BRIEFING | COST OF LIVING

Helping households with energy costs this winter

The Budget should include a downpayment on the Prime Minister's 10-year vision for the energy system that builds a new lever to reduce bills and inflation.

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Executive summary

The depth of the second energy crisis this decade demands that the Government use the Budget to improve affordability, ease inflation, and strengthen consent for the energy transition. This moment should also be used to build an enduring policy lever to reverse much of the projected fall in living standards, and make us better prepared for the next fossil fuel crisis.

Recommendations

Our recommendations to the UK Government are to:

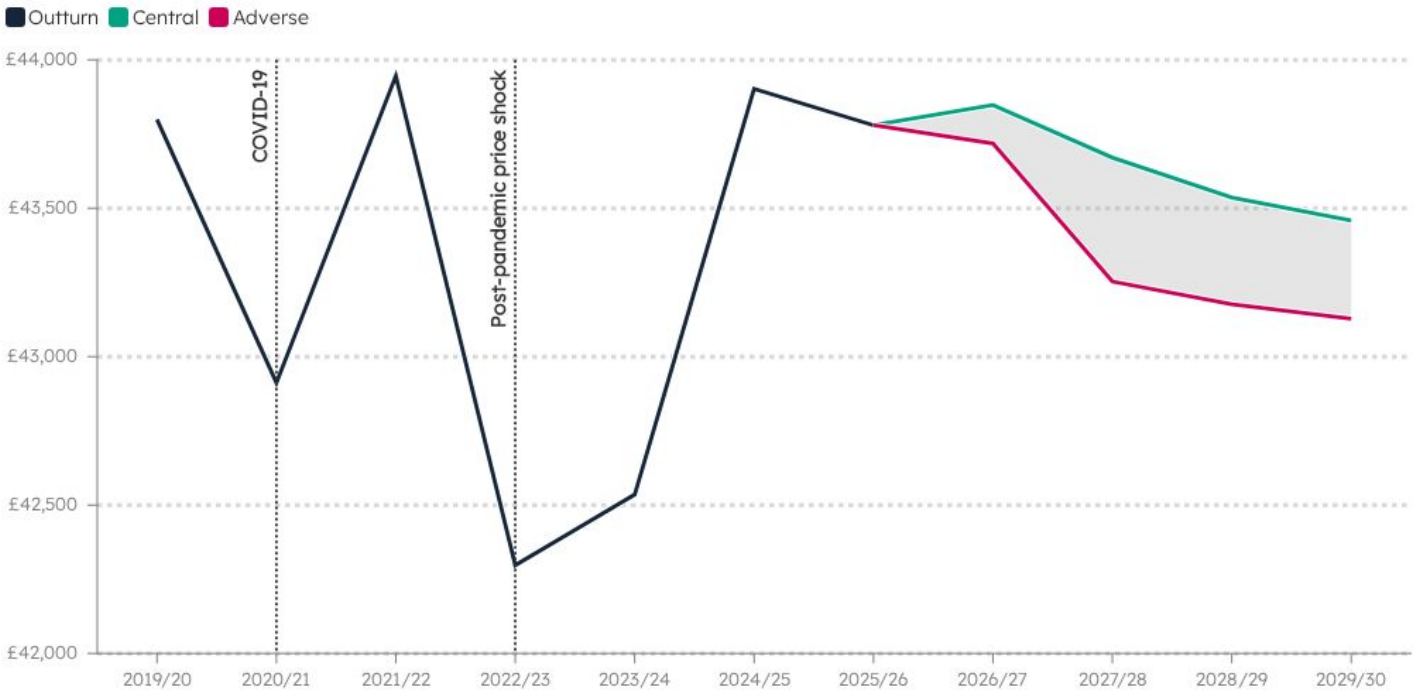
- use the Budget to remove £60 of levies from electricity bills to ease pressure on households and reduce inflation
- introduce a winter payment to all households linked to historic consumption, with higher levels of support for households most in need — this would cover the January price cap period
- convert the winter payment into a unit rate reduction, paving the way for a new, enduring policy lever: the Affordable Energy Guarantee.

