government support for those struggling with their energy bills was a vital lifeline during the initial energy crisis (2022-23) but it was costly and poorly targeted. Flat rate support offered to pensioners and those on means tested benefits, through the Warm Home Discount (WHD) and Winter Fuel Payment (WFP), has not kept pace with inflation or protected households from price volatility. And it has not prevented an overall increase in the number of households spending over ten per cent of their disposable income, after housing costs, on powering and heating their homes. This is how we define fuel poverty and it is the definition that we recommend the government adopts in England to fully acknowledge the scale of the energy affordability problem.

> **“A well designed tariff could be more effective than current government support.”**

More flexible and meaningful support is urgently needed to reduce the scale and depth of fuel poverty. This is needed to bridge a gap while government policies support home energy efficiency improvements and clean technology upgrades that will futureproof England’s housing against future gas price spikes.

Offering a new social tariff on gas and electricity unit costs, and standing charges, targeted at low income households currently in fuel poverty would be an effective solution, broadening support to those in work but not on benefits and all of those most in need. Such a tariff would work well in conjunction with the government’s proposed increase in minimum energy efficiency standards (MEES) for the rented sector, which will help fuel poor households to reduce the amount of energy needed to heat their homes.

We have modelled three scenarios to show a range of ways a social tariff could be designed to lift more households out of fuel poverty. A ‘same cost, higher impact’ tariff matching the current £2.25 billion cost of the WHD and WFP schemes, could reduce the number of households spending ten per cent of their income on domestic energy (after housing costs) by 12 per cent in England and Wales, potentially assisting over a million households out of fuel poverty at current rates.

A ‘broad and tiered’ social tariff, providing significant discounts for the bottom 20 per cent of households, at around the level of the current average annual fuel poverty gap (£407), and smaller savings for those in the third and fourth income deciles, could help 19 per cent of households escape fuel poverty at an estimated cost of £2.9 billion.

Finally, we present a ‘deep and narrow’ scenario which would close the fuel poverty gap for the two lowest income groups. This would lift 42 per cent of households out of fuel poverty, rising to 50 per cent when paired with higher MEES. The total cost of this tariff is estimated at £4.85 billion.

The government is preparing to publish a Warm Homes Plan and a revised Fuel Poverty Strategy, which is an opportunity for meaningful change.

We modelled the potential of these scenarios and found that a well designed tariff, which balances the overall affordability of a scheme with the number of fuel poor households supported, could be more effective than current government support at lifting households out of fuel poverty.

To reduce fuel poverty, we recommend that the government prioritises the following:

1. Acknowledge the scale of the fuel poverty problem

The government should replace the Low Income Low Energy Efficiency definition of fuel poverty used in England with a more realistic and widely accepted definition, more aligned with the other nations in the Britain. This should recognise that households that spend over ten per cent of their income on energy (after housing costs) are in fuel poverty, even if their property has a reasonable or good energy efficiency rating.

“Fuel poverty is concentrated in the three lowest income deciles.”

2. Establish new powers to create a social tariff

The government should commit to replace the flat rate rebate offered through the existing Warm Home Discount with a social tariff. This should target those on the lowest incomes and most at risk of fuel poverty after 2025-26, as reflected in the upcoming Fuel Poverty Strategy and Warm Homes Plan. It should use the Energy Independence Bill to create the framework of powers necessary to mandate a social tariff.

3. Design an effective policy to lift as many households out of fuel poverty as possible

Fuel poverty is concentrated in the three lowest income deciles. These include households surviving solely on the state pension, on means tested benefits and those working low wage or part time jobs. A tiered social tariff could potentially replace WHD and other energy support schemes to provide more meaningful support to a broader range of households, helping more households out of fuel poverty. The government should also identify and target households susceptible to financial hardship due to unavoidably high energy demand, as may be the case for those with medical needs or disabilities.

4. Ensure a new social tariff distributes costs fairly

Support under a new tariff should be tiered to provide more help to those most in need while keeping the costs of the scheme reasonable and lessening ‘cliff edges’ in support levels where possible. The government should explore ways for the costs to be distributed fairly, either via general taxation or cross-subsidy through bills. This should be part of the wider discussion about costs placed on energy bills,

the wide disparity between electricity and gas prices, and the way gas prices are used as the basis for setting the overall electricity price. Any solution must avoid pushing middle income households into fuel poverty.

5. Automatic enrolment

Those eligible for a social tariff should be automatically enrolled where possible. However, there should also be an opt-in for households who should qualify for the scheme but who are not captured by automatic enrolment. To identify eligible households, the government should use its powers under the Digital Economy Act to allow data sharing between the Department for Energy Security and Net Zero (DESNZ), energy suppliers, the Department for Work and Pensions (DWP) and HM Revenue & Customs (HMRC).

“Those eligible for a social tariff should be automatically enrolled where possible.”

6. Ensure that minimum energy efficiency standards cut fuel poverty and prepare homes for efficient electric heating

The government’s proposed uplift in MEES for rented properties could result in up to 4.5 million rented properties being upgraded with better insulation by April 2030. We suggest that the framework of secondary metrics associated with this reform should direct landlords towards options which prepare homes for highly efficient electric heating systems. This will be the next step in permanently ending Britain’s reliance on costly fossil fuels.

Introduction

“In 2024, nine million households in England spent over ten per cent of their income, after housing costs, on domestic energy.”

Energy prices are a major driver of the high cost of living.[1] The fossil fuel price shock, which followed the Covid pandemic and Russia’s invasion of Ukraine, has lowered living standards, led to record levels of household energy debt and pushed millions into fuel poverty.[2,3,4] Annual average household gas and electricity bills skyrocketed following the winter of 2021-22 and would have reached over £4,000 by the start of 2023 if the government had not given emergency support through the Energy Bills Support Scheme and Energy Price Guarantee. This prevented millions of households being pushed into fuel poverty, but it was poorly targeted and came at an enormous cost to the public finances.[5,6]

Although prices have fallen from the record highs in 2023, they remain above the level before the crisis.[7] This has deepened fuel poverty. In 2024, a staggering nine million households in England (36 per cent of all homes) spent over ten per cent of their income, after housing costs, on energy.[8] This figure has doubled since 2020.[9] In 2024, the average fuel poor household in England needed an additional £407 a year to no longer meet the definition. This ‘fuel poverty gap’ was 62 per cent higher in 2024 than in 2020.[10]

The definition of fuel poverty

Fuel poverty is a devolved issue. England, Wales and Scotland have their own definitions, metrics and policies making it complex to compare fuel poverty across Britain.

