Public Accounts Committee

Oral evidence: Energy bills support, HC 1074

Monday 27 February 2023

Ordered by the House of Commons to be published on 27 February 2023.

Watch the meeting

Members present: Dame Meg Hillier (Chair); Dan Carden; Sir Geoffrey CliftonBrown; Mr Jonathan Djanogly; Mr Louie French; Peter Grant; Anne Marie Morris; Jill Mortimer; Sarah Olney; Nick Smith.

Northern Ireland Affairs Select Committee Member also present: Claire Hanna.

Gareth Davies, Comptroller & Auditor General, Adrian Jenner, Director of Parliamentary Relations, and Marius Gallaher, Alternate Treasury Officer of Accounts, were in attendance.

Questions 80 -199

Witnesses

I: Jeremy Pocklington CB, Permanent Secretary, Department for Energy Security and Net Zero; Sarah Munby, Permanent Secretary, Department for Science, Innovation and Technology, and former Permanent Secretary, Department for Business, Energy and Industrial Strategy; Jonathan Mills, Director General for Energy Markets and Supply, Department for Energy Security and Net Zero; James Bowler CB, Permanent Secretary, HM Treasury; Phil Duffy, Director General for Growth and Productivity, HM Treasury.

Report by the Comptroller and Auditor General

Energy Bills Support (HC 1025)

Examination of witnesses

Witnesses: Jeremy Pocklington, Sarah Munby, Jonathan Mills, James Bowler and Phil Duffy.

Q80 **Chair:** Welcome to the Public Accounts Committee on Monday 27 February 2023. Today we are looking again at the Government's energy bills support schemes. We had a very useful pre-session with representatives of businesses and consumers on Thursday. Today we have the Government witnesses in front of us from both the Treasury and the new

Department for Energy Security and the former Department for Business. We have three permanent secretaries. I do not know what you call a collection of permanent secretaries, but we certainly have a good collection here today.

We are going to be discussing the cost of the schemes, how well they were implemented and, of course, some of the big issues facing businesses and consumers this year as the schemes have faded out. We start March this week, so there are some big changes.

Unusually for the Public Accounts Committee—not quite a constitutional first, but certainly a rare occasion—we are looking at Northern Ireland in some detail, because the Northern Ireland Assembly is not up and running; this scheme is, therefore, being directly administered by the Department for Energy Security in Northern Ireland. That is the way it is going to happen. I am really pleased to welcome today Claire Hanna MP from the Northern Ireland Select Committee as a guest, so a very warm welcome to her.

I would like to also welcome our witnesses. We have Sarah Munby, the permanent secretary of the new Department for Science, Innovation and Technology, but the former permanent secretary of the former Department for Business when decisions on these schemes were made. Ms Munby has been very instrumental in the architecture of these schemes and, of course, the implementation of them.

Jeremy Pocklington is the permanent secretary at the new Department for Energy Security and Net Zero, which is taking over responsibility for these schemes. In a moment, I will get you to explain exactly how the divide is happening at the moment.

Then we have Jonathan Mills, the director general for energy markets at the Department for Energy Security and Net Zero. The last time he was in front of us was for the Department for Business. It is getting very confusing already.

James Bowler is the permanent secretary at the Treasury, which is still the Treasury, as ever.

James Bowler: His Majesty's Treasury.

Q81 **Chair:** Phil Duffy is director general for growth and productivity at His Majesty's Treasury. The one permanent fixture in Whitehall, it seems, is that the Treasury never lets go of its title, its responsibilities and its power, so we all know how things stand. Before we kick off, Mr Pocklington and Ms Munby, could you just explain who is doing what now on this subject, so that we can just be clear who we direct our questions to and who is responsible for what?

Jeremy Pocklington: My Department is responsible now for the delivery of these schemes and any future decisions as relates to those schemes. Formally, what has happened is that Ms Munby remains the accounting officer for the Department that was BEIS, but she has delegated her accounting officer's responsibilities for me as they relate to the Department for Energy Security and Net Zero. That is just while we undergo the technical process of separating the BEIS budget into, if you like, the daughter Department budgets. That is the work that we have under way. Ms Munby can lead with Mr Mills on questions on the past. I am here about the present and the future.

Chair: Very neatly worked out.

Sarah Munby: Nothing to add. I totally agree.

Q82 **Chair:** It is going to be quite a challenge for you, the National Audit Office and us to follow through how the money flows, but we will be keeping a close eye on that. Thank you for that.

Before we go into the main session, though, I just wanted an update on Bulb Energy, which has cost the taxpayer a lot of money as billpayers stepped in, through the Government, to support customers for continuity of service. Could you give us an update, Mr Pocklington, on where we are at with Bulb?

Jeremy Pocklington: Of course I can. The Committee will be interested in what, ultimately, is the net cost to the consumer and/or taxpayer as it relates to this. We will know more about that shortly after the end of March. That is because, for the period up until the end of March, the Government are funding the gross wholesale energy purchases from the new entity. It is being repaid, though, by the new entity, Octopus, at a price that assumes that the new entity has hedged against the price cap. There will then be a short period of reconciliation after the end of March and then we will have a better idea of the net position.

What do we know about the period so far? The period from when Bulb went into special administration on 24 November 2021 until the end of September 2022 is the period for which we have a clear view of the net position. Ultimately, partly because Bulb was not hedged appropriately in accordance with the cap, the net cost to the taxpayer for that period is £1.1 billion. That is already public information.

For the periods that follow and that relate before and after the transfer to Octopus, we will be able to set out the position following the end of

March, although I would note that the wholesale price is now below the price cap. To an extent, that is going to work to unwind some of the losses occurred to date, but we need to see the picture at the end of March.

Q83 **Chair:** You will know that at the end of March. How quickly will that be public?

Jeremy Pocklington: What follows is there is then a technical period of reconciliation that needs to happen before we can come up with a figure, so it will be some weeks after the end of March. I cannot give you a precise date, but that gives you a rough sense of when we will have a better idea of what the net position is.

There is then a question that you alluded to, Chair—and I am sorry that this is a little complicated—as to, ultimately, who pays here. Is it the consumer or the taxpayer? The position remains as the Government set out in October to Parliament, which is that the Government are going to work to minimise the cost to the Exchequer. You will be aware that special administration legislation enables the Government to recover any shortfall to the Exchequer via the shortfall mechanism placed on suppliers. The Government's intention is that any shortfall will be recovered in that way, but the timing of when that recovery begins and the period over which the shortfall is recovered are decisions that will be taken in due course and in light of all relevant factors at that time.

Chair: That is a very laden statement.

Jeremy Pocklington: It is a very laden statement. I wanted to make sure that the Committee was fully informed of the position that the Government took in a letter to the departmental Select Committee in October. The right time to come back to this is following the end of March.

Q84 **Chair:** What you are saying is that there could be a deferral on any payment that hits the consumer because of the cost of living crisis. Is that right?

Jeremy Pocklington: I am saying that the decisions on timing will need to be taken at the time. I am not going to speculate on exactly how that happens. We can all bring in relevant factors, but they will be decisions that will need to be taken then.

Q85 **Chair:** There is money that the Treasury could pay out, but will come back from either the supplier or the consumer at a later date.

Jeremy Pocklington: That is what is happening. The Exchequer is paying out money and we need to understand the net position. The Government have set out their intention that, ultimately, this will be transferred to suppliers, but there are decisions still to come. Ultimately, it is consumers who pay, as set out in October.

Q86 **Sir Geoffrey Clifton-Brown:** I think I understand what you said, Mr

Pocklington, because you took it very quickly. In terms of the cost of energy, consumers should be covered, because this hedging mechanism will refund Octopus Energy for all the costs of that. What I am not clear about from what you have just said is the administrative costs. It sounds, from what you are saying, that there is going to be a clawback on all consumers at some time—because you emphasised twice that the timing of all this has to be decided—for the cost of that administrative loss.

Jeremy Pocklington: What I would highlight is that the main costs come from the purchase of energy rather than the administration costs.

Q87 **Sir Geoffrey Clifton-Brown:** That is going to be covered by the Government, or by the Treasury.

Jeremy Pocklington: No, that is what I was referring to. Any shortfall in the cost of energy over the whole period—and the net cost until September 2022 was £1.1 billion—can be transferred to suppliers and consumers, but we need to know what the overall position is over the whole period. That is the key thing that we are looking to know, and we will know that only from the end of March.

Q88 **Sir Geoffrey Clifton-Brown:** A consumer, as well as a reduction in the energy price cap, can also look forward to a supplemental increase because of the costs of Bulb.

Jeremy Pocklington: I would encourage the Committee not to get ahead of understanding the complete picture.

Q89 **Chair:** Whether it is £1.1 billion, £2 billion or £1.5 billion— ***Jeremy Pocklington:*** Or less than £1.1 billion.

Q90 **Chair:** There is a lump of money that, eventually, will hit consumer bills. Do you know over how long people would have to pay that back?

Jeremy Pocklington: That is a decision to be taken, as we informed the Select Committee in October.

Q91 **Chair:** Who makes that decision?

Jeremy Pocklington: It will be a decision for Government.

Chair: For your Department and Treasury.

Q92 **Sir Geoffrey Clifton-Brown:** One of the consumer bodies estimated that at about £90 per consumer. Is that right?

Jeremy Pocklington: The £90 is a different figure. That is a public number as it relates to the cost to consumers for the 28 suppliers that failed during this period.

Sarah Munby: If I may, it is £94.

Q93 **Sir Geoffrey Clifton-Brown:** Will that be on top of that?
Jeremy Pocklington: The £94 does not include this number.

Q94 **Chair:** What discretion do Government have about when to charge and over what period of time?

Jeremy Pocklington: I have given as much information as I can.

Q95 **Chair:** I am not asking for an answer about what is going to happen, but just the mechanism.

Jeremy Pocklington: That will need to be agreed in the usual way.

Q96 **Chair:** What is the usual way?

Jeremy Pocklington: It will be a decision for Government to take in the usual way.

Q97 **Chair:** The Government have complete discretion then.

Jeremy Pocklington: There is a degree of flexibility in the regime, but I am not going to give you a precise timeline today.

Q98 **Chair:** When you say a degree of flexibility, is it a written degree of flexibility or is it a degree of flexibility that is entirely in the hands of you and Ministers at the time?

Jeremy Pocklington: It is a policy flexibility, unless Mr Mills wants to add.

Jonathan Mills: I do not think that the Government have set out any constraints around the timing at the moment. As Jeremy said in the letter to the Select Committee, they have said that they will set out the timing once the period of payments is complete and we know what the sums are that we are dealing with and the wider context.

Q99 **Chair:** Once you know the full sums, the decision is going to be made about how long that is spread over. It could be a very long period of time or a very short period of time. The Department has complete discretion, presumably working with the Treasury. Is that right? I am just trying to understand.

Phil Duffy: The way the legislation works is that you have an option to reclaim it—a shortfall direction. It is not compulsory. You could use Exchequer funding. Probably the right answer will be some phasing of that payment, based on what the prices have got to at that period. For example, you could do it over three years or five years. We do not have a decision on that or any view of those issues.

It is worth just saying, if I may, that, because prices have fallen a lot in recent months, the ultimate cost could be considerably lower than £1.1 billion, which is the number that my colleague has just cited. In that case, the cost could be as low as a couple of hundred million pounds. There will still be residual costs, because there have been real costs in terms of the administration that we have to bear, but we have to see where that number ends up. Energy prices are very uncertain, so we are not, as of today, able to give you a robust number about that, but we will be able to quite shortly.

There is then a period of time, just to be clear, of two plus one years, during which we have a profit-sharing or loss-sharing agreement with the new owners of the company. That will enable us to recoup more, should prices go in our favour again over the next couple of years.

Q100 **Nick Smith:** Mr Duffy, should the process of the timetable be made clear in the coming Budget? Is that when we will find out about this?

Phil Duffy: I do not think that we will have the number reliably by the time of the Budget to do that, but we will bring forward a proposal as quickly as possible after that.

Q101 **Nick Smith:** I asked for the process and timetable. I understand the point about the number being after March.