1. Falling incomes and higher bills will weaken net zero support

Living standards are projected to materially decline over this parliament, as energy bills push inflation upwards again. Between April 2026 and April 2029, the average household will be almost £400 worse off per year, rising to almost £600 if conflict in the Middle East has a more severe impact on the economy (Figure 1). Global instability is driving increased inflation expectations, with 71% of people worried about the impact on their energy bills this winter — a figure that holds relatively steady across the income distribution (More in Common, 2026).

Figure 1: Living standards are projected to decline, with a more severe fall in the next year in an adverse energy price scenario

Household disposable income after housing costs (Q3 2026 prices), by Bank of England scenario



Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPRTBM). Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports.

In just one week, the projected increase in the January price cap almost doubled from 9% to 16%, an increase of £130 (Cornwall Insight, 2026a; Cornwall Insight, 2026b). This will result in a £270 rise against the October cap. When compared on a like for like basis, this puts energy bills above their effective cap in 2022/23 (Avia-Novoa and Chapman, 2026). A threshold has been reached and further support is

needed. The public believe so too, with 66% saying the Government hasn't gone far enough to tackle energy bills (More in Common, 2026).

Falling incomes and rising bills risk exposing the Prime Minister's 10-year plan for transformation in the energy system to increasingly dissenting voices (Massey-Chase et al., 2026). Averting this, and securing a just transition, requires Government to bring forward more of the future benefits of cheap, clean power into the current parliament through fiscal policy.

The transition is crucial and already making a difference. Renewables are displacing gas as the electricity price setter, with gas setting the marginal cost 60% of the time, down from around 90% a few years ago (DESNZ, 2026a). However, renewables alone cannot deliver more affordable energy this winter. And despite growing momentum, the same is true of next winter and the remainder of the decade (SSE, 2026; NAO, 2026). The Government must build on the breathing space announced this summer and intervene directly if it wants to take money off everyone's energy bills.

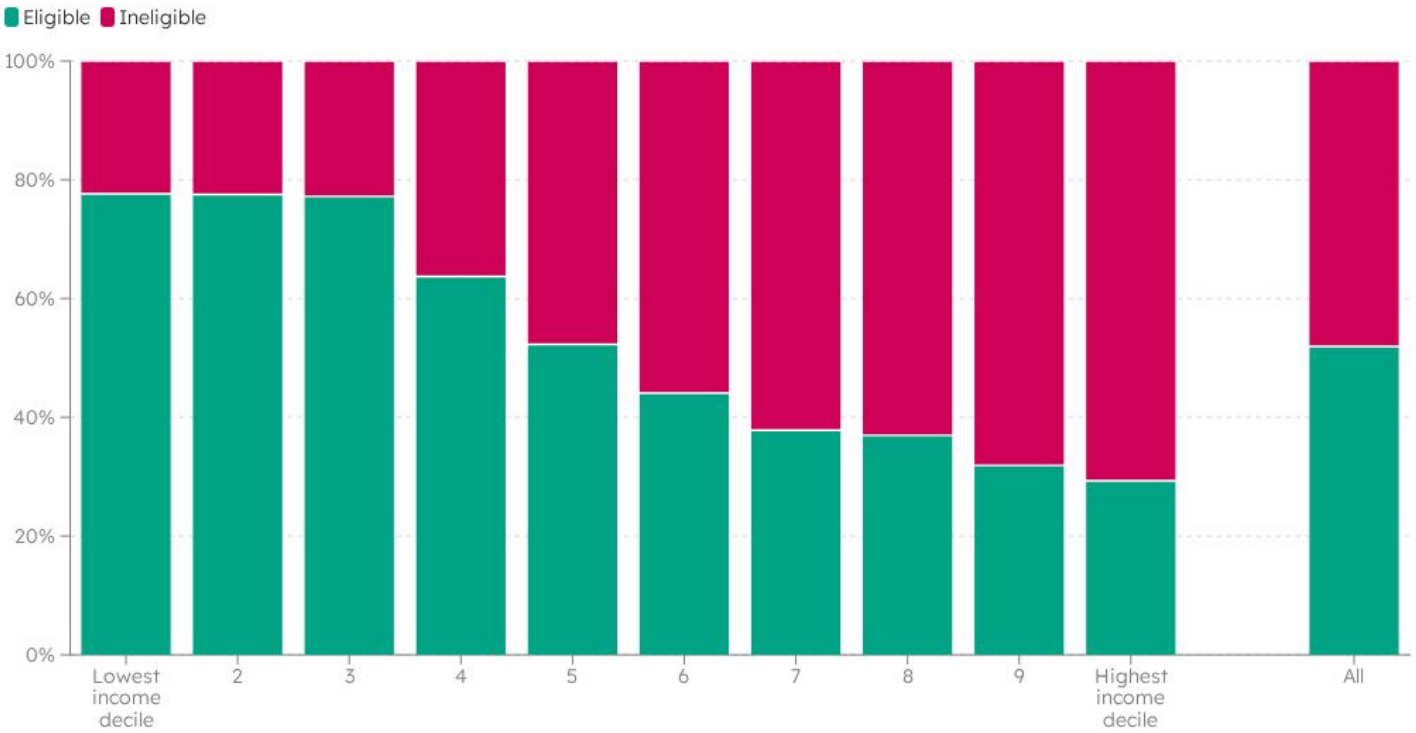
2. Winter cost of living support needs to reach every household