Wales defines households in fuel poverty as those which spend ten per cent or more of their income on domestic energy, and Scotland defines it as households which spend over ten per cent of their income after housing costs on domestic energy.

England previously used a definition based on spending ten per cent of household income on energy. Since 2019, fuel poverty in England has been measured using the Low Income Low Energy Efficiency indicator, which considers a household to be fuel poor if:

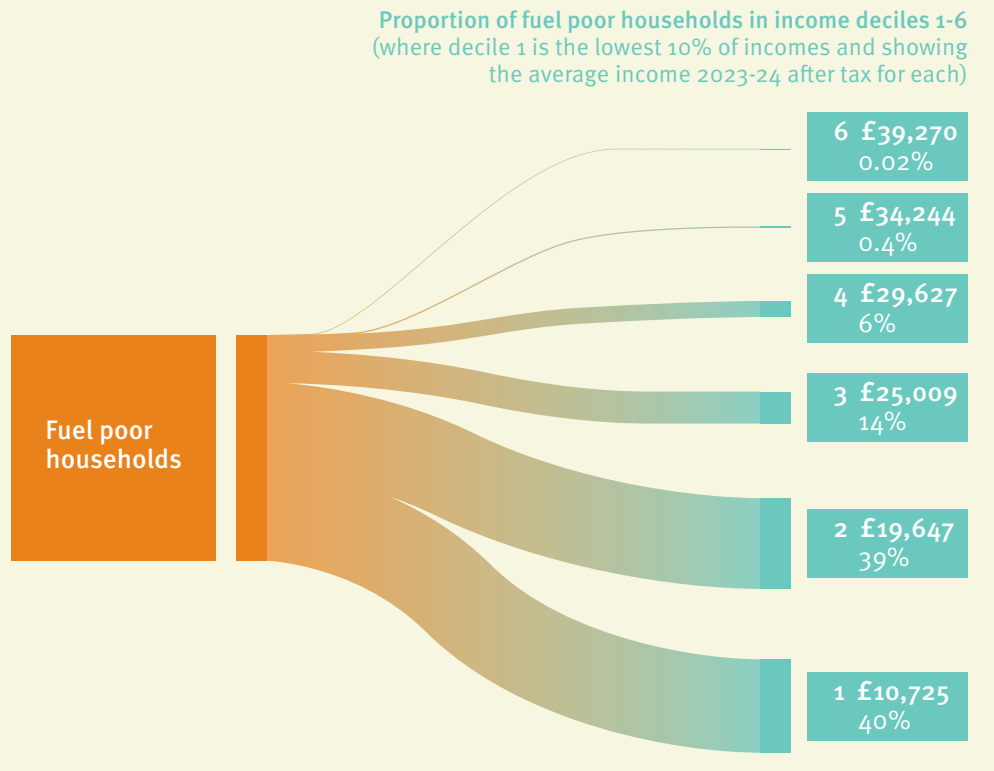
- the property has an energy performance certificate (EPC) rating of band D or below, as determined by the most up to date Fuel Poverty Energy Efficiency Rating;
- disposable income (income after housing and energy costs) is below the poverty line, typically defined as 60 per cent of the median income that year.[11,12]

In line with fuel poverty action groups, we use the definition of fuel poverty used in Scotland for the purposes of our analysis: households spending over ten per cent of their income, after housing costs, on domestic energy.

Fuel poverty largely depends on the interaction between a household's income, energy demand, energy prices and home energy efficiency. Most fuel poor households are concentrated in the two lowest income deciles, earning less than £22,366 a year.[13] This can include households surviving on an income derived solely from means tested benefits, the state pension or a minimum wage job. For example, it may include a single pensioner surviving on a state pension who may receive only around £11,973 a year, or a household with one minimum wage earner working a 35 to 40 hour week whose net take home annual salary is between £19,520 and £21,807. Properties with poor insulation and inefficient gas boilers can be hard to heat to an adequate level.

"Private tenants are most at risk of having a hard to heat home with unaffordable energy bills."

Distribution of fuel poor households across income deciles[14]



The persistent problem of cold, old homes

People in Britain have been particularly exposed to the fossil fuel price shock because many homes across the country are expensive to heat. Britain has some of the oldest and draughtiest housing in Europe and is lagging behind other European countries in the rate it is installing efficient electric heat pumps, which produce heat three to four times more efficiently than a gas boiler.[15] Over half of homes in England and Wales (56 per cent) have an energy performance certificate (EPC) rating of D or below. The higher cost of heating them makes it harder for many low income families to escape fuel poverty.[16]

The problem can be pronounced for tenants. Half of households in the bottom 20 per cent of incomes live in rented accommodation.[17] Private tenants are most at risk of having a hard to heat home with unaffordable energy bills.[18] Higher income homeowners have more agency to insulate or install clean energy technologies, like solar panels, batteries or heat pumps, to cut their bills.[19]

A home rated EPC E can have nearly double the energy costs of a property rated C or above.[20] But, currently, homes can be rented out privately if they meet EPC E, while social rented homes have no minimum energy efficiency standard (MEES). The existing MEES for private rented homes has not

provided a sufficiently strong signal for landlords to insulate and decarbonise their properties to bring bills down for their tenants.