Phil Duffy: It is very hard to know exactly what the timetable should be without knowing the quantum of money that we are taking off bills. We would have to look at the bills in total and look at the level of energy price in those years to see what the optimum pathway would be for the repayment.

Q102 **Nick Smith:** Mr Pocklington, do you have a working estimate at the moment on what you think that number will be at the end of March?

Jeremy Pocklington: I have no estimate to give the Committee. As Mr Duffy has said and as I said earlier, we are in a position at the moment where the wholesale price is below the price at which Octopus is required to repay the Department. That means that, if you like, that £1.1 billion is unwinding, but prices are volatile. We need to see where we are at the end of March.

Chair: We recognise that there are a lot of moving parts, but we will know weeks after the end of March and we will work with our new sister Committee on this issue. Of course, we will be coming back to this as a Committee, because the National Audit Office is currently looking over the Bulb arrangements and we will come back to that.

Let us move on, because we are going to be discussing energy bills and energy support more widely in a moment. I am going to ask Sarah Olney just to come in on another matter.

Q103 **Sarah Olney:** Ms Munby, there has been some press coverage of energy companies forcing entry to individuals' homes to install prepayment meters. I wondered if you could tell me, this being a historic thing, whether BEIS was aware of this practice. If you were at the time, were any measures put in place by the Department to either prevent or control this kind of operation?

Sarah Munby: In the first instance, this is a matter for Ofgem. As I am sure you have seen, the Secretary of State has written in pretty strong terms to Ofgem, asking them to look closely into this issue. They have launched an investigation both specifically into the actions of British Gas and into the broader actions in the market.

Of course, we were aware that it was possible for such meters to be installed through warrant, because that is a matter of law. If we had been aware of the specifics of how the British Gas case was being handled, we would have asked Ofgem to intervene earlier.

Q104 **Sarah Olney:** Given that you were aware that this was a possible thing, and given the huge increase in bills and how much hardship that was going to cause to low-income families, did you consider at any time giving a direction that this practice should be stopped or suspended, or in any way curtailed?

Sarah Munby: I am not sure that I could give you an absolute guarantee that nobody in the Department addressed that question. It is fair to say that the question of what the arrangements should be around installation of prepayment meters is a well-litigated one, in the sense that there are always people who are arguing that you should do less installation of prepayment meters, and there are also clear arguments as to why prepayment meters and their use are an important part of the market. In that sense, it has been long discussed as a topic within the Department. I could not point to a specific moment where we consciously looked at that. I cannot remember seeing a question on it. Jonathan, I do not know if there is anything that you would add.

Jonathan Mills: As you will be aware, the cases that have come into the public domain are in relation to British Gas. The allegations suggest that those are well outside the rules that were in place for the treatment of vulnerable customers. Ofgem is investigating the specifics in that case. Previous Ofgem activity in this area had not indicated that the rules were not being followed in that way, so that was the basis on which we were proceeding at the time within the regulators' powers.

Q105 **Sarah Olney:** Given that this is, as you say, an ongoing conversation about the desirability of forcibly installing prepayment meters, did you not feel that, given the unprecedented increase in bills over the autumn, that would have tipped the balance in favour of cracking down on forced installation?

Sarah Munby: At the time, we would have viewed the strong regulatory protections around forced installations as sufficient, including the need to be sure that that installation is compatible with the practicalities and welfare of the customer, noting that, as Jonathan said, it later turns out that there may have been supplier behaviour that was not compatible with those protections.

Q106 **Jill Mortimer:** Health and wellbeing has never been as important as it is now. I would like to talk about leisure centres and swimming pools. In coastal communities and towns like mine, swimming pools literally save lives. 95% of my primary school children use council-run swimming pools to learn to swim. Evidence gathered nationally from leisure providers has shown that their energy bills have risen by 300%. I just wondered why both local-authority-run and private businesses were excluded from both

the energy bills discount scheme and the energy and trade intensive industries scheme. That is probably a question for Ms Munby.

Sarah Munby: Ultimately, the review of which sectors are included in the scheme is technically a point for HMT, as it was an HMT review, but I am happy to at least give you an initial answer. First of all, it is important to clarify that the current scheme, the EBRS, is available to all businesses, public sector organisations and charities. Whatever the status of a swimming pool is today, it is receiving significant support with its energy bills.

Under the energy bill discount scheme—the new scheme to come in from April—again, there is a level of universal support and then there is an enhanced level of support for energy and trade-intensive businesses. Swimming pools will be eligible for the former, but they are not in the list of eligible sectors for the latter. Fundamentally—and we may well discuss other cases as well—that is because the methodology for defining which sectors qualify for that additional support is about finding those that are both highly energy-intensive and highly trade-intensive. When you do that work, swimming pools do not feature in that list.

Clearly, there are lots of challenging cases where people have high energy bills, and the intent of the new scheme is to be more focused in the support that it gives. That is what happens as a consequence.

James Bowler: I totally recognise the issue. The thing that we did at the Autumn Statement was to look at the various costs on businesses and the public sector. We looked at the future of the EBRS, which became the energy business discount scheme, and separated it, as Ms Munby said, into a universal scheme and an energy-intensive scheme. Swimming pools would have been on that universal side of things. They are, however, assisted in different ways. If you are a leisure centre in the public sector, you will have received or have access to Covid support under a £100 million scheme.

The thing we did most at the Autumn Statement was to look to the pressures on local authorities of adult social care, and we delivered £2.8 billion and then £4.7 billion going forward. The idea there was to try to cover local authorities for some of their biggest inflation issues, which would help not just the challenges that they have on social care, but some of their wider provisions, like leisure centres. We will get a number of questions like this. There is the issue of how this is going to go forward in terms of the energy support itself, but then there is also what else the Government are doing outside direct support to those sectors.

Q107 **Jill Mortimer:** You have just left me with a bit of confusion there. Ms Munby has just told me that they are going to receive support to keep these swimming pools and leisure centres open, and you have just told me that, not under this specific scheme but through other means, they are going to get support.

James Bowler: Sorry; that is probably confusion that I have made. At the moment, a private sector swimming pool will receive support from the energy business relief scheme. Is that for the public sector as well?

Phil Duffy: We currently have a universal scheme for all users of energy in business. That includes swimming pools and leisure centres, so they are getting all the support that anyone else is getting as we speak now.

The issue that you are raising is about what happens from April, which is a change in position. I have had people say that they have had closures because of high bills over the winter. That may be true, but it is not because they were excluded from the scheme. They were included in that scheme.

From April, things change. The good news is that the energy bills that business are facing, if they are writing new contracts for energy from April, are much lower. They are, in fact, lower than they were pre-invasion. In fact, you have to go all the way back to August 2021 to get a gas price that is as low as is currently available.

That does not mean that everything is fine, because some people signed up for energy during the height, and we might come back to that later in our conversation. Right now, there is a significant reduction in the costs that energy-intensive businesses like swimming pools will face if they are writing new contracts.

We have these schemes. These schemes are an insurance policy if prices go up again. They could go up again. We do not know the forward price of those. In that event, swimming pools in the private sector and the public sector will get the benefits of the discount scheme.

It is worth saying, speaking to my colleague Mr Bowler's point, that, at the Autumn Statement, we knew that there were particular problems being faced by hospitality and leisure businesses. That was one of the priorities that the Chancellor set out in his Autumn Statement, and that was one of the reasons why he introduced a special tax relief in terms of hospitality and leisure business rates relief at 75%. It is a very expensive relief for us, but it means that many of the private sector leisure facilities that you may be talking about are going to receive a very large discount on their business rates.

The other thing that is worth saying is that we have been quite supportive of the leisure sector throughout the Covid restart. Some £100 million was spent in England on the Covid restart, which enabled them to refit their facilities and so on. They are also eligible for significant and, in some cases, time-limited tax relief on investments to improve their energy efficiency. One of the things that the Chancellor made very clear in his Autumn Statement was the need for a bridging level of support to help businesses like swimming pools adjust to structurally higher levels of energy bills. That is why we have offered a shallower, less generous level of support for one further calendar year that will start in April and take them through to the following April.

There is a mix of measures there, but, as Mr Bowler said, a lot of these facilities are run by local authorities, and one of the things that we are quite conscious of is making sure that the local authority finance settlement is sufficiently capable of supporting a range of services. That is one of the reasons why we have topped up some of those social care areas at the level which Mr Bowler was indicating.

Q108 **Jill Mortimer:** Thank you for those very thorough answers. Just for clarity, the leisure centres and the swimming pools, whether they are privately run or local authority run, will be receiving support going forward and have not been excluded from any of these schemes.

Phil Duffy: They have not to date. They will be eligible for the universal element of the discount scheme, particularly if prices rise again.

Sarah Munby: They will be treated in an identical way to all other organisations, except for that small subset of energy and trade-intensive industries that qualify for the enhanced support. Everybody else gets the universal scheme, including swimming pools, leisure centres and, indeed, any other cases that anyone would raise.

Jonathan Mills: People sometimes use the shorthand of a domestic scheme and a business scheme, but it is really a domestic scheme and a non-domestic scheme. The non-domestic scheme encompasses a whole range of organisations that are not households, including the sorts that we are talking about here.

Q109 **Sir Geoffrey Clifton-Brown:** I just want to close this up, because we are talking about a very specific operation here. These are public sector, publicly run swimming pools for the public benefit. When the energy bills started going up, they had already had their Covid bills, which were for things like refurbishment and to tide them over when these swimming pools were not able to be open. They were not eligible for the energyintensive schemes. I just want to get a commitment from you, Mr Pocklington, that you will work very closely with the local government organisation, because we have had some fairly alarming figures that a lot of these pools are going to close and, when they close, they are likely to close for good. This cannot be good for public health prevention.

Jeremy Pocklington: Sir Geoffrey, of course we will remain in dialogue with the Local Government Association and with other stakeholders. This is an incredibly complicated area, as we learnt during Covid. On the particular subset of leisure centres that you are talking about—those that are publicly owned and publicly run—the thing that I would highlight is the very significant funding and resources made available to local government—and this is a reflection from my last role, rather than this role—that helped provide support, and their access to the universal element of the new scheme from 1 April.

As a matter of fact and for the record, it is important to be aware that they are not eligible for the higher level of support that energy and tradeintensive industries will qualify for.

Q110 **Chair:** What about when you have two-tier authorities? If you have leisure centres as a district responsibility, social care funding does not help them in any way, does it, Mr Bowler?

James Bowler: No, but I was trying to make the point that the Government are trying to help the public sector and the private sector through a number of different means. I was trying to make the point that we are helping directly with energy. Colleagues have set out better than I am how that is the case. We are also helping through direct funding.

Q111 **Chair:** It is just that, for small district councils, which are, basically, mini cash economies, whereby it is just cash in and cash out, most swimming pools do not make money or just wash their face. With energy bills, it just makes them unsustainable. I know that it is not the Treasury's direct worry about what happens to local government leisure centres, but it is your worry as a member of the Government and Whitehall machine.

James Bowler: I absolutely take the point. This huge and variable change in energy prices is deeply difficult for planning. Jeremy might know better than me, but it is the case that district councils receive funding not just from the charges that they deliver, but also from wider support. That is the support that Jeremy was talking about in terms of how we have tried to support local authorities, not just through direct interventions on energy schemes.

Q112 **Nick Smith:** Mr Bowler, you started your response to this question by saying that you understood it and were sympathetic, or words to that effect, but listening to all of your answers just now, I am not persuaded that you fully understand the gravity of the situation for local authority pools across the country. It sounds to me as if Mr Pocklington says, "Well, we have provided support for local authorities in the round and, therefore, it is up to local authorities to look after these pools", but it looks like that may not be happening.

Mr Bowler, do you have an understanding of what is happening to these local authority pools that may be under threat of closure and, if not, could you get an understanding and, if possible, take action to make sure that there is not a wholesale shutting of pools across our country? I learned to swim in a local council pool, and there will be lots of people like me around the table and across the country, I am sure. We are looking to you, sir, to grip this.

