



Combating the Crisis



Alliance
TOGETHER WE CAN

**ALLIANCE PARTY PROPOSALS
TO TACKLE THE COST OF LIVING**

AUGUST 2022

SUMMARY

The current cost of living crisis presents a grave threat to the wellbeing of people, businesses and the wider economy. This paper details the scale of the current and impending crisis and sets out Alliance's proposals for mitigating the impacts. Taken together, Alliance proposals would provide comprehensive support that is progressive in its impact.

There is an urgent need for an Emergency Budget from the UK Government with at least £30bn of increased support for households and businesses.

Our key proposals include a doubling of the UK Government's £400 universal energy payment to £800 per household.

We want to see the £20 per week uplift in Universal Credit and Working Tax Credit entitlements restored immediately, with subsequent increases in line with inflation.

We also propose the removal of VAT on domestic fuel to provide additional relief for households. For businesses, we want to see grants or rates relief extended to those that are facing disproportionate energy costs and a temporary reduction in VAT for eligible industries.

This additional spending by the UK Government should be assisted by wealth redistribution arising from an extended Windfall Tax on excess energy profits and the levying of a one-off Wealth Tax.

Locally, we want to see the Executive urgently restored to enable the rolling out of an additional £200 in energy payments targeted to those most in need, a £20 weekly payment per child for eligible families and a £10m Council Assistance Fund.

There are sufficient public funds from Barnett Consequentials currently sitting unallocated which would enable delivery of these local initiatives imminently, subject to restoration of the Executive.

The structural issues that have led the UK, including Northern Ireland, to be so exposed to the energy crisis should be addressed by the delivery of a Green New Deal, as proposed by Alliance in 2021.



CONTEXT

Alliance is deeply concerned at Government inaction regarding recent rises in energy, food and other costs, and the distress that this is creating for households. Further energy price rises are anticipated later in the year, and it is expected that these will persist well into 2023. Inflation is expected to peak at 13% in October with a resultant impact on household incomes for 2022 and 2023 that would be the weakest on record.

The UK Government must respond urgently to this accelerating affordability crisis via an Emergency Budget of at least £30bn to protect households and businesses from the full impact of rising costs.

It is also essential that the Executive is restored immediately to enable timely and targeted delivery of available funds to those most in need.

As it stands, it is anticipated that low-income households in the UK will be the second worst affected amongst European counterparts. Some 1.2m households in the UK are likely to face destitution in the coming year and it is estimated that one in five will have no savings by 2024. The scale of this challenge is unprecedented; we are amidst a global energy emergency and in the aftermath of the Covid-19 pandemic.

The absence of a price cap on energy in Northern Ireland means that there have already been a number of fuel price increases and local consumers and businesses remain exposed to this risk. This is concerning given that this region has a particular dependence on oil (approximately 68% of households) and nearly half of local households are already living in fuel poverty.

Elements of the current crisis are a result of previous UK Government policy. A decade of austerity, persistence of low pay, a failure to address widening income inequality and a lack of investment in clean energy sources by the UK Government have created a particular exposure to energy price shocks, and a disproportionate impact on the most vulnerable households.

Alliance believes that there is a duty for the UK Government and Executive to exhaust every available resource to protect our most vulnerable citizens during these unprecedented times.

Although the £15bn energy bill support package announced by the then Chancellor in May 2022 provided some assistance, it did not go far enough. Increasing numbers of households and businesses are struggling to manage rising costs, further eroding living standards and undermining the broader economic outlook. Recent rises in interest rates are creating additional financial pressure for homeowners and businesses alike.

A failure to implement the following assistance package could plunge many more households into poverty and would ultimately result in deep and lasting economic damage. It is our view that it would be more costly for the UK Government to subsequently redress than to mitigate against these effects.

An urgent Emergency Budget is essential given the scale of the economic threat.

Given the scale and context of the challenge, the onus is on the UK Government to respond in a manner that meets the scale of the crisis. At a local level an agile and tailored response utilising Barnett Consequentials is crucial. As such we propose the following range of interventions by the UK Government and a restored Executive.