The government has been consulting on plans to require all private and social landlords in England to ensure rental properties meet MEES equivalent to the existing EPC C or above by 2030.[21]

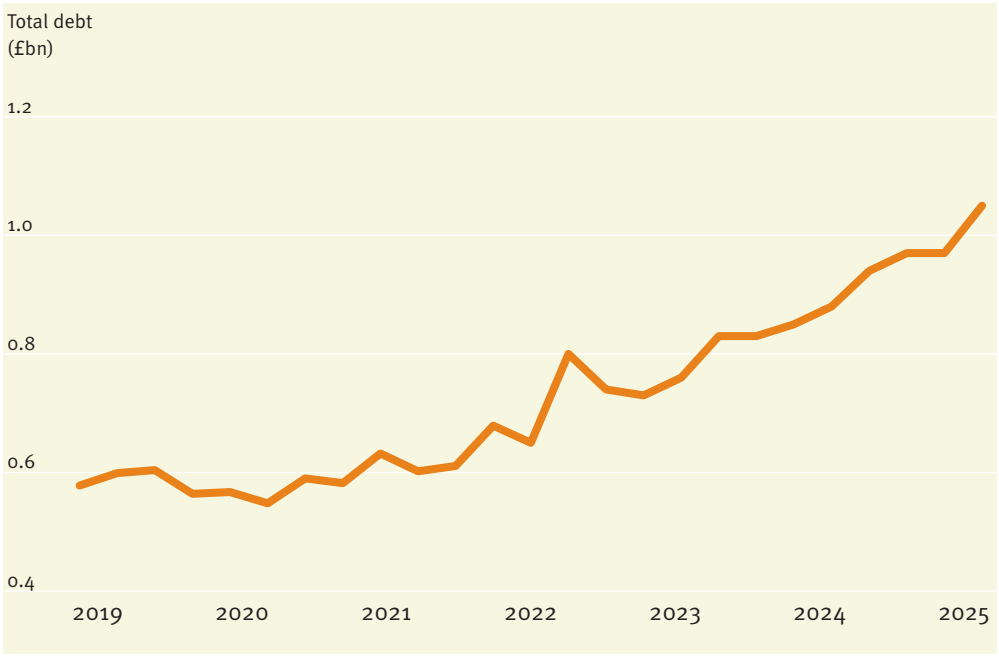
Fuel poverty and energy debt

> **“Since 2020, energy bill debt has been the fastest growing type of debt.”**

The energy price crisis has come at a time when poverty has risen in general, with a worrying rise among those in work. Wages and social security are failing to keep up with the cost of essential goods and services, squeezing disposable incomes.[22] Poorer families now devote proportionately more resources to buying essentials, meaning they face a ‘poverty premium’, suffering higher relative levels of inflation than richer households.[23,24]

Since 2020, energy bill debt has been the fastest growing type of debt reported to Citizens Advice, with the value of total energy debt rising by 33 per cent between 2022-23 and 2023-24.[25,26] Domestic consumer debt amounted to £1.05 billion in the first quarter of 2025.[27] Some households may turn to short term, high interest loans to solve their difficulties, which can have a long term detrimental impact on their finances.

Total energy debt of domestic consumers in Britain (where debt exists for over 91 days)



Why support has been ineffective

Current energy bill support is inadequate to deal with the scale of the affordability problem. Two main support schemes provide help: the Warm Home Discount (WHD) and the Winter Fuel Payment (WFP).

The expanded WHD will provide £150 annual rebate to all households in receipt of means tested benefits from October 2025, removing the previous ‘high cost to heat’ eligibility threshold.

This WHD has only risen by £30 since it was introduced in 2011, so it has not kept pace with inflation and has lost relative value, especially as energy bills have risen. Crucially, the current level of the WHD falls far short of the average fuel poverty gap of £407 a year in England in 2024.[29,30] Flat rate

discounts do not scale up with energy use, meaning they are not sufficiently compensating households with high energy needs, for example those with disabilities.

Although the WHD has helped struggling households, it has not been effective enough at reducing fuel poverty. The government estimates that it only delivered a 1.1 per cent reduction in the number of households required to spend at least ten per cent of their income (after housing costs) on domestic energy, reducing the number slightly from 9.1 million to nine million.[31]

The government has widened the eligibility criteria of both schemes and extended the timeline for the WHD to winter 2025-26, meaning the projected annual total costs of both schemes will be £2.25 billion. The £1 billion projected cost of the expanded WHD is levied on bills and the £1.25 billion annual cost of the WFP is paid for out of general taxation.

> **“The Warm Home Discount has not been effective enough at reducing fuel poverty.”**

With the WHD expiring in 2026, the government urgently needs to decide what will come next. As it is exclusively targeted at households receiving means tested benefits, more support is also needed for working households struggling to pay bills who do not receive benefits.[32]

For more detail and a critique of the current energy bill support schemes, see the annex on page 22.

Exploring the potential for a new social tariff on energy

Poverty is a determinant of health, education, social and wellbeing outcomes.[33] Addressing fuel poverty would directly improve living standards and quality of life, reduce the burden on the NHS of health problems associated with cold homes, improve personal finances and reduce levels of energy debt. Providing financial security removes a barrier to opportunity, one of the government’s five missions.[34]

In this report, we explore how a discounted social tariff for electricity and gas bills could reach a broader cohort of households in need. An income based discounted tariff could ensure that those who work but still struggle with energy bills are supported, as well as pensioners and those surviving solely or partially on means tested benefits. A social tariff offered as a discounted energy cost, rather than a flat rebate, would also help those who live in energy inefficient homes who need relativelymore energy to heat their homes adequately. Our findings show that a social tariff could be more effective at lifting these households out of fuel poverty.

What is a social tariff?

A ‘social tariff’ is a discounted price applied to goods and services to make them more affordable for low income or vulnerable households.

Social tariffs are often discussed in relation to essential utilities like energy and water which can be considered a right for every person to access.

Social tariffs can either be voluntarily offered or mandated by the government. For example, they are already offered in the water market but are inconsistently designed, varying from company to company.[35]

In this report, we focus on the concept of a government mandated social tariff rather than a voluntary system.

Our findings

“We modelled three potential designs for a social tariff, optimised for different outcomes.”