James Bowler: I do take that point, and the understanding comes from the fact that a number of letters and representations have been made on this issue, which we are highly alive to and are working through. That is where the understanding comes from. It is not news to us. I recognise, as Mr Pocklington said, the many different things that local authorities have to navigate after Covid from energy prices and more generally. I was trying to set out the array of measures with which Government are attempting to help with that. Take it from me that we do understand that and we have received representations on it, so this is not news to us in the Treasury.

Q113 **Nick Smith:** We will take your comments with goodwill and assume best intentions, but can you please, in good time, as quickly as you are able, update the Committee on what you have found and how you are going to respond, so that we can have confidence that we are not going to see local swimming pools shutting around the country? Would you do that please, sir?

James Bowler: Yes.

Q114 **Chair:** Is this within the scope of the Budget announcement coming up? I know that you cannot tell us what is going to be in the Budget, but is this something that you are discussing in the timeframe of that?

James Bowler: I am not going to speculate about what is in the Budget.

Chair: Give me a point for trying. We need to move on to the broader issue, which we have touched on a bit, about the energy bills support scheme. It is worth highlighting that it was implemented incredibly quickly, so, Ms Munby, credit to you and your then Department for doing that. After Covid, it was another run at doing things fast and furious in order to protect consumers, but that has led to a lot of discussions about how it works. It is worth highlighting that, of course, it has cost a lot less money than expected, because a lot of people just did not turn their heating on, and we had some mild weather. Presumably that helped, but we are going to delve into those numbers. I am going to ask Jonathan Djanogly to kick off.

Q115 **Mr Djanogly:** I would just like to reinforce Mr Smith's comment on swimming pools. I have three district council swimming pools that are all under threat of closure at the moment. The threat to public health in my constituency would be enormous if they closed, and I really do hope that someone is looking at this. I take some reassurance from Mr Bowler's reply.

Moving on, Chair, you asked me to set the scene a bit. The best way to start would be to go to figure 6 in the NAO report. This is the potential total costs of the scheme. There is the original estimate, which is from the time of introduction. Current estimates were at something like the beginning of February. The differences are huge. On the EBRS, the estimate was £29 billion and is currently estimated at down to £18 billion. On the EPG, it was £97 billion and is now down to £38 billion, so there are absolutely massive variations. Is this one for Ms Munby? Can you explain that, please?

Sarah Munby: I will start. Treasury colleagues may well wish to add. The single biggest reason—there are a couple of other reasons that I will come to—is that the cost of the schemes is dependent on the price of energy. What you are doing is taking a price of energy that varies and bringing it down to the level of £2,500 for the EPG. When energy prices are high, the scheme is more expensive. When energy prices are low, the scheme is cheaper.

If you go back in time, at the time that the original forecast across the schemes of £139 billion was made, if I just use gas as a proxy for energy prices in general, the day-ahead price then was 276p per therm. At the time that the £67 billion estimate was made—the blue lines on the figure that you are looking at—the price had dropped from 276p per therm to 71p per therm. The difference between those columns is largely because of a big decline in energy prices.

It is important to say that, if you want to dig into that topic a little bit further, it is not just about the fact that the day-of price had dropped—the spot price. You would really want to start looking at the forward price, because, when those estimates were made, what the people who calculated them were doing was looking at the forward curve of energy prices.

Again, if you roll back in time to when the £139 billion estimate was made, the forward price then for gas today, as we are sitting here, was 475p per therm. By the time of the £67 billion forecast, it had dropped from 475p to 310p. By the way, the price now is about 125p. It is not just that prices have dropped. Prices have dropped much more than people expected them to, and that is why the schemes have turned out to be cheaper than expected.

I said that there were a couple of other more minor points. I just want to put them on the record. The other thing is that, particularly for the EPG, during this time, the duration and level of the support was also adjusted, so that affects the estimates. There is also an effect, as the Chair just mentioned, of slightly lower than expected energy usage, but the overwhelming driver of this is the change in energy prices.

Q116 **Mr Djanogly:** Are the NAO figures still the most recent figures that you are working off?

Sarah Munby: There will be new figures on 15 March.

Q117 **Mr Djanogly:** What risks remain out there that costs could end up being higher than your current estimate?

Sarah Munby: It is fair to say that, looking at the estimates here, given what I just told you about energy prices, I do not think that we are lying awake at night worrying that the costs are going to end up higher than these. Clearly, anything could happen to energy prices over the remaining period of these schemes, but the trajectory of energy prices is downward and, therefore, you would expect the trajectory of the costs of these schemes to be broadly downward.

Q118 **Mr Djanogly:** Just looking at the big picture, Mr Bowler, does that mean that you suddenly have £55 billion available for tax cuts or putting into swimming pools?

James Bowler: Let us look at the big picture. This is my specialist topic.

Chair: You could make a pledge about swimming pools now and make the whole session a lot easier.

James Bowler: Where shall we start? Let us start with debt. That is 90% of GDP borrowing. Borrowing in the Autumn Statement is just over 7% of GDP. Debt interest is £120 billion a year. The public finances are in a fragile state, and that is why, when this Chancellor, Jeremy Hunt, came in, he was keen to delink some of the exposure of the public finances to the volatility of the energy prices. That is why he went for, as announced in the Autumn Statement, a more targeted approach in both domestic and non-domestic support.

That said, the reduction in the energy price is good news for the costs of these schemes, from my point of view, and I agree with Ms Munby that the estimates that you have in front of you from February would, right now, be lower. We will see what the OBR costs them as on 15 March.

Going forward, of course, we know that the energy price can double really quite rapidly. The important point to make is whether you can use this Xbillion-pound reduction for something else. We are not targeting a level of borrowing. We are targeting a level of support for people over and above a level, which we think is a reasonable level, and that remains the case even as prices fall. I am afraid that the answer is that there is not a £60 billion windfall to spend on something else.

Q119 **Mr Djanogly:** It was worth asking. What progress have you made on your review of the costs and benefits of the price cap?

Jonathan Mills: Do you mean the regulatory price cap—the Ofgem tariff cap?

Mr Djanogly: Yes.

Jonathan Mills: We have said that we want to look at options for when the energy price guarantee comes to an end in April 2024. We said in the Autumn Statement that we wanted to look at options, including what is called a social tariff, which I can refer to. There are quite a lot of different sorts of schemes that can be in there, but support arrangements that can be put under that title. In the Energy Prices Act, we provided the powers for the tariff cap to continue for as long as these schemes continue in order to underpin the working there.

We have had lots of representations from industry groups and from consumer groups about how the different models for the price cap might play into that, and I know that Ministers will want to turn to that as they set out their vision for what comes after the EPG.

Q120 **Mr Djanogly:** We have had an announcement from Ofgem today. The energy price cap was £4,279 in January. Ofgem has announced that the cap will drop to £3,280 in April because of falling wholesale prices. Mr Mills, could you just explain why consumers are not going to benefit from that at all?

Jonathan Mills: The energy price guarantee works by paying for the difference between where energy prices would be, as regulated by the default tariff cap—the Ofgem price cap—and the level that has been set by Ministers. That was initially set at the equivalent of a typical household bill of £2,500 and was then revised to a level of a typical household bill being £3,000 from April. The energy price guarantee has been providing insulation below the level of the Ofgem price cap, meaning that that does not directly affect customer bills in a way that it would not do if the energy price guarantee was there.

Sarah Munby: If I may just add a thought, the taxpayer is very much benefiting from that drop in the way that James just described, because the price cap coming down is reflecting a decrease in energy prices and making the scheme less costly to run.

Mr Djanogly: Cheaper for the taxpayer, yes, who are the consumers.

James Bowler: There is always a sting in the tail. It will also mean that the expected revenues that we are receiving from energy taxes on oil and gas and on generators—so-called windfall taxes—will be lower than we had previously expected.

Q121 **Anne Marie Morris:** Can we now turn to the marginal pricing model? Mr Mills, I suspect that this is probably your territory. As I understand it, as a result of privatisation, this marginal pricing model was set, whereby, effectively, the highest wholesale price was the price that would be used for suppliers when they set in train their contract prices with consumers, the consequence of which would be that it would be irrelevant whether the source of the energy was green and relatively cheap, or very expensive and further down the carbon end.

Have I interpreted that correctly and, if that is true, has the industry as a whole taken that as a remit to, effectively, charge at the top end? Were they obligated to charge at the top end because of the legislation, or did they choose to? The reason I ask this is that it would seem that the upstream producers have made a windfall, but the downstream suppliers are, frankly, in a very different position, and it seems to me that there is a bit of an imbalance. Could you comment?

Jonathan Mills: This is a really interesting topic and one that has attracted quite a lot of debate in the context of the last year. Fundamentally, one of the lessons of the last 18 months has to be strengthening the case for more renewables and more nuclear, and making sure that the benefits of that are passed through to consumers.

It is worth just working through how that works in practice, because it is not quite the case that the gas price is simply leading to the same price being set for renewables and nuclear. First, for most households, around half of their bill is directly on gas for heating and cooking. To get off that element of exposure to gas prices, we have to tackle the use of gas in heating.

Q122 **Anne Marie Morris:** Forgive me, but what you are doing is explaining how energy is used. You are not answering the question. Am I right in how this model works? Effectively, it means that suppliers can always, right now, charger the highest price that they can get, which is not necessarily the

costs that they are having to bear, because of the energy that they are supplying.

Jonathan Mills: If we then come to the electricity component, around 40% of that every year is directly from gas, but the remainder is from other sources, as you say.

At the point of privatisation, that electricity was sold predominantly through the pool, so predominantly through a single pricing mechanism, in the way that you described. That now is not the case in quite the same way. In 2022, around 60% of electricity was sold over the counter. It was not sold on the day in that very short-term way, but was sold on longerterm contracts. That means that it would not necessarily be the price of gas on a particular day that was determining the price for all electricity, because suppliers would have bought a significant proportion of their electricity in advance at different prices that might have reflected what they were able to negotiate at the time.

For renewables generation in particular, we moved away from the old support arrangements to the contracts for difference regime in 2015.

What that does is, for renewable generation, they have a fixed strike price, as it is called. If the price on the day is above that, they have to pay back to suppliers, so that they can reimburse consumers. The third quarter of last year was the record for this, where those renewable generators paid back £350 million to suppliers, because the gas price you described was higher than the price than they needed to generate.

There is not quite the level of unexpected profit being made that you described. Nonetheless, the Government did recognise that there was some profit above and beyond what those generators had expected, and Treasury colleagues may want to talk about the energy generator levy that was put in place to target that.

From the Government point of view, I have just described quite a complex set of market arrangements that have come into place over a number of years. We want to make sure that, in the future, we can be really confident that those benefits from low carbon generation are coming through to consumers. We have the review of electricity market arrangements to achieve that.

Q123 **Anne Marie Morris:** Let me just bring you back to the point about the price. Yes, it is more complex. These things are always more complex than I put simplistically, but, basically, my structure was not far off the mark. The reality and what you are telling me is that, even with this approach that you have described with the strike rate fixed after the event and, therefore, the differential not being as big, there is still a differential.

Clearly, the right method going forward is that we want more renewables to be used, but, in terms of the pricing mechanism, which is related but different, have you been asked to look at this to try to get that pricing mechanism reviewed and changed? Right now, despite all you say, even the Government, because of the schemes that they had to put in place now, are having to pay it more than they would need to if we had the price being the real cost of the energy.

Jonathan Mills: The effect that you have talked about is true for a subset of the market. For renewable and nuclear generators selling in the shortterm market not covered by contracts for difference, that has been addressed in the immediate term through the introduction of the energy generator levy, which is raising revenue to support the range of Government expenditure, including the programmes that we are talking about today.

Q124 **Anne Marie Morris:** But they are not a direct match. What I keep hearing, more from Treasury than from you, is the trade-off around, "The Government are giving this benefit here. Therefore, we are not going to give that benefit there". I absolutely hear what you are saying in terms of this particular tax benefit or disbenefit, depending on your perspective, but it is not quite the same thing as addressing the mechanics of the pricing, so that it is fair and transparent and that it is very clear what is being charged reflects the costs.