While most acutely felt by low-income families, the energy crisis affects everyone — 70% of people feel they need more state support on energy bills this winter (More in Common, 2026). But Government lacks the tools to deliver broad-based support while still targeting to those that most need it.

For example, an expansion of the Warm Homes Discount would leave 6 in 10 low-income households without support (Brewer et al., 2026). Targeting only to households in receipt of means-tested benefits would also fail to capture those with high energy use due to a disability, medical need, or family size. Meanwhile delivering a comparable flat payment to every home would create additional pressure on public spending. The Energy Bills Support Scheme — a £400 bill rebate paid out during the last crisis — cost £11.9 billion (Narayanan et al., 2026).

Figure 2: Over a fifth of low-income households would miss out on targeted support

Proportion of households eligible for targeted bills support based on receipt of means-tested benefits, disability benefits, or State Pension, by income decile



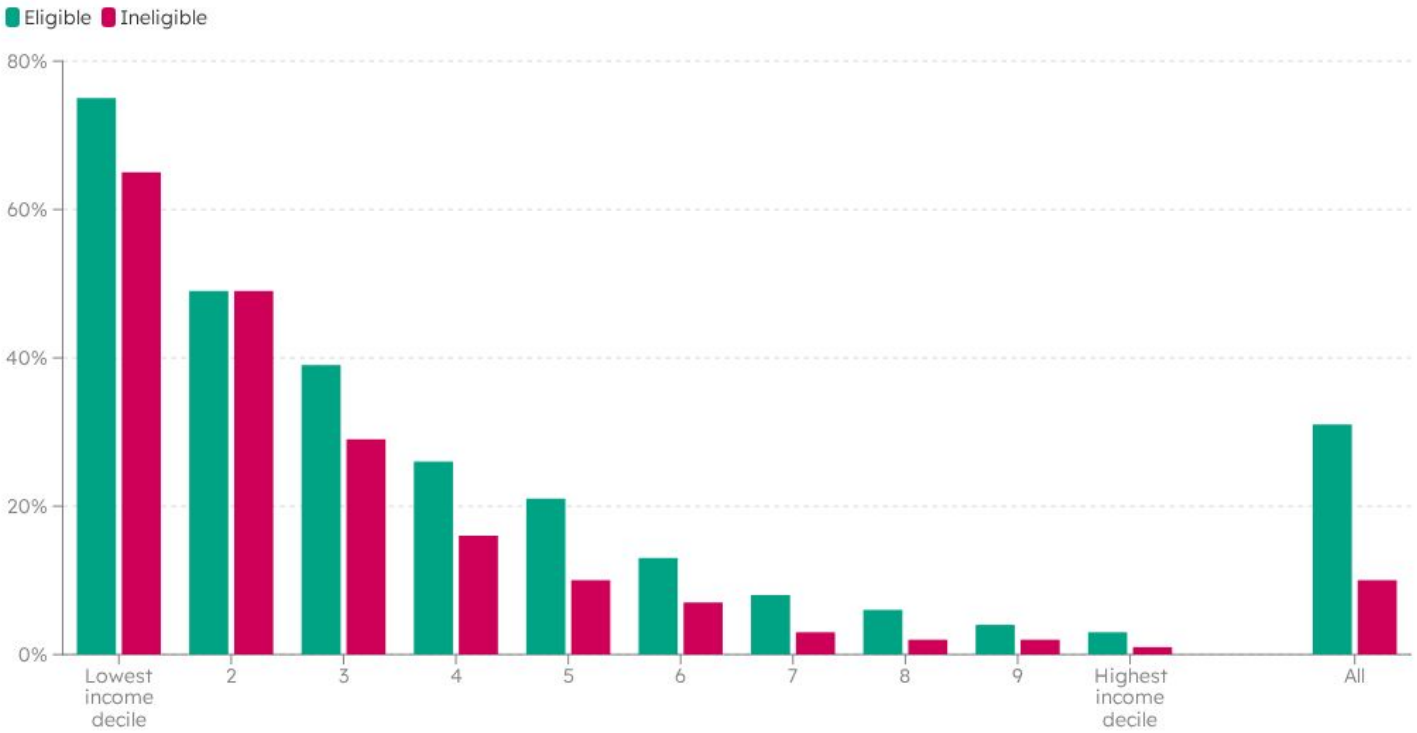
Source: JRF analysis of Office for National Statistics, 2018/19 - 2022/23 Living Costs and Food Survey using the JRF Affordable Energy Guarantee model.
Note: Means-tested benefits include income-related Jobseeker's Allowance and Employment and Support Allowance, Income Support, Housing Benefit, Universal Credit, Pension Credit, Child Tax Credits, and Working Tax Credits. Disability benefits include Disability Living Allowance, Personal Independence Payment, and Attendance Allowance.