To illustrate how a social tariff on electricity and gas bills could alleviate fuel poverty, we modelled several options with higher impact than current schemes. We also factored in savings that the higher minimum energy efficiency standards (MEES) could make. For the purposes of this modelling, we have assumed that all properties within scope of the MEES regulations will comply by 2030.

Our modelling focuses on England and Wales as this is where MEES is expected to apply. Other aspects of energy policy are reserved matters, with the Westminster government setting policy for the whole energy market. A social tariff, if introduced, is likely to apply across Britain.

A social tariff can be designed in a range of ways, from a block tariff structure to a rebate, like the current WHD, or an income-based reduced rate tariff. We chose to model percentage unit rate and standing charge discounts, automatically applied to gas and electricity bills, as they give greater flexibility and financial support for households with higher energy needs than bill caps or flat rate discounts like the WHD.

Our analysis showed that a social tariff at the same overall cost as the expanded WHD alone would only lift around four per cent of households out of fuel poverty. This would be a slight improvement on the current WHD, which saved around one per cent of households from needing to spend more than ten per cent of their disposable income on domestic energy in 2024. But this still does not match the scale of the energy affordability crisis. We have, therefore, modelled two other higher impact social tariffs.

Our methodology

Our model estimates the impact of a social tariff based on energy consumption in 2022, the most recently available relevant data. It uses a series of government and Office for National Statistics (ONS) datasets to sort households in England and Wales by income deciles, tenure, property type and property EPC bands. Energy bills are calculated using a 12 month average of Ofgem’s standing and unit charge caps. The model covers households in England and Wales, with eligibility for the tariff scenarios based solely on income.

Information about the data used and our assumptions can be found in our accompanying full methodology at bit.ly/4n24m03

Three social tariff scenarios

We modelled three potential designs for a social tariff, that could lift more people out of fuel poverty than current schemes, optimised for different outcomes:

1. **Same cost, higher impact:** matching the cost of current energy bill support
2. **Broad and tiered:** offering support to a wider range of households
3. **Deep and narrow:** closing the fuel poverty gap for the poorest

We modelled the impact of these tariffs applied on their own and once higher energy standards are achieved across the rental sector. These are just three possible options for a high impact social tariff that illustrate how variation in design and budget influences the total number of households lifted out of fuel poverty and the distribution amongst the lower income deciles.

> **“A social tariff could lift more households out of fuel poverty than existing schemes.”**

1. Same cost, higher impact: matching the cost of current energy bill support

This scenario is designed so the combined cost of the flat rate rebate offered by the WHD and WFP is offered instead as tiered social tariff targeting households with the lowest 30 per cent of incomes. This could lift 12 per cent of households out of fuel poverty at the same overall cost as the current schemes. The current WDH scheme lifts one per cent of households out of fuel poverty. It would support eight million households, with larger energy bill savings than the current WHD.

2. Broad and tiered: offering support to a wider range of households

A broad and tiered social tariff could support a wider and larger group of households than both scenarios and would lift a greater proportion of people out of fuel poverty than our first scenario. Providing significant discounts for the bottom 20 per cent of households, at around the level of the current annual average annual fuel poverty gap (£407), and smaller savings for those in the third and fourth income decile could help around one fifth of all households to escape fuel poverty. This would cost an estimated £2.9 billion, according to our model, which is more than current energy bill support mechanisms, but it would reach a broader range of income groups and households who may not receive support through the current WHD, making it more effective.

3. Deep and narrow: closing the fuel poverty gap for the poorest

Our high impact scenario closes the average fuel poverty gap (as estimated in our model according to our definition) for the two lowest income deciles (households in the bottom 20 per cent of incomes), where fuel poverty is most concentrated and close to 100 per cent at present. This would lead to a large reduction in the proportion of households paying ten per cent on domestic energy after housing costs; it would lift 42 per cent out of fuel poverty, rising to 50 per cent once higher MEES were achieved. However, these results would be achieved at a high overall cost of £4.8 billion, more than twice the cost of the WHD and WFD combined. This is because the existing fuel poverty gap is so large for the lowest income bands it required discounts of 65 per cent and 37 per cent respectively.

The results of our modelling, summarised in the table on page 12, show that a social tariff under any of these scenarios could lift more people out of fuel poverty than the WHD.

While these scenarios would be more effective at supporting those on the lowest incomes, they could also increase bills for other households if paid for via a levy on energy bills, without other changes to the composition of the bills (see page 18).

Higher energy standards cut costs and increase impact

When combined with higher energy efficiency standards across the rented sector, proposed to come into force for new tenancies by 2026 and for all tenancies by 2030, the impact of a social tariff on reducing fuel poverty would be higher while its costs would be marginally reduced.[36]

> **“Providing discounts for households in the lowest income groups would be most effective at reducing fuel poverty.”**

As well as looking at the impact of higher energy standards on different tariff scenarios, our modelling examined the savings delivered by the MEES alone. It shows that raising all existing private rented sector properties to an equivalent of EPC C could reduce average energy bills by around £125 a year, at the average capped prices between October 2024 and September 2025. For social rented properties that typically have higher energy efficiency standards already, higher MEES could still save them around £114.