Jonathan Mills: We have the levy in place now, which provides a very rapid means of getting at this issue, but we also have a reviewing process of the fundamental electricity market arrangements. We had consultation on a range of issues, including this decoupling issue, which closed last year. We hope that we will be able to put the response to that consultation out shortly. That covers exactly these issues, like the long-term market design, once we are through the period that this levy covers.

Q125 **Anne Marie Morris:** Will that include the pricing?

Jonathan Mills: In terms of one of the issues that we addressed in the consultation document, we have taken a wide range of representations on potential options for decoupling prices.

Q126 **Anne Marie Morris:** How soon will you move forward to action the results of that consultation? Right now, because of the Government bailing us all out at the moment, the Government are feeling the cost. When the Government scheme goes, it is the consumer who will feel the cost, so we cannot have something that could be fixed but is not going to be fixed for the next couple of years. We need it to be fixed pretty quickly.

Phil Duffy: Can I come in here?

Anne Marie Morris: Please do.

Phil Duffy: Right now, as you say, there is a form of windfall for people in this situation. We introduced the levy on income above £75 a megawatt hour, which is about one and a half times the historic level that they could expect to receive. There is a margin for profit, but, above that, they have to pay this additional levy. That is raising £14 billion between now and 2028 for the Exchequer. In reality, it will be less, because the price has fallen, but that is giving some assurance to the public that these unearned windfalls that are a side effect of the way that the market operates are being captured.

Q127 **Anne Marie Morris:** I absolutely understand, Mr Duffy, and I am very grateful for that helpful intervention. It does not change the point that there is a problem. None of the additional interventions solves it. You have had a consultation and we need the results of that implemented very quickly to benefit the consumer.

Ms Munby, I am going to come to you now. I am sure that you are aware that there have been regional variations in the standing charges. Are you able to explain to me why that should be? The perception is that, effectively, this has been a charter for suppliers to be able to claw back some of the shortfall.

Sarah Munby: Maybe I will begin by just describing what the regional variations are, just for listeners. I am sure that Members of the Committee have the numbers at their fingertips. If you look at the price cap, we were just talking about the new numbers that have come out this morning. The variation by region in what that price cap would look like is between £3,255 and £3,362, so about a £100 differential by region in your total, typical household bill, just to give a scale of the divergence.

Q128 **Anne Marie Morris:** Does that include the standing charge?

Sarah Munby: There are a number of things in there, but, yes, that includes the standing charge point that you are making.

Q129 **Anne Marie Morris:** What are the other things that are in there?

Sarah Munby: There is also a difference in unit price. I do not have the difference at my fingertips.

Q130 **Anne Marie Morris:** Why should they be regionally different?

Sarah Munby: Regional differences—which, just to be clear, are a feature of the market from before any of these energy schemes, so they are not an artefact of the energy schemes but an artefact of the long-term market—are the different costs to serve by region and, in particular, the cost to the distribution networks in the different regions.

We have talked in the REMA consultation about the possibility of introducing more or different ways of looking at locational pricing. You could try to do some kind of rebalancing, where, instead of having the price that people pay reflect the cost to serve, you cross-subsidise between the different regions to flatten out that divergence that you are asking about. The challenge with that, of course, is that this is ultimately a market. If you start cross-subsidising between different regions, you are also crosssubsidising between different suppliers, which is quite tricky to do.

Q131 **Anne Marie Morris:** I accept that this is historic, and I am pleased that it is something that is being looked at, but the reality is that, right now, consumers in different parts of the country—Devon, Somerset or Manchester—are going to be paying different rates.

Sarah Munby: Yes, that is right.

Q132 **Anne Marie Morris:** It is not necessarily the case that they are differential in their ability to pay that difference. I am pleased that you are looking at it, but it sounds very complex and I would ask you to make sure that whatever you come up with is fair and transparent, and that there is clarity about who is paying for what and that it is justifiable, because, right now, clearly, none of those applies.

Sarah Munby: If I may make one point, recognising that it is absolutely a legitimate policy question in terms of what you want to do with it, the cost differentials are justified, whatever you think about the use of that word, by differences in costs to serve by region. They are not random. They are driven by the different costs of providing energy in different parts of the country, just in the same way that the things that you buy in any other market might be cheaper or more expensive in different parts of the country.

Q133 **Anne Marie Morris:** I hear what you say, Ms Munby, but until I saw the calculation, I would be a little bit dubious as to whether we had that fairness. With the transparency, which is what I am asking for, we will be able to see whether you are right, but, right now, there is no transparency.

Let us move on. Energy prices have gone up and come down again. In that time, individual consumers, whether it is a business or an individual homeowner, have entered into different contracts. The schemes that you have introduced differentially benefited, depending upon when you entered into your new fixed-term contract or you came out of your fixed-term contract.

I have a zoo in my constituency. It is a business. It can clearly have benefit, but the scheme that it has been offered, because of its current scheme, does not come into effect until the last day of the Government scheme. Consequently, the benefit to it is disproportionately tiny. When you looked at putting the scheme in place, did you consider the fact that different businesses and individuals would be entering contracts at different points and that, therefore, there would be this differential benefiting, leaving some businesses and homeowners stuck in fixed contracts?

Sarah Munby: Yes, we very much did. Indeed, that is really at the heart of the difference in the way the consumer and the business schemes are designed. I will come to the specific case that you are asking about in just one second, but just to answer the general point first, the way that the business scheme works is that it is not just a fixed discount for everybody that gives everybody £2.50 off the pint, as it were. The amount of discount that you get depends on when you signed your contract.

If you signed a fix when prices were high, you have a more expensive contract, so you need a bigger discount. If you signed your fix when prices were low, and maybe you have a very long fix from a long time ago, you are doing alright anyway and we do not need to give you as much of a discount. That is one of the reasons, by the way, why the business scheme can be difficult to explain, because it has to have that complexity in it. It will never be perfect, given the complexity of the market, but it was designed to try to bring people down to a similar sort of level to balance out exactly the unfairness that you are talking about.

Q134 **Anne Marie Morris:** What sort of length of contract did it consider? Some businesses are having to enter into five-year contracts. Did you look at five-year contracts or just two-year contracts?

Sarah Munby: Regardless of the length of contract, the scheme should be generating a benefit that brings you to the Government-supported threshold price—i.e. the price that we are trying to bring everyone down to. I cannot immediately, from your description, understand exactly why the case that you are talking about is not getting support, and I am sure that my colleagues would be very glad to receive specifics on it and look at exactly why it is not working. The scheme was designed at heart to address the very issue that you are describing.

Q135 **Anne Marie Morris:** With a domestic scheme, individuals are entering into fixed-term contracts and have a similar challenge. Is there a similar scheme, as you have just described for businesses, whereby you look at the contract? I do not think that there is, in which case they will be in the domestic scenario. There will be people doing better out of this and people who will be doing worse.

Sarah Munby: The difference in the domestic scenario is that you already had the price cap in place. In effect, at the time at which the scheme was introduced, everybody in the market was paying the price cap, apart from a few lucky people who had fixed below the price cap some time ago. In the consumer case, you have a few people who, through their canny fixing, have benefited, but you do not have people who are doing worse than anybody else. There is not the equivalent of the case that you are describing on the business market. That is why the consumer scheme is much more straightforward to describe. In effect, the market was already operating at a flat level, because of the effect of the price cap.

Q136 **Anne Marie Morris:** As a final request before handing back to the Chair, could you please give me a worked example, both for businesses and for individuals? I have businesses saying that they are stuck for five years with something that is 400% more than they were paying, and they do not seem to be seeing or recognising what you are describing. Likewise, I have individuals making the same case. I am finding a disconnect between the evidence that I am getting and what you are trying to explain to me. Please can you give me some worked examples, so I can see how people are getting something that reflects the time they entered into the contract and the length of that contract?

Sarah Munby: Yes. If I may make just one clarifying point, it is important to say that what I said about the way that the business scheme works applies only for the duration of the scheme. It is true, of course, that, under any future scheme, the scheme does not magically protect you from the effects out into the future.

Q137 **Anne Marie Morris:** So my zoo, which entered into the new contract only a day before the end of the scheme, is still stuck with the higher price and, therefore, the point I made was correct.

Sarah Munby: After the end of this scheme, this scheme is not solving that problem. This scheme is solving the problem for the duration of the scheme.

Q138 **Anne Marie Morris:** So there is a problem for businesses and there is a problem for individuals, because of the timing of the scheme ending.

Sarah Munby: No, not on individuals. I just do not think that that is accurate. Apologies.

Chair: That is fine. You need to put it on the record. We are happy to hear that.

Q139 **Peter Grant:** Ms Munby, we have known for probably a decade that the UK energy market is structurally wrong and that something was going to go. There was going to be a major supply crisis and probably a major cost crisis at some point. Why were the Government so taken by surprise when it happened?

Sarah Munby: Do you mean taken by surprise by the global increase in gas prices caused by Putin's invasion of Ukraine, just to clarify?

Q140 **Peter Grant:** No, taken by surprise by the fact that something happened that created an energy price crisis in the United Kingdom. We knew that there was a supply problem coming up and that there would be a major shock, whether it was a global issue or whether it was a complete failure of two nuclear reactors in the UK at the same time. Why did the energy support schemes, like the Covid support schemes, all have to be put together in such a hurry? Why were they not, at least in outline, ready in advance?

Sarah Munby: If I may take that question in two parts, starting with the nature of the surprise, it is important to put on the record that nobody had predicted this, in the sense that many people paid much more than any of us make their living trading on electricity and gas futures. What happened was not predicted by any of the players, so this was not a miss.

It is, of course, true that risks in the energy market are something that you want to be well prepared for at all times. The fact that the schemes were able to be stood up so quickly reflects a pretty good degree of preparation. I just do not recognise the idea that there was a failure caused by a lack of preparation here.

Q141 **Peter Grant:** Am I right in saying that you or one of your colleagues asked for ministerial direction on the schemes because you had concerns about value for money? Would those concerns have been less severe if you had

had more time to put the schemes together before they went live?

Sarah Munby: No, I do not think so. Maybe I will just talk briefly about the ministerial directions. There were two ministerial directions here—one broadly for the domestic schemes and one for the non-domestic schemes. In terms of the domestic scheme, as you rightly say, part of that was value for money. If we go back to figure 6, we were talking about a £97 billion expenditure. That is quite a heavy item for any accounting officer to swallow.

The benefits that we were discussing here are quite hard to quantify and, as I said in my letter, go right through to more macroeconomic benefits, because you are acting really on the entire system of the economy as a whole. I did not see myself as in a position to give the usual level of assurance around value for money.

The only thing that could have allowed you to reach a very obviously better value-for-money situation without having much worse outcomes for vulnerable people would have been if you could have conjured up a very much more targeted consumer scheme. It is just worth saying that it is important to recognise that it is not that a little bit more time would have enabled us to do that effectively. It is very difficult to run a scheme through the energy system that is really targeted in the way that you would have wanted this scheme to be targeted. That was not an artefact of being in a

rush. That is an artefact of the way the energy system works.

If you want to be more or less progressive in your overall system of tax and spend, there are lots of levers to do that. The energy system is not well designed for carrying out progressive action, except where we are talking about targeting the very most vulnerable, as we do, for example, with the warm home discount scheme. The broader targeting that you would have needed to do this was never something that an energy scheme would have successfully delivered, even if we had had more time to prepare.

Q142 **Peter Grant:** The kind of cost that you thought you might be looking at, at the time, would have, in itself, given you significant concerns. Apart from the scale, did you have any concerns about either the propriety or the value-for-money aspect in terms of the principle and how the scheme operated? Was it simply that it could be so big? Is that what gave you the concerns, or did you have any concerns in principle with what was proposed?

Sarah Munby: On value for money, I will almost repeat what I said in my letter, because it sums it up well. The cost was very clear. In terms of the benefits, there are various, including health benefits. We talked about swimming pools earlier. You are adding up a lot of different benefits around poverty reduction, health benefits, and potentially macroeconomic benefits just by making that calculation in a way that could let you go, "Yes, I am definitely sure". We could not make that get to where you would have wanted it to in time.