UK GOVERNMENT INTERVENTIONS

There are two underlying components to our proposed UK Government interventions; **provision of additional support (more Government spending)** to address the specifics of the crisis and **redistribution of wealth (via additional taxation)** from large energy firms and the wealthiest in society to support those most in need and provide additional fiscal firepower.

Broad-based tax cuts are an inappropriate intervention given that they would not be sufficiently targeted nor take into account the prevailing economic conditions, particularly inflationary pressures.

It is necessary to have a balance between targeted interventions alongside universal measures as the pain of the energy crisis will be felt across a broad income spectrum. We propose helping all households but in an overall manner which is progressive.

Even with increased pressure from inflation on the cost of public debt management, there is a strong and clear economic case for the UK Government to go further to help households and businesses.

While we are conscious of the impact that inflation is having on the cost of servicing public debt, we believe that additional government spending of £30bn will be necessary and should be partially supported by limited additional borrowing and further funded by an extended Windfall Tax on excess energy profits and a Wealth Tax.

A failure to urgently implement the measures below would result in a longer, deeper recession, reduced tax receipts, higher welfare payments, loss of skills, increasing economic inactivity and potential for longer-term economic scarring.

Alliance believes that an Emergency Budget is urgently required to enable the following package of assistance from the UK Government:

- ***The UK Government should provide more financial support to all households for energy bills; specifically, we want to see at least a doubling of the £400 energy bills discount announced in May 2022 to £800 per household (estimated cost £11.2bn).***

It is anticipated that the 'typical' household could see annual bills rise to £3,358 from October (a 70% increase) and peak at £4,400 in April 2023. The then Chancellor's interventions in May were based upon expectations that average bills would peak at £2,800 per year and therefore do not go far enough.

- ***We want to see the £20 per week (£1,040 p.a.) uplift in Universal Credit and Working Tax Credit entitlements restored immediately (estimated cost £7.5bn).***

Benefits were last uplifted in April 2022, based on the rate of inflation in September 2021 (3.1%). This has resulted in a real-terms benefits cut, as the inflation rate has continued to rise and is now 10.1%. The removal of the £20 Covid-related uplift was damaging, and compounds a situation in which social support is lower in the UK than many other European countries. Additional timely adjustments based on further increases in inflation may also be required.

We also want to see a bridging solution regarding the five-week wait for Universal Credit. Debt arrears arising from this wait are pushing households into poverty before they even get a chance to avail of associated support; this is counter-intuitive and requires urgent review.

- ***The Government should temporarily remove VAT on domestic fuel to alleviate some of this cost pressure on households (estimated cost £2.4bn).***

It is inappropriate for the Chancellor to continue to derive tax revenue from energy prices when those costs are hurting so many households. The Government must initiate dialogue with the EU to ensure the extension of any VAT deduction to NI, as the terms of the Protocol would necessitate a dispensation from the EU on this issue. Alternatively, a functioning Executive could avail of equivalent support via Barnett Consequentials.

- ***The Government should provide grant-based assistance or business rates relief to help businesses that are struggling with disproportionately high energy bills (estimated value of £3bn).***

Much of the recent Government support has been focussed on households. However, some businesses are facing a five-fold increase in energy bills in October alone.

Having justifiably safeguarded the interests of businesses during the pandemic, it is important that the Chancellor sustains this effort as businesses now navigate an additional crisis. A failure to do so would threaten the ongoing viability of businesses and associated jobs.

Such support would generate a Barnett Consequential for the Executive which could be reinvested locally in an equivalent scheme.

- ***UK Government should provide additional respite for businesses in industries that are suffering the worst impacts of cost increases via further temporary, targeted reduction in VAT rates, reflecting what was done during the Covid-19 pandemic (estimated budget £5.5bn).***

We propose that this tax cut be tailored to those businesses most exposed to fuel and food cost pressures, i.e. hospitality, food production and manufacturing and that this be temporary in nature. The hospitality sector, in particular, has highlighted the need to reduce VAT on hospitality related goods.

Alliance is also conscious that, in addition to cost pressures, businesses are facing serious challenges in relation to labour shortages and access to skills. As such, we would also urge an urgent review of the UK's immigration policy.