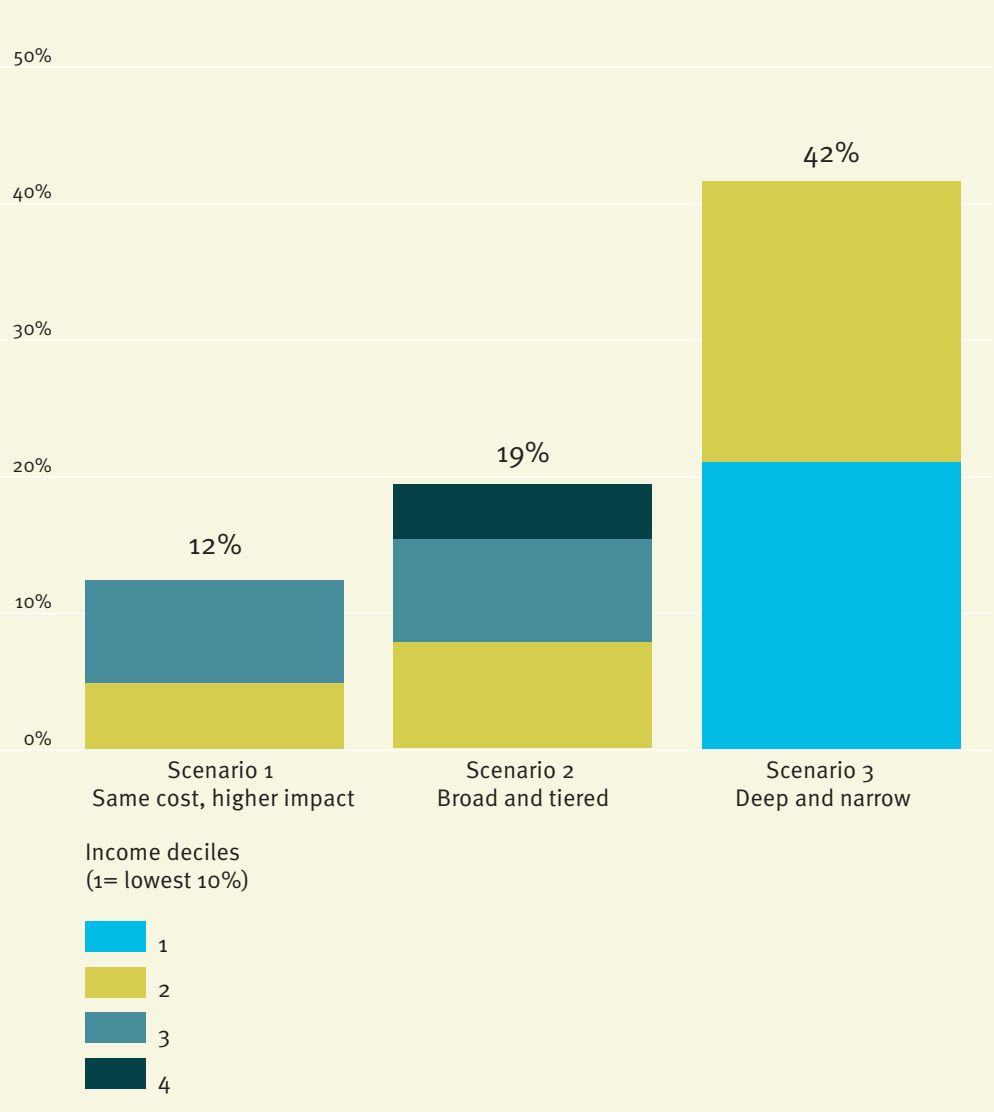
It is important to note that these potential savings are subject to user behaviour and there may be a rebound effect (where people increase their energy use) after energy efficiency improvements, especially as some households may self ration due to affordability concerns. This can be significant but is not likely to outweigh the savings. Overall, home energy consumption has declined since the early 2000s as energy efficiency has improved.[37]

Modelled social tariff scenarios compared with existing support: summary of outcomes and costs

	Tariff structure Decile:tariff (for scenarios)	**Annual energy bill discount** Decile: discount (for scenarios)	**Total cost of the scheme** (in brackets: + higher energy efficiency standards)	**Total number of households supported in England and Wales**	**Proportion of households lifted out of fuel poverty** (in brackets: + higher energy efficiency standards)
Warm Home Discount	Flat discount	£150	£1 billion (no change)	6.1 million	1.1 per cent
Winter Fuel Payment	Flat discount	£200-300	£1.25 billion (no change)	9 million	Not published
Scenario 1: Same cost, higher impact (£2.25 billion)	1: 22% 2: 15% 3: 10%	1: £391 2: £267 3: £179	£2.24 billion (£2.20 billion)	8 million	12 per cent (15 per cent)
Scenario 2: Broad and tiered	1: 23% 2: 23% 3: 10% 4: 5%	1: £409 2: £409 3: £179 4: £90	£2.90 billion (£2.84 billion)	10.7 million	19 per cent (26 per cent)
Scenario 3: Deep and narrow	1: 65% 2: 37%	1: £1,156 2: £658	£4.85 billion (£4.77 billion)	5.3 million	42 per cent (50 per cent)

Providing discounts for households in the lowest two income groups would be most effective at reducing fuel poverty. However, if this is funded via a levy on bills, there is a risk that some middle income households will be pushed closer to fuel poverty, depending on the cost, such as those in income deciles four and five, who may not qualify for the discount but who would be levied to pay for it. Adding more tiers to the tariff design will soften the 'cliff edge' effect for those who just fail to qualify. Levelising costs across higher income billpayers in the top 50 per cent of incomes could reduce the risk of pushing households just above the threshold into fuel poverty.

Proportion of households lifted out of fuel poverty, by decile



Solving fuel poverty

> **“Official fuel poverty figures misrepresent the full scale of the energy affordability problem in England.”**

Solving fuel poverty requires co-ordinated policy to support households with energy affordability over the short and medium terms, while tackling the underlying causes of high energy costs and prices. A social tariff can bridge the gap to support low income households with high energy costs during the transition to warm, well insulated, low carbon homes. We discuss a three pronged approach to this below:

- Acknowledge the scale of the problem
- Introduce a social tariff
- Deliver a step change with an effective Warm Homes Plan

Acknowledge the scale of the problem

Under the Low Income Low Energy Efficiency definition of fuel poverty, used in England since 2019, the government insists that an English household cannot be classed as fuel poor if their home has an energy efficiency rating of C or above. By this metric, 2.73 million households (11 per cent of households) are officially fuel poor in England.[38] But the government’s official fuel poverty figures misrepresent the full scale of the energy affordability problem in England. Different metrics used by other nations make it difficult to compare rates of fuel poverty across the country. Under the definition used in Scotland, where energy bills take ten per cent or more of household income after housing costs, the government reports that nine million households in England are struggling to afford their energy bills.