You asked about whether there were any other grounds for the direction. There were two others. The first was propriety, where there were two reasons. One was that I could not, at the time of the direction, sign off that we had all of the anti-fraud measures fully in place. That risk, by the way, has very much decreased as the schemes have come online. I am sure that you will ask more about that, but that was more of a timing point.

Chair: Yes, we will come to that.

Sarah Munby: The second was because there was a small amount of overallocation in the early months of the scheme to do with managing fixed tariff customers. It was also a direction on feasibility, and there was a specific reason why I asked for a direction on feasibility at that stage, which is that, at that point, the energy price legislation that we were relying on to implement the scheme had not yet passed, so we were acting before.

Chair: That is a very good explanation of why you had to ask for those directions.

Q143 **Anne Marie Morris:** Mr Pocklington, can I ask you in terms of regulation? Ofgem clearly has an important role in terms of both domestic and business regulation in terms of energy, but not energy prices, except in relation to consumers.

Going forward, given what we have seen and given that there is apparently no ability now to switch supplier, either in the domestic market or the business market, Ofgem should be asked to consider taking on the role of setting up a proper competitive marketplace in both sectors, not just the domestic market. Ofgem could establish some form of pricing framework so we do not have the inequalities we have currently in the market.

Jeremy Pocklington: I completely understand the reasoning behind your question. That is the first thing to say. It is absolutely right that switching has declined very significantly since wholesale prices rose very significantly.

On an annual basis, the switching rate reached 20% briefly. They have now fallen to as low as 3% for electricity and 2% for gas. There is very limited switching in the market. Indeed, it has been actively discouraged at the moment in order to ensure the market is stable. Ofgem introduced something called the market stabilisation charge to do this.

Anne Marie Morris: You are missing the point. We know what is happening now.

Chair: We know what is happening now.

Q144 **Anne Marie Morris:** We want to know what you think should be done in the future. Even from what you are saying, your testimony, switching is good. What can we do to fix it?

Jeremy Pocklington: First of all, we are looking hard at the future of this market in terms of the review that Mr Mills referred to earlier. We are also working very intensively with Ofgem on this. We also need to look at what is happening in the market. Ofgem's assessment and our assessment is that switching will start to return as the year progresses, as the price cap returns after the summer. We estimate that it will be closer to £2,000. We may see more switching coming back and more new tariffs coming into the market, which will enable more switching. That is what we need to monitor very closely.

Q145 **Anne Marie Morris:** Mr Pocklington, if that does not happen, as you are monitoring it, I presume that you will be raising this with Government and looking to review Ofgem's role. Presumably you agree that we must have competition in the marketplace. On that, let me then just move on. You did use the word "monitoring". It is important that the current schemes and the benefits thereof are properly monitored. Who has that role? Is Ofgem monitoring it? Are you monitoring it? How are you evaluating the impact and the effectiveness of the schemes?

Jeremy Pocklington: The first thing to say is that there is a lot of work relating to the delivery of these schemes. The delivery of these schemes is not finished as of yet. There is a huge exercise going on in my Department to ensure the continued delivery of the schemes.

We have also set out plans to evaluate these schemes, which is what I think you are referring to, in respect of whether we are meeting the objectives set out in the NAO Report. That will take time. First of all, we need the scheme to complete before we can do a full evaluation.

Q146 **Anne Marie Morris:** You are telling me, Mr Pocklington, that before you put the schemes into place you never thought about how you would evaluate them.

Jeremy Pocklington: No. On the contrary, I am saying that we have put evaluation plans in place as we are establishing the schemes, but a full evaluation of their effectiveness will require us to run the schemes and evaluate them. The full evaluation cannot be concluded until those schemes have been concluded. That is all I am saying.

Chair: Claire Hanna, welcome to the Public Accounts Committee.

Q147 **Claire Hanna:** Thank you very much. I just want to focus on some of the rollout in Northern Ireland. The fuel price guarantee was not in place until November, and the alternative payments rolled out earlier this month. What accounts for the delay in getting that support to people? Was it an issue of politics or capacity, Ms Munby?

Sarah Munby: Shall I start? It is perhaps just worth saying that, even before the energy price guarantee scheme and the alternative fuel scheme, which I am sure we will come on to talk about in just a second, came in, we already had the £400 energy bill support scheme. In what was then BEIS, we took on the delivery of that scheme in August. We have been working on the equivalent GB scheme since February. Frankly, the biggest reason for it happening later is we started later.

The second reason is that, partly as a consequence of that but not wholly so, we have been very clear with suppliers in Northern Ireland that we have to work with them to make these schemes deliver. An example of where we have changed the design of the schemes to enable suppliers to deliver successfully is that in GB the £400 was delivered in individual tranches of £66 a month; in Northern Ireland it has been delivered as a lump sum. What that means is that in one way it is late in Northern Ireland and in another way it is early. You get all the money quicker than other people get all the money, but you do not get the money as fast at the beginning.

The reason we did that is because suppliers in Northern Ireland could not deliver. Their systems and their capabilities meant they could not deliver an instalment-based scheme. It was pretty clear that, if we pushed and said that it had to be paid in instalments, the first instalments would have come later than the £600 single payment.

That was primarily a matter of capacity in the energy system. That is a feature of all these schemes we are working with energy suppliers to deliver.

Q148 **Claire Hanna:** The issue is that two-thirds of homes are not on the grid. With the price of oil, many people would have needed the payment up front. There was a caretaker Minister in post until October. How much engagement was there with him? At what point was it decided that it would not be delivered by the Northern Ireland Civil Service and Executive?

Sarah Munby: The decision that we would deliver was taken in August by Ministers at that time in order to ensure support got to the people of Northern Ireland as quickly as we could.

I am sure it is obvious to the Committee but, for listeners, it is fair to say that we would not classically be delivering something like this in Northern Ireland. That is a change from the usual operating model. Therefore, we have worked closely with colleagues in Northern Ireland and, latterly, the regulator in Northern Ireland to make sure we are adjusting the schemes in the necessary ways to reflect the Northern Ireland market.

A very obvious example of that is the alternative fuel payment for those who are off the gas grid. In GB, that is being made to a subset of households that use alternative fuels whereas, exactly because of the point you made, it is being made to all households in Northern Ireland to reflect the fact that the majority of households in Northern Ireland are using alternative fuels.

Jonathan Mills: If I could just add one other point, reflecting the fact that we do not conventionally operate in this market, the powers provided by the Energy Prices Act were also important in order to enable us to deliver, which did also affect the timing.

Q149 **Claire Hanna:** Why did you decide to deliver the support via the suppliers rather than, for example, a scheme similar to the high street voucher scheme? The Department for the Economy had used that scheme in 2021, and it had been tried and tested as a means of getting direct support to households.

Sarah Munby: As a general principle, it is fair to say that we were seeking to do things in Northern Ireland as similarly as was appropriate to what we did in GB, given the differences in the market. We would not have been naturally looking to have a completely different type of scheme in Northern Ireland. That is the first thing to say.

We also thought that it was possible to deliver this in Northern Ireland through the suppliers. If we had found that it did not work, we would have had to have looked at a whole different range of ways of delivering the support. As has been demonstrated on the ground, the Northern Irish suppliers have come through.

Jonathan Mills: Using the approach we use makes sure we are getting the support to the people who are most directly affected by energy costs. As you will know, there is a much higher prevalence of prepayment keypad meters in Northern Ireland. We are requiring people to verify their identities in order to receive the vouchers we are providing to make sure we are getting it to that person. There are some specific features related to the objectives of the scheme that are a bit different from the household scheme you have described.

Q150 **Claire Hanna:** The overall spend in Northern Ireland is quite a bit less than it would have been if the Barnett formula had been applied. Are there any additional costs to the public purse because of going via suppliers or through the Civil Service in GB as opposed to doing it on the ground in Northern Ireland? Are there any additional costs?

Sarah Munby: I do not think so. I cannot say I have done a calculation, but, if anything, I would assume this is a lower-cost model because we are running the schemes as one and we are taking advantage of the energy suppliers' capability. You are not having to set up a separate profile and set of schemes. I cannot tell you that I have the chapter and verse.

Q151 **Claire Hanna:** I appreciate that some of the analysis is difficult in real time, but has there been any comparative analysis done to look at the impact of the energy price guarantee on its own and the impact that it had in Northern Ireland where there was not a supplement, compared to Britain, where people were also being supported directly? I mean that in terms of assessing value for money, if you get me.

Sarah Munby: I cannot point to a specific example. At a high level, given that the only really substantial difference is in the timing of the delivery of the £400 component, we would not expect that to have a really substantial effect on the differences in value for money. I can imagine that it is not an attractive thing for people who have had to wait to receive that money, but it would not change the fundamental assessment.

Q152 **Claire Hanna:** I might come back, Chair, on the future of the business support, but, finally, how will you assess whether there has been selfdisconnection because people are not plumbed into suppliers' systems directly?

Jonathan Mills: We have been working closely with the Utility Regulator on electricity and gas in Northern Ireland. By definition, self-disconnection is an issue for people who are using networked energy supplies. As you will know, heating oil is much more prevalent in Northern Ireland. One of the things we have been particularly concerned about is ensuring that people have continued access to heating oil.

In terms of the evaluation we would do, as Jeremy has said, we are developing those plans. We will need to set out the outcomes when we get to the end of the programmes. I would expect us to work closely with the regulator, which is monitoring this on a regular basis.

Q153 **Chair:** Thank you for now, Ms Hanna. It is unusual for us to be discussing Northern Ireland, but that brings me back to you, Ms Munby, about the design and implementation. I mentioned earlier on that you had to do it at speed. We are rolling out a new scheme now. I know we have had conversations about the challenge of a scheme that is universal versus one that is going to be differential. We will come to the differential in a moment, but, looking back at what you had to do at pace, what would you do differently now? I know the full evaluation has not happened, but what lessons have you learned that you would do differently?

Sarah Munby: I would start by putting on the record that, from a personal perspective, I think the Department did a stand-up job during this period. There are a lot of positive lessons to be learned, many of which build on things we have discussed as learnings from Covid.

Just to make that real very briefly, one of those was the ability to move people quickly. We had hundreds of people stood up fast to do the work. There was a focus on anti-fraud and making sure we had the very best anti-fraud engaged from the beginning. We really thought through and worked on automation and data. The capability that had been built to stand up schemes quickly really paid off in this circumstance.

If you had asked me what lessons I have learned from this, I do not know what the solution to this is, but a reflection I would share is that this is like a complex expanding onion. You start with one scheme and you say, "I want a scheme to help all households". Then you find that we need to worry about people who use heating oil, and you are also worried about people who live in park homes, and you are also worried about people who live on farms. You get more and more complicated and smaller subsets as you get into more unusual energy market situations. The challenge is that very often those who are in those smaller groups are even more vulnerable. You end up getting the help late to those who need it most.

Chair: It is a bit like Covid.

Sarah Munby: It is sort of inevitable in these circumstances, but that is what I regret.

Q154 **Chair:** We are talking about risk in Government and setting up any future schemes. This scheme had the benefit of people having data on many of these groups. If you paid an energy bill, there was data about you. If you used heating oil, there was less so. Imagine that you were writing the handbook for someone coming in. In fact, you are sitting next to the man who is coming into the job. What was your handover conversation like with Mr Pocklington? What are you saying? "Watch for these things, Mr Pocklington. Apart from the Public Accounts Committee, watch for these things. These are things that worked well".

Sarah Munby: The only thing you could do differently in theory—I am not sure this is really implementable, but this is counsel of perfection—is you need to stand up five times as many people as you think because you need to start working on all of the difficult cases in parallel. That is really hard to do on the ground when you are trying to deliver a core multi-billionpound scheme.

Q155 **Chair:** When we looked at vulnerable people in Covid, there were certain databases that were brought together quite quickly nationally. Some of that worked quite well, but there were big gaps because you were relying on doctors to go through records. Is there any merit in some sort of database held by local authorities for which people could self-register—

you would probably have to do it that way for data reasons—to say they were on heating oil or using liquid petroleum gas?

Sarah Munby: I would worry that there was a potential fraud risk. That is my initial—

Chair: Fraud seems to be uppermost in your mind, which is good to hear.

