HM Treasury

James Bowler
Permanent Secretary
HM Treasury
1 Horse Guards Road
London SW1A 2HQ

020 7270 5158
James.Bowler@hmtreasury.gov.uk
www.gov.uk/hm-treasury

Dame Meg Hillier
Chair of the Public Accounts Committee
House of Commons London
SW1A 0AA

Via email

14 August 2023

Dear Dame Meg,

Additional information: Recommendation 4a Forty-eighth Report of Session 2022-23 (Energy Bills Support)

Thank you for the opportunity to provide evidence to the Public Accounts Committee inquiry into Energy Bills Support. The committee requested further details of HM Treasury's analysis of how tax and energy support will affect businesses across different sectors and ensure that businesses do not face a cliff edge in March 2023. I have set out below the key analysis performed and highlighted how tax and energy measures help to mitigate the risk of businesses facing a cliff edge when the EBRS ended. The Government does consider the overall tax burden – including business rates – on different sectors and did so for changes in March 2023.

At Autumn Statement 2022, the government announced a package of changes and tax cuts benefiting businesses worth £13.6bn over the next five years, including relief for businesses in retail, hospitality and leisure sectors and for small businesses. Together with the business rates revaluation, this generous package ensures bills will more accurately reflect current market values whilst protecting businesses from large bill increases. These changes took effect in new bills from April 2023. The government has also increased the value of Draught Relief to support pubs, meaning an average pint of draught beer sold in a pub will not pay more duty from August 2023.

When keeping the tax system and reliefs under review, HM Treasury takes into account cost, wider pressures on that sector, and how taxes affect the broader economy. HM Treasury carefully considers the impact that a relief will have on different industries and engages with a wide range of stakeholders to inform this analysis. The government published a factsheet at Autumn Statement 2022 setting out how the business rates reliefs announced would impact different types of business. The Valuation Office Agency (VOA) also published data relating to the 2023 revaluation, although these figures do not factor in relief or changes to bills.

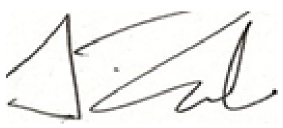
The government introduced the EBDS from April 2023 to ensure eligible businesses with high energy bills will receive a discount on their bills for a further 12 months following the end of the EBRS. This will help those locked into contracts signed before the recent substantial falls in wholesale price manage their costs and provide others with reassurance against the risk of prices rising again. The government has been clear that the unprecedented levels of support provided through the winter were time limited and intended as a bridge for businesses to adapt their business models following the end of the EBRS.

The EBDS also provides businesses in sectors with particularly high levels of energy usage and trade intensity with a higher level of support. To design the EBDS, BEIS developed a framework to assess which sectors may be most affected by rising energy prices based on energy and trade intensity given these businesses will generally have less ability to pass on costs. The government has published an explanation of the methodology, which sets out all the datasets that were used and how each metric was calculated.

The government is aware that some businesses are having difficulties securing the benefits of falling wholesale prices from their energy suppliers, for example businesses who signed long term contracts when prices were at their peak. Ofgem committed to work closely with trade bodies and suppliers to find the best way to proactively address the issue of expensive legacy contracts in a mutually beneficial way in their letter to the Chancellor in March. The government is supporting these efforts to progress at pace, and in their report on the retail energy market published in July Ofgem note evidence that suppliers have acted on the pressure from government and Ofgem, including offering blend and extend contracts to customers stuck on legacy high price contracts. Ofgem report that over 50% of suppliers now offer this type of contract.

More broadly, the government considers a variety of factors to understand and monitor the health of the UK corporate sector and inform policymaking. This includes monitoring official data, internal economic modelling and regular engagement with firms and business groups. As part of this, HM Treasury monitors the aggregate and sectoral trends of multiple indicators to assess the financial resilience of firms within each sector. This involves monitoring insolvencies, corporate lending and deposits, and firm debt, using Companies House and Bank of England data.

Thank you for providing the opportunity to present this information alongside the Treasury Minute response.



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