Having a good or reasonable EPC rating will help with the affordability challenge but does not close the fuel poverty gap on its own. Moreover, while a decent standard of home insulation is likely to reduce gas consumption in most homes that still use gas boilers, it may not reduce household electricity consumption.[39] With electricity prices currently around four times the cost of gas per unit there remains an affordability problem.[40] Nor will it affect the ability to afford daily standing charges, levied on households simply for having a gas and electricity connection.[41]

Introduce a social tariff

A well designed and targeted social tariff can mitigate the need for expensive emergency schemes, in the event of another energy price spike, by providing an administrative framework for targeted additional support in a time of crisis. Flat rate support schemes like the WHD and WFP fail to help people with challenges like price volatility, and the difficulty in predicting and budgeting for bills.

Before the WHD began, in 2011, a range of social tariffs were offered by energy retailers to provide more affordable energy to those most in need. They were replaced by the WHD to standardise discounts.

Public support is high for reintroducing some sort of social tariff. Three quarters (75 per cent) supported it in October 2024 as a way to discount energy bills for those in greatest need, up from 57 per cent before the 2024 general election.[42] And, in July 2025, a group of over 100 Labour MPs urged the Energy Secretary Ed Miliband to explore reforming energy bills to cut costs for those most in need.[43] The government's official advisory body on energy affordability, the Committee on Fuel Poverty, has also called on the government to explore options for a social tariff with Ofgem, consumer groups and the energy industry.[44] Energy retailers have advocated for a social tariff.[45]

"The number of homes retrofitted with government support is much lower now than it was in the early 2010s."

Deliver a step change with an effective Warm Homes Plan

A social tariff would work best as part of a wider plan to end Britain's reliance on gas and improve the efficiency of the country's housing stock. Successive governments have struggled to deliver effective policies to improve energy efficiency and insulate homes.[46] The proportions of existing homes retrofitted with loft insulation, cavity wall insulation and double glazing has slowly increased over the past ten years, with improvements across all tenure types.[47] However, the number of homes retrofitted with government support is much lower now than it was in the early 2010s and over half of all homes remain hard to heat, with a poor EPC of D or below.[48] During the 2022-23 fossil fuel price crisis the previous government missed an opportunity to do as other European governments did and ramp up efforts to improve energy efficiency.[49]

Before entering government Labour promised a step change in the approach to insulating and heating homes. It has scaled back ambitions originally promised in its 2021 Green Prosperity Plan, but is due to publish an ambitious Warm Homes Plan in October 2025, after the spring 2025 spending review recommitted to the £13.2 billion promised in the Labour manifesto.

New requirements for higher energy efficiency for rented properties, applying from 2028 for new tenancies, and to all tenancies from April 2030, will be key to deliver the government's promise to upgrade five million homes over the course of the parliament. It will be crucial to reduce fuel poverty and increase the pace of home decarbonisation.[50] Currently, 4.5 million rented properties are rated at EPC D or below and most of these are privately rented.

The impact of higher energy efficiency standards

“Raising a property from an EPC E to EPC C could save an average of £450 a year on a household’s energy bills.”

The system of EPCs is being reformed and, for the new MEES, the government proposes a combination of three metrics: fabric performance, heating system and smart readiness. Under the government’s proposal, rented homes will need to meet a primary standard of fabric performance (ie how efficiently the building retains heat), and a secondary standard for either heating system or smart readiness by 2030, with landlords given discretion over which secondary standards to prioritise.

The government is right to use the new EPC metrics as the basis for MEES and to propose fabric improvements as the primary metric.

Requiring landlords to invest in better insulation will drive a considerable increase in private investment in the country’s housing stock and reduce the amount of energy needed to heat rental properties with significant savings for tenants. Raising a property from an EPC E to EPC C could save an average of £450 a year on a household’s energy bills.[51] This will help the government achieve its target to move many more fuel poor homes as reasonably practicable to a minimum of EPC C by 2030.

However, there is also a risk that, in allowing private landlords’ discretion to select measures against a secondary metric, the regulation may provide an incentive to prioritise lower cost and less hassle measures. If ‘smart readiness’ is merely interpreted as installing a smart meter and internet enabled appliances then a bigger opportunity could be missed to reduce energy demand, emissions and bills for tenants through the potentially more effective combination of higher energy efficiency and an efficient heat pump.

Heat pumps typically produce three to four times the heat from the same energy input as a gas boiler. This opens a route to significant reductions in home energy costs in future. At present, per kilowatt hour unit costs of electricity are almost four times higher than gas, which negates the potential savings from switching to a heat pump for some households.[52] There have been calls for the government to shift policy costs from electricity to gas bills to incentivise the switch to low carbon electric technologies.[53] But this could raise cost pressures on lower income households with gas heating. A social tariff could protect these households from higher gas prices.

The framework of standards associated with the MEES reform should direct landlords towards options which are best for reducing fuel poverty and preparing homes for electric heating. This will be the next step in reducing energy demand and permanently ending Britain’s reliance on imported fossil fuels.

How to implement a social tariff

> **“Income alone is not always an accurate judgement of fuel poverty.”**

Social tariffs support billpayers for other utilities in Britain, such as water and broadband, although their design and eligibility criteria are largely left to suppliers to decide.[54] The Consumer Council for Water estimates that about two million eligible customers might not be receiving the support they are entitled to, due to inconsistent designs and poorly targeted tariffs.[55] To avoid this postcode lottery in the energy sector, and effectively tackle fuel poverty, a standardised discount is needed across all energy providers.

Eligibility

Our modelling uses income levels as the eligibility criteria and our scenarios would cover households on the state pension, recipients of means tested benefits and those in work on low incomes.

However, income alone is not always an accurate judgement of fuel poverty. It does not consider energy demand which, for some, cannot be reduced to avoid financial hardship, eg for health reasons. Certain households have little scope to cut their energy use to reduce bills, such as large families and households with disabled and older occupants. We recommend that the government also identifies and extends the eligibility criteria for support to include disabled, older and high occupancy households.