Sarah Munby: Exactly, yes. I am in front of the PAC. The issue in this case was not that we did not have the data or that we did not know that these groups existed. If you look at the range of schemes we have now, it is really quite a long list. That is because there are lots and lots of different circumstances. It is more about the volume.

Q156 **Chair:** Did you know about them at the beginning but you just did not have enough people to do it all at once?

Sarah Munby: It was not that we did not have enough people but, perhaps more relevantly, not enough fundamental bandwidth, when we were looking at such a complex market in such a rapidly changing environment, and when we needed to make sure we got support out to the 2% and the 98% at the same time.

Q157 **Chair:** Before I pass back to Ms Hanna, I just want to reflect on the fact that, when Covid happened, the Paymaster General had a daily call with MPs. It was fascinating sitting in. I have a perspective as an inner-city MP; Sir Geoffrey has a perspective as an MP representing a more rural area.

We learned from each other, but certainly the Paymaster General and the Government learned from MPs on the ground exactly what the differences were in their areas.

Reflecting on that, would there be some benefit in involving even just a selection of MPs rather than just Ministers—Ministers have a big job to do, but they are not the same thing—to make sure you are getting that national perspective?

Sarah Munby: There is always benefit in that kind of engagement, but, if you take an example like park homes, which we may well discuss—

Chair: We are going to come onto that.

Sarah Munby: It is not that we did not know that was a challenge. It is that running a park-home-specific scheme is its own project.

Chair: Park that thought because we are going to come to park homes with a colleague who has a particular interest.

Q158 **Claire Hanna:** This is probably for Jonathan. When will all eligible nondomestic customers get their alternative fuel payment? Could you give us an assessment of uptake so far and why that has been a little slower than people might have anticipated, given the trading environment?

Jonathan Mills: The non-domestic alternative fuel payment is open. Payments are being processed now. I cannot give you a forecast right now for when that will be fully paid out. As you will be aware, there are two elements to that scheme in GB and in NI, the basic entitlement and then a higher entitlement for particularly heavy users of kerosene. The latter is application-based.

I am not sure we would want to say the uptake had been below expectation yet because there is time still to go on it, but, yes, those schemes are underway and are paying out. We are conscious of the particular importance in Northern Ireland for non-domestic as well as domestic.

Q159 **Claire Hanna:** Yes, the same issues pertain in terms of about two-thirds of non-domestic customers. There is a sense that support has not been taken because it is opt-in and application-based.

Jonathan Mills: Yes, the higher rate is opt-in. If you have particular examples of where people have experienced barriers to that, it would be really good to hear about those.

Q160 **Chair:** Could you remind us how long it will be running for? Registrations are open for these schemes.

Jonathan Mills: Registrations are open. I have the data in my pack here.

Chair: You can come back to us in a minute. We will just hold the thought and we will come back to you.

Q161 **Sarah Olney:** I want to ask about prepayment meters again. The £400 for energy bills is available to people on prepayment meters via a voucher. I recently had a meeting with the Minister for Energy, and he was saying that he was really concerned at the low take-up of vouchers. It is below 50% across London. That was a figure he gave me, but that is from memory. Please do correct me if that is not right.

I am really worried because people on prepayment meters are going to be our lowest-income users. Potentially half of those people are not getting that support. The whole thing is designed to help people with the cost of their energy. If the people who are experiencing the worst impact of that cost are not getting the help, that is really concerning. Can I ask what BEIS has done or what the new Department will do to ensure those people are being given every opportunity to take up that £400?

Sarah Munby: It is a very serious issue. I know it has been on Jeremy's desk over the first couple of weeks in the job, so I will let Jeremy come in.

Jeremy Pocklington: It is a very important issue. We are very alive to it. It is one of the big risks. The risk is that most vulnerable people do not get the support that they need and deserve and that the Government have allocated for them. The current position on aggregate is that 76% of prepayment vouchers—this is the £400—have been redeemed so far.

Q162 **Sarah Olney:** That is across the UK.

Jeremy Pocklington: That is GB.

Q163 **Sarah Olney:** That is fine, but it could be less in some areas.

Jeremy Pocklington: Yes, to the point you are raising, it is lower in some areas, particularly in metropolitan areas in London. I think it is under 60% in London. The sorts of numbers you have heard are consistent with what I understand. We have a very big comms campaign out there on local radio and social media. We have leaflets; we are in touch with advocacy groups; we are in touch with the mayors to see what we can do.

What are the problems? Coming from my old job, I am not surprised about what the barriers are in urban areas. It is things like changes of tenancy. It is always more complicated to capture people and keep track of people in urban areas, perhaps particularly London for those reasons. We have a lot of resource underway in the Department to help support this.

The vouchers themselves last for three months, but, if they reach their expiry date, we can renew them up to the end of the scheme. The data is improving a little bit each month. It is going up by about five percentage points each month. The trend is positive.

Q164 **Chair:** There are only weeks to go.

Jeremy Pocklington: It will continue.

Chair: It continues into the new scheme as well.

Jeremy Pocklington: We will continue beyond. EBSS completes, but we will continue to issue vouchers, where they have expired, and to redeem them until the end of June. We have time to go. We have deliberately done that.

Q165 **Sarah Olney:** As long as people have got their voucher by the end of March, they can redeem it.

Jeremy Pocklington: The vouchers are valid for three months. If they reach their expiry date, we can renew the voucher to ensure they can get access to the money.

Q166 **Sarah Olney:** They will not be able to get a voucher after the end of March.

Jeremy Pocklington: We would encourage people to redeem their vouchers as quickly as possible.

Q167 **Chair:** If you could drop us a very short note on that, we can publicise that with Members of Parliament.

Jeremy Pocklington: We would be very happy to do that. It would be excellent if MPs could support this.

Sarah Munby: If I could add one thing, the data is published monthly. It is broken down by the supplier. I get that in partly because I know we have had very similar discussions on bounce-back loans. We are doing here exactly what we have done there: we are making public how different suppliers are doing.

Jeremy Pocklington: I am not 100% certain, but I think we have constituency-level data.

Chair: If you have constituency-level data, MPs will love you for that.

Jeremy Pocklington: I cannot promise, but I will take that away.

Chair: You will get a brownie point in your new job, Mr Pocklington.

Q168 **Sarah Olney:** On a similar theme, I want to ask about people who are living in blocks of flats, say, who have a freeholder with a non-domestic arrangement for a fuel bill that is recharged to them. Those people are not getting the advantage of the discount. Have you made any progress in addressing that issue? I am talking about heat networks.

Sarah Munby: They can apply for their £400 as of today.

Q169 **Sarah Olney:** That is excellent. That has been somewhat delayed, though. They were being promised that before the end of 2022, unless I am mistaken.

Sarah Munby: I would not necessarily want to refute that.

Q170 **Chair:** This is all heat networks.

Sarah Munby: This is for people who, for a range of different reasons—park homes are another one in the same category—have not been able to receive the £400 directly from their energy supplier because they do not have a direct contract with their energy supplier. That is exactly what the alternative funding scheme is designed to address. That scheme has opened today. You can go to GOV.UK or there is a phone number you can use to apply to get your £400 issued by your local authority in GB or by a third-party contractor in Northern Ireland.

Chair: I should declare that I am on a heat network but I do have a separate bill, so I am not quite sure where I fit. Mr Mills wants to come back on Ms Hanna's point.

Jonathan Mills: You asked about the timings for the non-domestic alternative fuel payment. The automatic element is being paid. Everybody with a non-domestic electricity connection in Northern Ireland will be paid during February and March. We have not set out the timescales for the topup element publicly. We expect that to launch very shortly. We have not stated a public timescale for that.

Q171 **Claire Hanna:** What is the timescale for that?

Jonathan Mills: That has not been finalised yet. We expect that to be launched very shortly. We will announce the window when we set out the final timescale for it. The automatic payment is happening now.

Chair: I am sure we can follow that through.

Q172 **Jill Mortimer:** It has come as a surprise to me to hear that portal is open from today. I was in one of my retirement villages on Friday, at Hartfields in Hartlepool, and they told me the portal was open. They had already registered someone. That is perhaps news to you as well.

Moving on, I have many residents in park homes; I have many residents on heat networks, in retirement villages and so on. In October they were told they would be receiving £400 of support. It is now the end of February and that portal has only just opened.

Ms Munby, you have already gone into some of the details of why it took that long, but I am curious about this. As this scheme is now effectively being administered by the local authorities—they are going to do the checking mechanisms to ensure these claims are real and they are going to be distributing the cash—why has it taken so long to get a simple portal open? Why did we not have it open months ago so people could apply? It is already going to take another four to six weeks for local authorities to get this money out to people, and we are going to be heading into summer. Please can you tell me why it took so long to open a portal?

Sarah Munby: It is not just opening a portal. If we come back to the operational challenges with these kinds of scheme, the most difficult schemes are those where you are asking people to apply, particularly where there are a large range of different kinds of cases. It is not pubs. It is many different kinds of people with quite complex living arrangements. In order to be responsible with public money, we need to be able to be sure. This is where the fraud and error risk is really substantial.

You can put up a web form quickly, but what takes time is what sits behind that in terms of data systems. You need to make sure you can reconcile whether these people have in fact already received their £400, maybe without noticing it, or they are in fact fraudulently applying for a second £400 after having received the first £400.

You also need to make sure they are actually in the category you are trying to support. Are they genuinely in the box you are trying to get at? That means you need to have a data source you can cross-match into the applications. That kind of back-office work, making sure you can verify to ensure the support goes to the right people, is what takes the time.

Q173 **Jill Mortimer:** Forgive me. They do not have a direct relationship with the suppler. There is no direct contract there. This is coming through a different means. It is the local authorities that are doing that backroom work, that cross-checking and making sure. Surely all you are doing with the portal you have set up is taking details from people so that checking can take place.

Sarah Munby: No, that is not correct, precisely because asking local authorities to carry out that level of manual checking would be far too big a burden on local authorities. For example, one of the things the IT does when you apply is it checks automatically for the local authority whether you have already received this payment through your energy supplier. We are not asking local authorities to do that check manually. Ultimately, that will make the process both much more accurate and much speedier for people when they do apply.

We are trying to make as much of this automated as possible. These are really quite substantial numbers of people. I am trying to avoid using the word "burden", but this is a significant requirement on local authorities. We are trying to make it manageable and executable for them. This always has to be balanced. You can open it quickly, but, if local authorities cannot actually do it, that will not get money to people.

Q174 **Jill Mortimer:** I see what you are saying, but why have there been so many months without that explanation being given as the reason it was taking so long? People could at least have been provided with some comfort that they knew when the money would be coming. At the moment, they have just been left hanging on. We have been told, "We might know. We might know". It has been forever kicked forward, and then suddenly it has arrived. Surely it would have been best to manage that expectation and explain to them that it was going to take this long.

Sarah Munby: I sincerely apologise if people do not feel they have been sufficiently kept in the loop. Like anything such as this, where you are standing it up as fast as possible—people have been working 24/7 on this problem—it is fair to say that it is sometimes quite difficult to say exactly when it will go up apart from putting that date far into the future, which is not what people want to hear.

I can assure you that we have been acting as fast as we possibly could to get this system up. You can imagine that it has been something our Ministers have been very seriously concerned about. Jeremy and I have also been very seriously concerned about it.

Q175 **Sarah Olney:** Ms Munby, on this Committee we have looked before at other schemes such as bounce-back loans, where we were investigating quite high levels of fraud. What lessons did you take from implementing those previous schemes that have assisted with the implementation of this scheme?

Sarah Munby: I would start with the fundamentals of the scheme. It is important to say that, while I have been acutely conscious of the fraud risks throughout, fundamentally these are much lower-risk schemes for fraud than the Covid loan schemes we have discussed. That is because of their fundamental design.

Universal schemes, by their nature, are much less fraud-prone. These are also automatic schemes. For most of what we are discussing here, you do not need to apply; it just happens automatically to you. That really reduces the potential for fraud and error. We are also taking money off. You are getting a discount on your energy bill. You have to have an energy bill and you have to be using energy in order for the discount to make sense. This is anchored in reality. You cannot be a made-up applicant that does not exist.