Even if policy were to reach all households in receipt of means-tested benefits, disability benefits, and the State Pension, over a fifth (22%) of low-income households would be ineligible for support (Figure 2). This latter group also requires urgent support. For the bottom income decile, 75% of eligible households will experience fuel stress come January, which is not substantially higher than the 65%

of households that are ineligible (Figure 3).[1] For the second decile it is 49% for both the eligible and ineligible groups, and even by the fifth decile, 10% of ineligible households are expected to be heavily burdened by energy bills.

Figure 3: Ineligible low-income households have similar levels of fuel stress to their peers

Proportion of households experiencing fuel stress, by income decile and eligibility for targeted support based on receipt of means-tested benefits, disability benefits, or State Pension



Source: JRF analysis of Office for National Statistics, 2018/19 - 2022/23 Living Costs and Food Survey using the JRF Affordable Energy Guarantee model.
Note: Means-tested benefits include income-related Jobseeker's Allowance and Employment and Support Allowance, Income Support, Housing Benefit, Universal Credit, Pension Credit, Child Tax Credits, and Working Tax Credits. Disability benefits include Disability Living Allowance, Personal Independence Payment, and Attendance Allowance. A household is defined as experiencing fuel stress if their spend on energy bills is greater than 10% of after housing costs income.

The heavy burden of energy bills felt across the income spectrum is fuelling disillusionment with mainstream politics, while the prospect of support restricted to only those on the lowest income is often met with dissatisfaction and scepticism (Moore et al., 2026). In the days before the temporary VAT removal, just 42% of people felt a £50 reduction in energy bills would help them cope better with the cost of living (More in Common, 2026).

This rises to strong majorities of 63%, 78%, and 84% for reductions of £150, £250, and £350 respectively. To reach further up the income spectrum a universal and progressive approach should be adopted. This would address the depth of the problem and provide an opportunity to strengthen faith in the social contract.