Data sharing and enrolment

Better data sharing between public bodies and energy providers is essential to identify those in fuel poverty and allow energy companies to automatically enrol eligible customers onto a social tariff. In 2024-25, £8.4 million of utility support went unclaimed.[56]

The government should use its powers in the Digital Economy Act to allow data sharing between DESNZ, energy suppliers, the DWP (which holds data on income and those in receipt of means tested benefits) and HMRC, to ensure that those eligible can be automatically enrolled. In 2023-24, 92 per cent of eligible households received the WHD automatically. This would be a good enrolment baseline to begin administering a social tariff.[57]

However, in addition to automatic enrolment, there must also be a simple opt-in for those who may be eligible but missed by this system. Steps should be taken to streamline and simplify the process. An ‘apply once’ process via the Gov.uk Better Off site, for instance, has helped water customers apply for social tariffs in one application.[58]

The government has set up a cross-Whitehall working group to improve data matching and sharing capabilities, with Energy UK representing the energy sector. This needs adequate resources, and its progress and outcomes should be regularly reported. More accurate and automated assessment of household income could also be useful for the purposes of other tax and welfare policy.

Support for those who miss out

People living in colder regions with higher heating costs are at risk of missing out on support. Most existing social tariff proposals do not target households heated by oil, coal or liquefied petroleum gas (LPG), as discounts are issued on gas and electricity. How to support low income households in these circumstances should be factored into any scheme.

“People living in colder regions with higher heating costs are at risk of missing out on support.”

Paying for a social tariff

The time is right for a broader discussion around energy bills. This must include how to pay for policy and network costs in a fairer way; the gap between electricity and gas prices which discourages people from switching to more efficient electric heating systems; and the use and extent of windfall taxes, such as the Energy Profits Levy, where necessary.

How a social tariff will be paid for and how its costs are fairly distributed must be considered. Current energy support schemes are paid for either through general taxation or through policy levies placed on bills. Both have pros and cons.

A levy on bills

This has the advantage of delivering an effective social policy without worsening the government’s fiscal position. However, with the cost of policy levies already projected to rise 23 per cent from £12 billion in 2024-25 to £14.8 billion in 2029-30, to pay for balancing the grid and guaranteed price contracts for new electricity generation, there is likely to be little political appetite to ask billpayers to pay more to fund a social tariff, especially for a government elected on a promise to reduce bills. [59]

Levying the costs of the scheme on household energy bills risks creating a ‘cliff edge’, pushing those on middle incomes who just fail to qualify for the discount closer to fuel poverty. This could be avoided by spreading the costs of the scheme among higher income billpayers who are not at risk of falling into financial hardship due to an additional cost on their energy bills. However, this would substantially increase costs for the smaller pool of consumers paying the levy, as well as making the scheme more complex.

As there is limited support for distributing costs across billpayers, other routes to financing a tariff should be considered, or this mechanism should only be considered as a supplement. The Social Market Foundation found that only 31 per cent agree with paying more on their bills to support those on lower incomes, but this rises to 46 per cent when the onus is placed on higher income households only.[60]

General taxation

Using taxes would be the simplest way to fund a social tariff. It would avoid the risk of a cliff edge in qualification for some and it would distribute costs in a more progressive way than spreading the cost across energy bills. Polling from October 2022 shows 64 per cent of the public would back targeted government financial assistance for energy costs, even if it meant higher taxes.[61] Some precedent exists for this, given the WFP is paid for by the taxpayer which, under recent changes, costs £1.25 billion per year.[62]

The government is under pressure to move existing levies to general taxation. Decisions on funding a social tariff should be considered in this context, with a wider review of where best to levy which costs of the energy system and over which period. It should also acknowledge the tax burden of leaving people in fuel poverty, eg the NHS costs of poor housing are estimated at £1.4 billion a year.[63]

> **“Using taxes would be the simplest way to fund a social tariff.”**

Other routes to raising revenue

The previous government taxed windfall profits from the energy system. It introduced two schemes to recoup some of the excess profits made as a result of the high gas prices after Russia’s invasion of Ukraine: the Energy Profits Levy which recovered £6.2 billion from oil and gas companies between 2022 and 2024 and the Electricity Generator Levy, forecast to raise around £14.2 billion between 2022 and 2028 from renewable electricity generators.[64,65] Both are set to end in 2028.

There are no equivalent mechanisms for network companies, which Citizens Advice found gained £4 billion in excess profits during the cost of living crisis due to lower than expected borrowing costs.[66] Tougher regulation of network costs by Ofgem could also bear down on network charges which make up the second highest element of household bills after wholesale costs.

Recommendations

> **“The government should adopt a more accurate measure of fuel poverty in England.”**

The government must act quickly to reduce fuel poverty, improve lives and avoid the political risks associated with inaction. Energy is an everyday essential. Yet almost nine out of ten Britons are concerned about their energy costs.[67] Nine million households must spend more than ten per cent of their disposable income on domestic energy (after housing costs). By our definition, that is nine million households experiencing fuel poverty.

With the increasingly unstable geopolitical environment affecting fossil fuel prices, there has never been a better time to ensure low income households are insulated from price volatility with an affordable social tariff and warm home policies.

The government committed to reduce bills ahead of the 2024 general election, without outlining a plan to deliver it. It has promised a Warm Homes Plan at the end of 2025, setting out how it will insulate homes and accelerate the electrification of heating systems in England. It will also publish a Fuel Poverty Strategy.

We propose that, as part of this review and reassessment, the government should adopt a more accurate measure of fuel poverty in England and consider replacing the flat rate warm home discount with a social tariff to provide more protection for low income households from energy price volatility. It should also press on with ambitious plans to increase energy efficiency standards for all rented properties by 2030.

Addressing fuel poverty and its consequences would improve public health, reduce local authority spending on health and social care and increase disposable income to spend in local economies.[68,69] A healthier population means higher productivity. Preventing the causes of ill health, like cold, damp homes and poverty, reduces the burden on the NHS in both the short and long term, and will help the government achieve its missions to build “an NHS fit for the future” and “break down barriers to opportunity”.[70]

To stem the rise in fuel poverty and improve the living standards for more people, the government should:

1. Acknowledge the scale of fuel poverty

The fossil fuel price crisis has shown that the Low Income Low Energy Efficiency measure of fuel poverty in England is unfit for purpose as it fails to account for all the households struggling to afford their energy bills, missing over six million in England.[71] The government should use its forthcoming Fuel Poverty Strategy for England to acknowledge the scale of the problem and revert to a definition that recognises that, if a household spends more than ten per cent of their income on energy (after housing

costs) they are fuel poor, even if their property has a relatively good EPC rating. This would better align with definitions used in Wales and Scotland.