- ***Extension of planned Windfall Tax on energy firms.***

Alliance considers it immoral for oil and gas companies to be making record profits in the current environment and for this to be to the detriment of the most vulnerable households and to the climate. BP reported its biggest quarterly profit for 14 years, making £6.9bn in the three months to June while Shell recorded second quarter profits of £9bn.

As such, we want to see the planned Windfall Tax on energy super-profits extended much further beyond the 25% level, with exemptions minimised, to fund as much of this additional financial assistance by the UK Government as is economically viable and to minimise any additional public sector borrowing requirement.

However, the Government's 25% energy profits levy will only apply from the 26th May, meaning that the majority of the April-June windfalls will not be hit by the new tax levy.

We believe that a rate in excess of 25% should be levied against windfalls, and that this should be backdated to January as opposed to May as is currently planned. This will enable considerable additional fiscal headroom for the Government, as well as assisting in tackling income inequality.

- ***The Government should implement a one-off Wealth Tax.***

The wealthiest in society, many of whom have enjoyed the proceeds of previous economic growth to the detriment of the most vulnerable, should also contribute to addressing the current energy crisis and to the outlook for the global climate.

The top 1% in society (those with an accumulated wealth of more than £3.4m) should be required to pay a one-off Wealth Tax on their net stock of wealth, at increasing marginal rates. Not only does this have the capacity to raise in excess of £10bn, but simultaneously tackles income inequality.

We also want to see a longer-term rebalancing of the tax system from taxation on income to taxation on wealth, including equity between capital gains and dividend tax rates with income tax rates.

- ***The Government must invest in clean energy sources and improved energy efficiency across the UK residential and commercial markets.***

A recent report by the Climate Change Committee indicated that the Government's policy on insulation was "very poor" and that more needed to be done. Yet improving the efficiency of our homes could reduce heating bills by around 20% and reduce our dependency on foreign gas. We want to see a significant financial commitment by the UK Government to ramp up investment in energy efficiency and renewables. This is vital in ensuring greater resilience against future energy prices shocks and in combatting climate changes.

- ***The Government should also consider implementing differential rates of Stamp Duty that are reflective of energy efficiency.***

This could help incentivise the development and purchase of greener housing stock, and if managed carefully to minimise any distortion of housing market, this could be revenue raising for the UK Government.

- ***We urge the UK Government to implement a Green New Deal such as that proposed by Alliance and to adopt an enhanced focus on a sustainable, inclusive and progressive economy for the future of the UK.***

Whilst the above interventions are urgently required to address imminent threats to the economy and the wellbeing of households, we must ultimately prioritise a sustainable and ambitious strategy for transitioning to clean energy. A failure to do this is likely to result in repeated episodes of fuel emergency, particularly in light of enhanced geo-political risks. A Green New Deal combines job creation and social justice alongside addressing the climate emergency. The urgency of the current crisis must not deflect from these longer-term goals; in fact, it serves to reiterate their importance.



NI EXECUTIVE INTERVENTIONS

The Executive must also be urgently restored to allow for an agile response to the cost of living crisis, tailored to the specific needs of NI households and businesses.

Restoration of the Executive would allow for the delivery of the current £400 per household energy bills discount, as announced by the then Chancellor in May 2022. Under a functioning Executive, this would ordinarily be delivered by a local scheme, and funded via Barnett Consequentials. In the absence of this, work is underway to identify alternative means of delivery. The prospect of a direct deduction to electricity bills in agreement with suppliers is currently under consideration.

It is looking increasingly unlikely that a solution will be found within reasonable timeframes to enable delivery through devolved structures. We therefore accept the need for urgent UK Government intervention to enable delivery of these much-needed funds. The people of Northern Ireland should not be disadvantaged by the recent collapse of the Executive and the resultant difficulties that this presents.

As detailed above, we want to see this payment at least doubled to £800 per household in recognition of the escalating crisis. We favour targeting this to exclude the wealthiest in society, but lack of access to HMRC data means this is not currently possible – we are liaising with HMRC on the issue of primary legislation to resolve this. We also want to ensure that this will be equitably allocated to those living in rented accommodation, who aren't billpayers (including proof of discount from landlords). It is vital to ensure that households with a comparative reliance on oil and/or gas are not disadvantaged by the planned electricity bill deductions, so we propose that a credit note system is used to allow electricity credits to be redeemed with registered oil and gas companies, also allowing for longer phasing of this assistance. We also want to ensure that consumers are not charged premiums for energy prepayment, thus protecting exploitation of the most vulnerable customers.