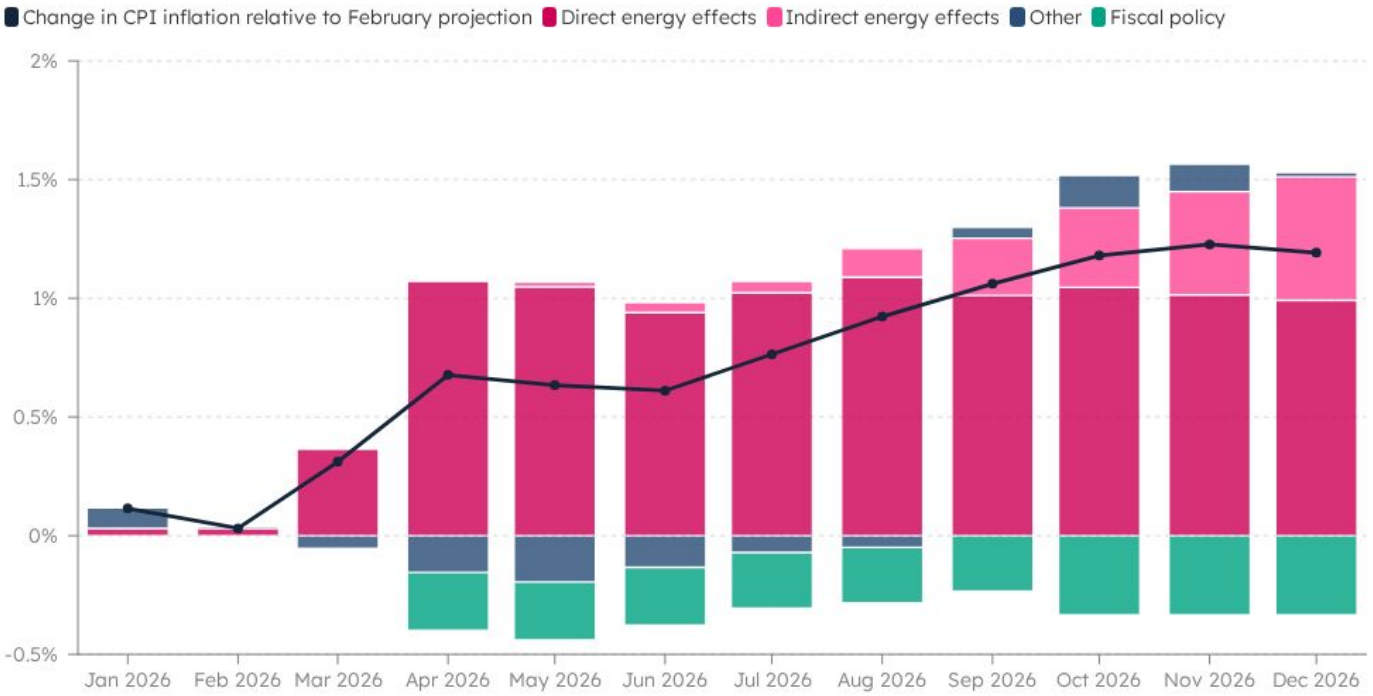
The universal offer should build on the other interventions this year that will have mechanically lowered inflation in 2026 Q4 by around 0.3 points (Figure 4).[2] This doesn't fully offset the impacts of higher energy bills on prices, but it does evidence the real impact policy can have on inflation. Without that support, the average income would be around £140 lower in real-terms.

With multiple hikes priced in by markets (Bank of England, 2026), further measures to mechanically lower inflation by reducing energy prices would also ease pressure on the Bank of England to raise interest rates, reducing borrowing costs for the transition. Removing what remains of the Renewable Obligation as well as the cost of the Feed-in Tariff and Warm Homes Discount from electricity bills is worth £60 per year to the average household. In bringing down electricity prices, inflation would be reduced by around 0.1 points in January.

However, once removed, ministers will have little scope to intervene on inflation in the future. Policy this winter should not repeat past mistakes of a kneejerk reaction that fails to develop public infrastructure. Instead, the Government should lay the foundations for an enduring new policy lever.

Figure 4: Bills intervention has eased the rise in CPI resulting from energy

Change in Consumer Price Index (CPI) in 2026 relative to the February projection from the Bank of England, by component



Source: JRF analysis of Bank of England, February and July 2026 Monetary Policy Reports; Prime Minister's Office, New PM cuts tax on household electricity bills.

3. Building a new policy lever

Government needs a powerful new tool, that provides both the dexterity to deliver cost-effective broad-based support, with the decisiveness to always be able to lower inflation during an imported price shock. JRF's Affordable Energy Guarantee delivers this.

The Affordable Energy Guarantee would provide a unit rate discount on energy beneath a threshold to all households, with consumption above that point charged at their tariff rate (Moore et al., 2026). JRF proposes setting the threshold at half of typical consumption, with 'top-ups' for those with additional energy needs. This would include an additional energy allowance per child, and expanding the discount to all energy consumption for households receiving means-tested or disability benefits.