2. Establish new powers to create a social tariff

Through the Fuel Poverty Strategy and Warm Homes Plan, the government should commit to replace the flat rate rebate through the existing WHD with a social tariff for those on the lowest incomes most at risk of fuel poverty after 2025-26. And it should use the Energy Independence Bill to create the framework of powers necessary to mandate a social tariff.

> **“Support under a new tariff should be tiered to provide more help to those most in need.”**

3. Design a cost effective policy that lifts as many households out of fuel poverty as possible

Fuel poverty is concentrated in the three lowest income deciles that include those on the state pension, means tested benefits or in low wage or part time jobs. A tiered social tariff could potentially replace the WHD and other energy bill support schemes to target these households. The government should identify and target households susceptible to financial hardship due to unavoidable higher than average energy demand, eg disabled, older and high occupancy households.

4. Ensure costs are distributed fairly

Support under a new tariff should be tiered to provide more help to those most in need while keeping the costs of the scheme reasonable, avoiding cliff edges in support where possible. The government should explore ways to distribute costs fairly, either via general taxation or cross-subsidy through bills. This should be part of a wider discussion about the costs applied to energy bills, the gap between electricity and gas prices and the way gas prices still set the overall electricity price. Any solution must avoid pushing middle income households just above the threshold for support into fuel poverty.

5. Automatically enrol eligible households

Those eligible for a social tariff should be automatically enrolled where possible. However, there should also be a simple opt-in for eligible households missed by automatic enrolment. To identify eligible households for auto enrolment, the government should use its powers under the Digital Economy Act to allow for data sharing between DESNZ, energy suppliers, the DWP and HMRC.

6. Ensure minimum energy efficiency standards reduce fuel poverty and prepare homes for electric heating

The government’s proposed higher MEES for rented properties could lead to 4.5 million more rental properties being upgraded with better insulation by April 2030. The government is right to propose that the primary metric for these standards should be fabric performance. Our modelling shows this could reduce bills for tenants and the cut number of households spending ten per cent or more on energy (after housing costs). We suggest that the secondary metrics associated with this reform should be designed to direct landlords towards options which prepare homes for highly efficient electric heating systems, to reduce renters’ exposure to volatile fossil fuel prices.

Annex
Current energy bill support

Government support	Critique
Warm Home Discount (WHD) A £150 rebate on electricity bills, applied ahead of each winter, for households on means tested benefits and can be applied to any tariff on the market. 6.1 million households across Britain on means tested benefits will be eligible for support in the winter of 2025-26 once the WHD is expanded, increasing the number of households helped by 2.7 million. The cost is passed onto all consumers through their energy bills. The expanded WHD will add £37 to each household's bill per year, through a levy on the standing charge, including those who receive the rebate, costing £1 billion in total.[72,73]	The eligibility criteria have recently been widened, but the WHD was previously criticised for not capturing all those in fuel poverty and for inaccurately assessing who had high energy costs. Some households with higher energy use, eg due to disability or large families, failed to qualify for the WHD, despite their energy demand pushing them into financial hardship.[74] Flat rebates like WHD do not sufficiently support those most in need or reflect fluctuating energy prices. The WHD provides support during the cold winter months but fails to support households that need it all year round. For some, the WHD is a lifeline, for others, it does not help enough, eg those households who do not receive benefits but experience fuel poverty.
Winter Fuel Payment (WFP) WFP is an annual, tax free lump sum payment of £200-£300, intended to give older people reassurance that they can afford to heat their homes during winter. Before 2024-25, anyone who had reached state pension age was eligible. The government planned to significantly cut eligibility in July 2024, but this led to widespread criticism. After a u-turn, all pensioners will continue to receive the WFP, but those with an income of £35,000 per year or above (approximately 1.5 million pensioners) will have it clawed back in the following tax year, which means nine million pensioners in England and Wales will be eligible.[75] Following these changes, the WFP will cost £1.25 billion per year, funded through general taxation.[76] A Winter Heating Payment is also available for those living in Scotland and who receive certain benefits.	Eligibility for WFP will now be partly based on income, but this is not an effective way of targeting those most in need of support with their energy bills, for instance it does not consider high energy use. Clawing back the WFP from those with an income of £35,000 per year or above is an overly complex way of administering support to specific groups.
Energy price cap Introduced in 2019 to protect millions of disengaged energy consumers from being placed on expensive variable tariffs. The energy regulator Ofgem administers the scheme and sets a limit on the unit cost of gas and electricity and a maximum daily standing charge (the cost of each home's connection to the grid) according to a formula determined by wholesale energy prices and calculated on a three month basis. It is often quoted at a certain price per year for the average British household; however, the cap applies to the rates, meaning those using more energy will pay more, up to the cap amount.	The energy price cap's name can be misleading as there is no static upper limit or 'cap'. It moves with wholesale gas prices, therefore does not limit energy prices from rising beyond an affordable level. It primarily protects disengaged energy customers, preventing energy retailers from shifting them on to disproportionately expensive tariffs by default.
Cold Weather Payment The Cold Weather Payment is a £25 payment made directly to the eligible household's bank account. This government grant is issued each time the local area experiences a temperature of 0°C or below for seven consecutive days between 1 November and 31 March. Those eligible include those who receive Pension Credit, income support and job seeker's allowance, Universal Credit and support for mortgage interest. It applies to households in England, Wales and Northern Ireland. There is a similar scheme in Scotland, issuing a flat payment of £59.75.[77]	Eligibility for the Cold Weather Payment is based on income, but this is not an effective way of targeting those most in need of support with their energy bills during times of freezing temperatures, eg it does not take into account high energy use.

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