I would add that this has been underpinned by legislation to make sure we have the right enforcement and data-sharing powers, which were exactly the issues we talked about in bounce-back loans. We have also been using existing customer relationships. Not only are you using an existing infrastructure, the energy suppliers; you are also asking energy suppliers to deliver to their existing customers. We do not have any of the new-tobank customers, to use the jargon from the bounce-back loan conversations.

The fundamental design means it is very much lower risk. We all take a very great deal of comfort from that. As I said, there are also some operational things. The Public Sector Fraud Authority has been involved, not just upfront but really hand-in-glove in a joint tiger team with BEIS's own counter-fraud team. Fraud risk assessments were done early; they were complete. There was a full work-through. The capability and process work we did during Covid has paid off, frankly, in these schemes.

The other thing to say is that we have invested up front and quite heavily in compliance checks of all kinds. We have invested in prepayment checks and post-payment checks. If the energy suppliers were here, I suspect they would confirm that we are crawling all over them to prevent energy supplier error and fraud. In terms of end users, customer-level error and fraud, we are hugely protected by the fact the schemes are not application-based. We are ever vigilant, but this is not another bounce-back loan scheme.

Q176 **Sarah Olney:** Can I just quickly ask about the non-domestic payments? The report identifies that there is greater risk of fraud and error in that one. What further steps have you taken with that scheme?

Sarah Munby: The reason that is the case, as I was describing earlier, is the complexity of the business scheme. With the retail scheme, you can see on the face of it what should happen. The business scheme is looking at what contract you had and what price should have been charged, etc. The opportunities for error are substantially greater, and of course fraud goes along with that.

At the very beginning of the scheme, we did a very great deal of what you might call test running with suppliers. We asked them all to show us how this was going to apply to a subset of their databases and send it back to us for full checking. That process yielded results because we were able to coach suppliers actively on what they should and should not do, so there was a lot of pre-action work. Then, as I say, we have dedicated teams going inside each of the energy suppliers to check in detail, at the level of their customer databases, to ensure that the scheme is operating properly and fairly without error and fraud.

Q177 **Sarah Olney:** Do you have an estimate of what the rate of overpayment is so far in terms of reimbursing energy suppliers?

Sarah Munby: I do not have an overpayment number in my head. Overall, we are aiming to pay accurately. There will probably be some small cases of underpayment and some small cases of overpayment.

Chair: Mr Mills is nodding. You agree.

Jonathan Mills: We are aiming to pay accurately.

Chair: That is a good line to take, if you want promotion.

Sarah Munby: There is not a systematic overpayment. We might find there was a very small net overpayment or a very small net underpayment. I do not know.

Chair: It is also traceable.

Sarah Munby: We are reconciling every month. It does not get away from you, if you see what I mean.

Sarah Olney: The report also recognises the risk of deadweight. My understanding of this is that it is giving money to people who frankly do not need it.

Chair: We have had quite a lot of evidence on this as well.

Q178 **Sarah Olney:** This is the reverse of the issue I highlighted earlier about people who really do need it being the people who do not get it. I understand all of the structural points you have made. On that issue of deadweight, is there more that can be done in future iterations of the scheme to reduce that risk?

Sarah Munby: On the business scheme, that is arguably part of what is happening. The more targeted a scheme is, the less deadweight it has. That also generates hard cases of people who do not get support that you might think they deserve. Those two things are necessarily correlated.

On the consumer side, it is maybe worth pausing for a second on the challenges of reducing deadweight. It is true, like with many different kinds of Government benefits, that some people who do not strictly need them receive them, but through the energy system we do not have an easy way of targeting you or knowing that you did not really need that £400.

We can target people who are on benefits. We do that for the warm home discount. However, because energy prices went up so much during this period, we had people who were vulnerable who were not, in a classic way, known to Government through the benefits system, so just supporting only the most vulnerable was not the right policy answer. At least that was what Ministers said. Once you go beyond that group and you try to chop out certain segments, you are not marked on your energy bill for, relatively speaking, how wealthy you are. There is no straightforward way of making that happen. Even if we had wanted to exclude some of those people, it was not obvious that we could operationally.

To the question earlier about what we would have done if we had had more time, the energy system is just not the right way to do that.

Q179 **Sarah Olney:** Finally from me, the expense to the taxpayer from this scheme increases depending on how much energy people are using, yet, at the same time as these schemes were introduced, there was no public information campaign to encourage people to use less energy. There was one subsequently, perhaps six to eight weeks later. Why was more not done then and why is more still not being done now to encourage people to think of ways they can use less energy?

Sarah Munby: You will have seen that there is now quite extensive public communication on the question of energy usage. I cannot say very much more than that Ministers at the time did not want to do that.

Q180 **Anne Marie Morris:** Ms Munby, going back to businesses, why is it that, under the new scheme, zoos and museums are under your intensive energy user category and therefore can apply for extra help but pubs and restaurants cannot? Earlier the explanation was that the test was "energyintensive and trade-intensive".

I cannot really see how you could argue that pubs and restaurants in Devon, when they have to keep pizza ovens and freezers on, are any less energy-intensive or trade-intensive than a zoo or a museum. Can you explain the discrepancy?

Sarah Munby: Yes. First of all, it is worth saying that we have published a technical note that describes the methodology used to identify the sectors. For those of you who want to go into lots of detail, that is the place I would point you to. It is all done by SIC code, the labels for the different sectors.

The short answer is that, in the sector that includes museums and libraries, as you described, there are some highly traded businesses. When you push through the methodology, those sectors appear as highly traded. We recognise that in any scheme like this, if you are using big categories, you end up with a mix of those who are really deserving and those who are less deserving.

Q181 **Anne Marie Morris:** I hear what you say, Ms Munby. Perhaps you could send me that because I have not seen that detailed methodology. If there are some exceptions in the zoos and museum category, I cannot help feeling that there will equally be some exceptions in the pubs and restaurants category. Given the very simplified explanation you have given, I find it hard to understand how you have come to that distinction.

I am therefore left with a question mark: how well do you understand these individual businesses, if you just looked at the SIC code? I know that is the way you divided it for ease of use. How did you do it? It is not objective; it is subjective. It is pulling together a lot of data about these sectors, which are quite varied in their makeup. How well can we honestly feel that you understand each of these sectors and how they operate? How can we have any confidence that the methodology has taken account of those differentials?

Sarah Munby: Of course, it is true to say that there are many sectors in the economy, and I could not say BEIS understands every single one well. In the specific example of pubs and hospitality, the Department had a dedicated team working specifically on pubs and hospitality, who understood the businesses well.

I would perhaps point to Treasury colleagues. Ultimately, the decisions about the fundamentals of the methodology, which is really what you are describing, for being trade-intensive and energy-intensive were decided by Treasury Ministers.

Q182 **Anne Marie Morris:** Mr Duffy, why is my pub, with its pizza oven turned off, effectively reducing trade, being excluded?

Phil Duffy: We have looked at this list. Just to be entirely clear, this applies to the future schemes, not to schemes to date. There is confusion about that. There was confusion at the weekend about farms and so on. I want to be absolutely clear that the schemes to date have been universal.

The Chancellor set us two objectives in his Autumn Statement. He was very clear about them. One was to reduce the overall cost to taxpayers as part of the fiscal consolidation to make sure we had a sustainable pathway of debt. The scheme will have to cost less. Secondly, he was absolutely clear that internationally traded goods should be our priority. Let me unpack that a little bit.

The very high prices we are seeing in Europe for gas caused by Putin's invasion of Ukraine do not apply globally. If you are making glass, concrete or steel, you could be competing with a business in the United States that is not facing those same high gas prices because their prices are lower.
The gas market does not mean that gas flows freely across the whole globe. That was a reason why we prioritised those businesses that had international trade competition.

You may then say to me, "How does a library have international trade competition?" Let me unpack that. We looked, as we had to, at the published data. In the category that includes libraries, there are a lot of internationally traded antiquarian and other booksellers who are in that category. We then had a situation where they were compounded up. We had a mix of international traders and non-international traders for libraries and so forth.

We could have tried to find a way that was legally defensive of pulling libraries out of the system. That would have been another way of doing it. We could have tried to exclude them in some way. We took the decision, with our Ministers, to apply the system in a completely fair way. That is why you end up with that as the outcome. It is an odd outcome, but it is not an unfair outcome.

I want to come back to pubs for a second because you raised pubs.

Q183 **Anne Marie Morris:** Yes, please do. Pubs affect tourism, which is an international business. People decide where they go on holiday because of the cost in-country.

Phil Duffy: The first thing to say about pubs is that we are completely aware of the pressure they are facing. We have had an awful lot of postbag and representations about the difficulties pubs are facing up and down the country. We have done a fair amount for them. First of all, on the business rates system, we have given them a very large discount, which means that about eight out of 10 of them will see their rates frozen or declining.

Q184 **Anne Marie Morris:** Does that not also apply to some other bits of the hospitality and leisure industry?

Phil Duffy: Yes, it does.

Q185 **Anne Marie Morris:** They are getting the benefit as well.

Phil Duffy: We have taken a decision to prioritise this scheme on the energy-intensives. There are other options things we can do to help pubs, which we are taking forward. For example, the beer duty freeze has meant that our beer duty is now the lowest it has been since 1990.

Q186 **Anne Marie Morris:** Mr Duffy, you are arguing, along with Mr Bowler, that, because there are other Government or Treasury schemes in the mix, it is therefore fair. Have you done the calculations for each of these sectors within hospitality and leisure, which right now is the one I am most interested in, to look at the trade-off? They might be able to access some of the reliefs you talk about, but they are not in the same bailiwick in terms of amount as some of the energy support schemes.

Phil Duffy: That is not the question we had to answer. The question we had to answer was, "Where do you put your marginal pound in an environment where you have very little access to public money?" If we had not subsidised steel and concrete—look at the list of sectors that have been subsidised—those sectors would not be operating in the UK. That would have very grave consequences for our security, for our exports and for key jobs in those areas.

They do not have an alternative but to compete against, for example, much cheaper gas that comes from the United States. We may want more support for those sectors, but the question is, "Was it a rational choice to prioritise the limited pot of money on those internationally traded sectors?" I would argue it was, and it was very much in line with the steer we had from our Ministers.

Q187 **Anne Marie Morris:** It is a marginal call, is it not? You have those industries—I agree with you—like security, cement, etc, but then there has been a bit of subjective judgment about the rest, particularly the domestic businesses, as to which ones should get help or not. Some were lucky and some were not. Would that be true?

Phil Duffy: No, that is not true at all. We have a universal scheme. We have had to look very hard at how the tax system is helping some of those high street businesses and hospitality and leisure businesses. Those have been a real priority for our Minister throughout the whole period.

Secondly, they are quite highly taxed and regulated. We have a lot of levers we can use to help them. For the coming year, is this scheme the right way of helping pubs at scale? Our answer to that is, "No, probably not". There are other things we can do.

Q188 **Sir Geoffrey Clifton-Brown:** I have one question for you, Ms Munby, about off-grid customers and their £200. As I represent a rural area like the Cotswolds, a lot of my constituents are off-grid. On the whole, they have diesel for their heating and they are eligible for the £200. How will the electricity companies know who is eligible, particularly those—I do have a few—who are in on-grid areas but who are not connected to the grid?

Sarah Munby: Yes, that is a good question. Let me go through it. This is about people who are using fuels other than gas for heating, who are entitled to a £200 payment. For the majority of those people, the energy suppliers, who know whether you buy electricity or gas, can identify you automatically and make the payment automatically.

There is a subset of customers who are either completely off-grid—there are a small number of people who have neither gas nor electricity through the grid—or who are in an area where there are lots of people who fall into the category of not buying gas and not using alternative fuels, who heat their homes through electricity. There is no automatic way of us distinguishing those two groups.

There is a small number of people who live in those areas, typically highly urban, where there are not a lot of users of heating oil. We are asking them to apply for their £200. The portal to do that will open next Monday. The vast majority of people in this segment of heating oil users will receive £200 automatically on their electricity bill. If you are either fully off-grid or you are in one of those areas where we cannot identify you automatically, you will be asked to apply for that £200 in a similar way to the £400 discussion we were having earlier.