The policy would make it easier for households to afford one of life's essentials, while the retention of a price signal would avoid subsidising excessive energy use during the transition. In addition, the flexibility of the threshold and discount would enable policy to address steady state price pressures, or absorb a price shock, while varying support in response to means and needs.

The Budget is the right opportunity to set out the medium-term ambition to establish an Affordable Energy Guarantee. We believe this could be introduced fully in time for next winter. That, of course, leaves the current spike in energy costs unaddressed, so the Government should signal a desire to move in this direction with a short-term

proposal at the next budget which offers more immediate relief.

An interim energy affordability measure at the start of the January price cap window should remove levies from electricity bills, with further cash support delivered according to historic consumption. Households in receipt of means-tested and disability benefits would receive additional support via the consumption component.

Shifting levies, including Feed-in Tariffs, Warm Homes Discount, and the remaining quarter of Renewables Obligation, from electricity bills onto general taxation would reduce costs, reduce headline inflation, and incentivise electrification by reducing the spark gap: the ratio of electricity and gas prices. Some of the households most likely to benefit include those hit by artificial penalties for matching electricity use to lower periods of demand (Pardoe, 2026) and households with electric heating, who are over twice as likely to experience fuel poverty (DESNZ, 2026b).

But for support to be commensurate it must go further, particularly for those struggling most with inescapable energy costs. Under existing legislation, Government can learn from the principles adopted in Germany in 2023, where the price of energy was capped for a portion of each household's consumption, based on past expenditure (Bundesministerium für Wirtschaft und Energie, 2022).

A cash payment could replicate these principles in time for the January price cap, with tiered support increasing according to historic household consumption. For most households, the amount of past consumption considered in tiering would be limited — set at 50% of a typical household in our modelling.[3] As with the Affordable Energy

Guarantee, households in receipt of means-tested or disability benefits would not be subject to this cap and therefore be eligible for more support.

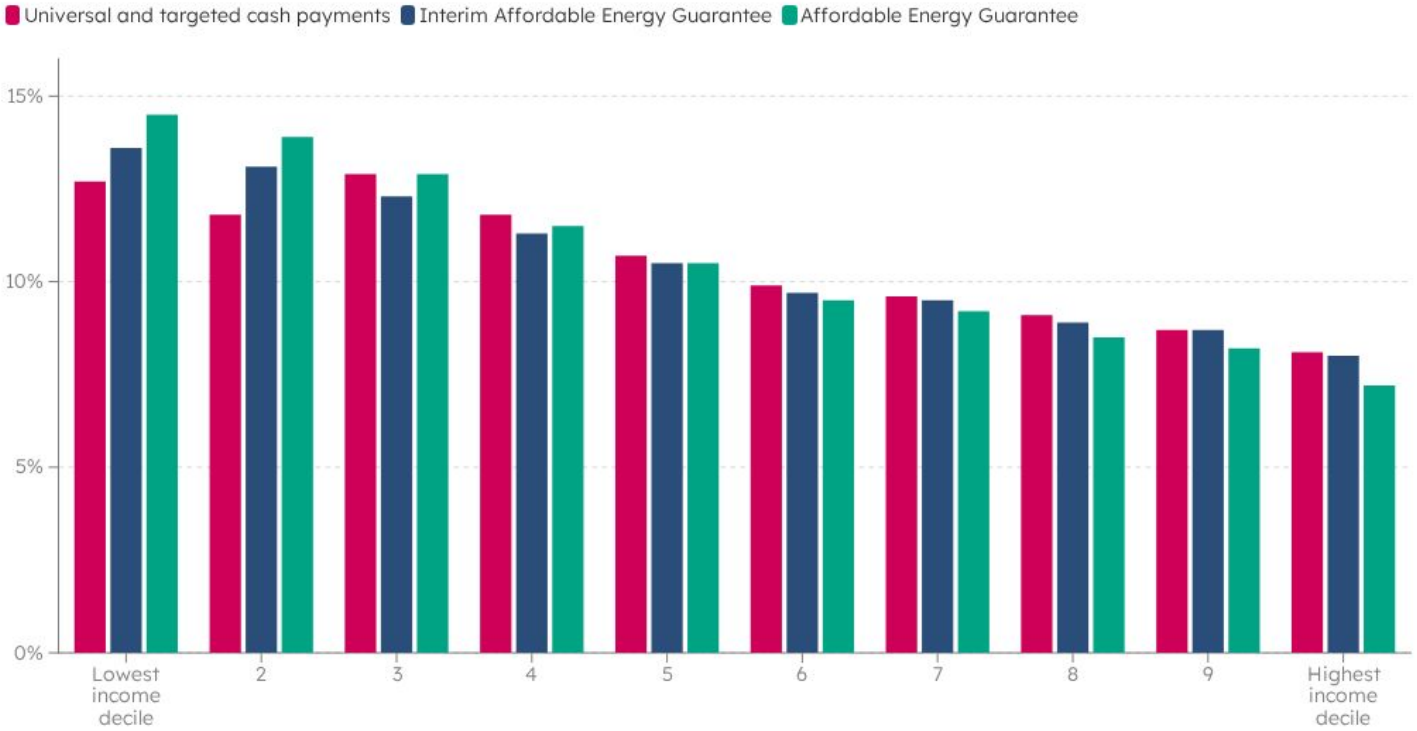
By next winter, these cash transfer elements should be converted into a unit rate reduction, as per the Affordable Energy Guarantee, to reduce household exposure to future global instability. Using powers introduced during the last energy price spike (UK Government, 2022) and extended into April (UK Government, 2026), Ministers could implement this scheme at speed and significantly blunt the impact of the new energy crisis.