Jonathan Mills: About 90% will receive it automatically.

Q189 **Sir Geoffrey Clifton-Brown:** To be absolutely clear, if you are in an offgrid area, you have to apply for this £200.

Sarah Munby: No. Most people—90%—do not need to apply. Let us say you live on a street where the majority of people use a heat pump and you are the one person who uses a gas canister. We cannot spot that you are using a gas canister and the others are using heat pumps. The problem is that the people who are using heat pumps are already getting support with their electricity costs.

Q190 **Chair:** I just want to go back to hospitality briefly. There are excellent pubs, as you can imagine, in Shoreditch and Hackney. The George and Vulture is one in Hoxton. Their energy bills are yet to solidify—hopefully they have gone down—but they were £18,000 a year up to May 2022. When they renewed in May 2022, it went up to £46,000 a year. That seems stiff enough, but they have been quoted £175,000 for May 2023. In addition, their rent has gone up £40,000 despite support from their landlord during the pandemic. That has now come back up. They have also had a tripling of business rates.

The proprietor there reckons they will have to charge more than £18 a pint—even in Shoreditch, that is a lot of money—to cover the rise in costs, which is clearly not feasible. I have spoken to other pubs in the area, such as the Brewhouse and Kitchen, and they are all very concerned.

I have two questions. First, to push a bit harder, is there any thinking about support for businesses that could go under? Secondly, to either Mr Duffy or Mr Bowler, what are you doing to monitor the wider economic benefits of the scheme? You talked a bit about the benefit—certainly, we get that— of keeping internationally competitive businesses going. If businesses like this fold, it would really enforce the points Ms Morris was making.

James Bowler: You have rightly mentioned all the different things hitting one particular business. Let me do business rates. I will explain why I have been at pains to say it is worth looking not just at the energy support schemes, as we look at different sectors, but everything we are doing. When we took the decision, as Mr Duffy said, to target future non-domestic energy support, which will start from April, we did it at the same time as a very large intervention on business rates. The revaluation has been going on, as you are probably aware. The intervention we made was £13.6 billion of support, which is mainly to temper the changes that the revaluation would have caused. That does not mean everyone's rates are going down.

There are two things in particular happening on business rates. First, there is this 75% discount for retail, hospitality and leisure. That cost £2 billion. The other thing is that there was a whole set of support to try to cap what the revaluation might have done. That cost significantly more.

The tripling of business rates I am quizzical of because a large business should have had its rates from revaluation capped at 30% and a small business at 5%. That is because of the revaluation. I am just trying to think through how its business rates could have tripled.

Chair: There was some relief during Covid.

James Bowler: It would be tripling from a small number. That is on business rates. To Ms Morris's point, when we looked at how best to support different sectors, we were particularly looking at wanting to do rates alongside energy support for business, going further because of the interaction.

Mr Duffy might want to come in on the wider support we have given, but we have done an awful lot on alcohol duty. We are trying to reduce the tax burden on hospitality quite considerably.

Q191 **Chair:** Alcohol duty is all very well. If your energy bills are going up from £46,000 to possibly £175,000, though hopefully a bit lower now prices are dropping, beer duty is not going to make a difference.

James Bowler: We continue to support energy bills.

Phil Duffy: On the energy price, I do not know what this business is being charged. The truth is that the price now is back to where it was before the Ukraine invasion. That is still higher than it has been historically. Of course, we have seen some sharp behaviour towards smaller businesses from retail. We talked earlier about the important work Ofgem is leading to think about how to handle that. Issues such as large deposits have been prevalent.

Q192 **Chair:** Does the Treasury or anyone have a particular view on that?

Phil Duffy: The Chancellor wrote to the chief executive of Ofgem, really just reporting what we had been hearing from sectors and asking, before the Budget on 15 March, for a reply about whether there are any gaps in, for example, the powers Ofgem needs to demand information.

Chair: Yes, this came out very strongly in our pre-panel.

Phil Duffy: Are there unfair terms, such as excessive deposits or unilateral breaking of contracts? We have heard about some of those cases. We are looking at that and seeing what more powers Ofgem might need. I am sure colleagues from the energy Department can comment on that.

I just want to go back to monitoring. One of the consequences of the Covid experience is that we now have a better grip on what is happening in corporate health across the UK. We know about the level of cash deposits held by businesses, including small businesses, which are in a relatively healthy condition. I heard the testimony you were hearing from Kate Nicholls, but I would point out that the GVA of hospitality is 10% higher than it was pre-pandemic and up 12% year on year. We are not complacent about that.

Chair: These are the businesses that have survived the pandemic.

Phil Duffy: Many businesses are doing reasonably well. They do still need support in the business rates area and in terms of the duties they are paying. That is something that is a key priority for us.

The last thing I would say is that we have done quite a lot to help the smaller end of businesses in the tax system. We kept the employment allowance in national insurance at £5,000 for SMEs. We have permanently increased the annual investment allowance to £1 million. These are things that help the smaller businesses you are talking about to mitigate and invest in some of the costs they are facing to reduce their consumption, which is really important.

Q193 **Chair:** Yes, but they are facing eye-watering costs. They are existential for businesses. The particular one I mentioned, the George and Vulture, employs 28 full-time staff and more than 60 part-time staff throughout the year. These are also jobs.

Phil Duffy: They are jobs. They are very important.

Q194 **Chair:** That is one quite big but relatively independent pub. Its landlord is part of a chain, but it is independent. You heard from Ms Nicholls that 5% of hospitality businesses failed last year. The Treasury, with the taxpayer funding it, has put a lot of money into these businesses to survive during Covid. Is there more that could be done to support them to make sure that money is not all lost because they lose out as a result of energy bills? The new scheme is less good than the old one.

Phil Duffy: As the Chancellor has said, the most important thing to help consumer-facing businesses is to get inflation down. That is the most important thing. That is what will enable consumers to carry on being their clients and customers. That is the absolute focus of the Government right now.

Chair: If it is £18 a pint, even getting inflation down—

Phil Duffy: That is another reason why we have to take an overall approach to inflation that sees inflation reduce over the year ahead.

Chair: We are not the Committee that deals with economic policy so we will park that there for a moment. We are also running tight to the Prime Minister's statement on an important issue.

Q195 **Anne Marie Morris:** What is your plan for exiting the scheme, Mr Pocklington? At that point, we are going to be in a very difficult position, are we not? There will be no help at all for businesses and individuals. The energy price is coming down, but many are in long-term fixed-term contracts. The wholesale price coming down does not really help, if you are stuck in a contract for a fixed term based on the old price.

Jeremy Pocklington: Do you want me to talk about domestic consumers or non-domestic consumers?

Anne Marie Morris: Both.

Jeremy Pocklington: For domestic consumers, the Government set out its position that the EPG will continue until the end of 2023-24. That will continue until March 2024. We have the review underway at the moment that Mr Mills mentioned about the future protections for consumers after that date, including looking at the social tariff.

The other thing I would say—Mr Duffy has referred to this—is that wholesale prices have come down. There is uncertainty about future energy prices, but what does the forward curve imply for the price cap? It implies that the price cap will go down from the £3,280 that was announced today to just a little bit over £2,000 and then remain at about that level for the foreseeable future.

Of course, we will continue to monitor this closely, but the position is changing now. Those prices are still higher than they have been historically, but they are considerably lower than where the wholesale price alone would get us today without Government support.

Q196 **Anne Marie Morris:** Mr Pocklington, you are right: the position going forward looks a lot rosier, but individuals are still stuck in current contracts at a higher rate that was set at a time when the wholesale rate was higher. For me, it is about getting from where they were to getting to a place where they can actually cope. It is about getting the timing right so that ultimately, when you review it and decide that the new contracts people will be entering into are at a reasonable rate and that no further support is required, you will not find some people get caught out because they are stuck in a contract for five years.

Jeremy Pocklington: That is mainly an issue for non-domestic consumers. I am not aware of domestic consumers on three or five-year fixes they cannot exit from. I will just see whether any of my colleagues want to correct me on that. The issue of long-term fixes is an issue for non-domestic consumers.

Q197 **Anne Marie Morris:** Can you then turn to non-domestic consumers?

Jeremy Pocklington: Yes, of course. Again, we have the new scheme, the EBDS scheme, as we have talked about, which is in place for a further 12 months. The Chancellor has asked Ofgem to look at what additional protections or changes are needed in the non-domestic market, which historically has been relatively lightly regulated.

You are then into the very challenging case of some businesses that have entered potentially long-term contracts at higher wholesale prices, so on the prices today. They have contractually entered into those. Why is that hard? Who should bear the cost, if we were to give support for that? In many cases, those suppliers will have entered into long-term hedges as well to match their liabilities. That is increasingly what suppliers are doing. They do not have the capital available to do that. That is an incredibly hard challenge.

I am not denying that it is an issue, but there is only a limited amount of support that Government can offer. We are continuing to extend that, but wholesale prices are coming down. That will help more and more businesses.

Q198 **Anne Marie Morris:** When we get to the end of April and the new business scheme, there is no expectation that the Government will provide any further support. Is that correct?

Jeremy Pocklington: We will continue to monitor this, but I am not aware of any specific energy schemes beyond April 2024. There is specific support for energy-intensive industries, but that is not what we are talking about. That has pre-existed the crisis.

Jonathan Mills: I have one other thing to add. The more long-term intervention the Government are making to help people reduce their energy costs is in the domain of energy efficiency. That will absolutely be a continued programme of work for us.

Jeremy Pocklington: That is almost a separate hearing in itself, I suspect.

Q199 **Anne Marie Morris:** That is long-term. The concern, which the Chair has already raised, is that of insolvency. Although you say that you have done quite a lot of work between you, and you better understand whether these businesses are likely to become insolvent, certainly the information I get from my local pubs and restaurateurs—indeed, it matches that which we heard from the Chair—is that they will be insolvent. I can see the services that are offered right now being reduced. No longer can you get a pizza. They are turning off the pizza ovens because they simply cannot afford to heat them; you cannot just turn it on when the customer comes in.

This is the final question from me. We have talked a lot about net zero. Could you perhaps help me understand how we are going to square all of what we are doing in terms of support with trying to achieve this long-term net zero plan?

Jeremy Pocklington: I will perhaps give you a brief personal answer, but I think we have another hearing. If I can give a personal answer to the Committee—this is a warm-up for the hearing—returning to this area after nearly five years away, the scale of work in the Department and the scale of investment in low-carbon generation has increased markedly.

Yes, the challenge is enormous so there is even more to do. We now have the first, second, third and fourth-largest wind farms in the world. We are negotiating our second gigawatt-scale nuclear power station. We have significant work on CCUS and hydrogen. There are important decisions coming up. I would not underplay the scale of work that is happening to decarbonise the power sector.

More broadly, looking at this globally, where is the energy discussion going globally? A side effect of this dreadful war will be to speed up the transition away from fossil fuels. That is where the debate is happening. The scale of renewables deployment globally has increased significantly over the past year.

Anne Marie Morris: I hear what you are saying, Mr Pocklington. I will return to the Chair because we are running out of time. The question was much more directed at the pricing mechanism in place. From the work that you already alluded to, which is already going on, it is clear that something is not quite right in the way the two markets are working, the supplier market and the producer market. Given that we want the move to renewables, how are we going to change that mechanism? This is clearly a subject for the next hearing.

Chair: Yes, this is a debate for the next session.

Jeremy Pocklington: It is a perfect topic for our next hearing, if I may, Chair.

Chair: The debate has been going on since the 1970s, one way or another. It has gone backwards and forwards. We will have a history lesson before we come to that session.

Thank you very much indeed to our witnesses. Thank you also to those who submitted evidence. We had an awful lot of evidence, which we may not have discussed openly in the Committee but we have read and digested. That came from disability groups, energy suppliers, businesses, think-tanks and others. It has been very interesting. Nesta's thoughts about awareness and using nudge policy to get the messaging across was also very helpful. Thank you for that.

Thank you very much indeed to our witnesses. The transcript of this session will be up on the website uncorrected in the next couple of days. Thank you to our colleagues at Hansard for that.