A £6.3 billion support package would reduce bills this winter by £230 (10%) for the average household, with low-income families seeing bills fall by £290 (13%). The proportion of households experiencing fuel stress in January would fall from 21% to 17%, with reductions of 5, 12, and 8 points for deciles 1, 2, and 3 respectively. This would cost the same as a flat payment of £150 to every household with a further £150 for households receiving means-tested benefits, disability benefits, or State Pension.

The interim measure would deliver a more progressive outcome than flat payments (Figure 5). This could be paid for by equalising Capital Gains Tax with the rates of income tax, or increasing tax rates on investment income from rents, savings, and dividends to match those of earnings (Belfield et al., 2026). Support of this scale would make a difference to the cost of living.

Figure 5: An interim Affordable Energy Guarantee would save low-income households £230 this winter

Percentage reduction in energy bills for different policy scenarios, by income decile



Source: JRF analysis of Office for National Statistics, 2018/19 - 2022/23 Living Costs and Food Survey using the JRF Affordable Energy Guarantee model.
Note: Modelling of the interim package includes levy removal and the introduction of an Affordable Energy Guarantee, which will have a similar distributional shape to removal levies and cash payments based on historic consumption. In modelling the Affordable Energy Guarantee we set the threshold for the discounted block of energy at 50% of typical household consumption.

In building long-term policy apparatus with the Affordable Energy Guarantee, a £6.3 billion package (in 2026/27 prices) would reverse 43% of the projected decline in living standards for low-income households this parliament (Figure 6). If funded by increased rates on investment taxes, the reversal still rests at 40%. Households in quintiles 2 and 3 would be buffered from a more adverse economic scenario, one that

would bring income growth over the parliament to zero and turn negative respectively.

Figure 6: Funded energy support can improve living standards and protect households from energy shocks

Percentage change in household disposable income after housing costs by income quintile, April 2024 to April 2029, with and without the Affordable Energy Guarantee

Source: JRF analysis of Department for Work and Pensions, 2024/25 Family Resources Survey using v02_99 of the IPPR Tax Benefit Model (IPPRTBM); JRF, Rebuilding living standard and economic security. Projections estimated using data from Office for Budget Responsibility, Economic and Fiscal Outlooks (EFO); Bank of England, Monetary Policy Reports.

Notes

1. A household experiences fuel stress if their spend on energy is greater than 10% of income after housing costs.
2. The reduction in inflation from the temporary removal of VAT on electricity bills will be reversed once reinstated.
3. Modelling of the interim package includes levy removal and the introduction of an Affordable Energy Guarantee, which will have a similar distributional shape to removal levies and cash payments based on historic consumption. In modelling the Affordable Energy Guarantee we set the threshold for the discounted block of energy at 50% of typical household consumption.

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