Restoring the Executive is a legal pre-requisite to the additional financial interventions proposed below. This is due to the legalities of public spending, as detailed in the Northern Ireland Act 1998. Whilst it is currently possible for Departments to operate under temporary interim funding allocations consisting of 95% of the previous year's Budget, none has been set for the current financial year, nor can it be unless agreed by the Executive. Any policy decisions which are significant, controversial or cross-cutting specifically require Executive approval.

We propose urgent restoration of the Executive to allow for the following interventions.

As it stands (August 2022), the Executive has £654m of Barnett Consequentials at its disposal, of which £330m (£165m reflecting the original £200 Energy Support loans that the Chancellor subsequently translated into grants and then a further £165m for the further £200 expansion) is committed to the £400 Energy Bills Support Scheme for all NI households.

With a remaining £324m sitting unallocated, while recognising other Executive resource requirements including additional energy cost pressures, we consider there to be sufficient funds to enable the delivery of the proposals below at an estimated cost of £210m. Additional funds may also arise from a forthcoming Budget which has not currently been agreed for this financial year and additional Barnett Consequentials, including from some of the recommendations we make for further UK Government interventions.

- ***Delivery of additional £200 NI Energy Payment Support Scheme to be rolled out again in winter to those on eligible benefits, estimated cost £55m.***

Additional direct payments are urgently required given ongoing and impending price rises. We propose additional £200 payment(s), as per earlier this year for recipients of:

- Pension Credit;
- Universal Credit;
- Income-related Employment and Support Allowance;
- Income-based Jobseekers Allowance; or
- Income Support.

- ***Development of an Extended Energy Support Scheme for working individuals/households who are increasingly struggling with fuel poverty, estimated cost £10-20m.***

Many households are increasingly in need of support, including those on tax credits and carers. Most of those living in poverty are families with children and the majority of these families have someone in work, mainly part-time. We would propose to tailor this extended scheme to apply to individuals and households with earnings that are just above the thresholds for benefits and to others excluded from existing Energy Support Scheme (for example, those in receipt of Personal Independence Payments and Carers/Attendance allowance). We call on the UK Government to give the NI Executive access to HMRC data to enable more targeting of support, enabled via primary legislation.

- ***Provision of Child Payment Scheme of £20 per child per week for families in receipt of free school meals and for those families with pre-school aged children who are entitled to the NI Energy Support Scheme – for a one-year period, estimated cost £130m.***

We propose paying this to eligible families on a weekly basis for the next year to support vulnerable households and to prevent more children from falling into poverty. We also want to see the extension of the Free School Meals provision to cover holiday periods, widening of eligibility criteria and for the meal allowance to be uprated in line with inflation. We reiterate our proposals for increased grants and caps on costs for school uniforms to take pressure off struggling households and want DAERA's milk subsidy scheme to be rolled out on compulsory basis, to deliver health benefits for children.

- ***Provision of a £10m Council Assistance Fund to be delivered by trusted community partners, including emergency food providers, local churches, charities and credit unions.***

These funds would facilitate community drop-in, fund shortfalls in emergency food supplies and resource the delivery of oil stamp schemes, amongst other initiatives.

Beyond the current Barnett Consequentials available to the Executive, we urge the Executive to consider the following measures. In practice, these would be enabled by further funding from related investments for Great Britain:

- ***Extension of business rates relief to be facilitated arising from UK Government grants for eligible businesses.***

The grants or business rates relief that we propose the UK Government provide to businesses that are disproportionately affected by energy costs would create a Barnett Consequential for an equivalent scheme to be administered locally. We believe that this would be best provided through the rates system. As such, we would enable an extension of Rates Relief for a further six-month period for eligible businesses.

- ***Provision of a universal, affordable childcare scheme, with up to 37 hours per week fully funded and paid directly to providers.***

It is vital that the Executive introduces policies that safeguard the development of our young children and mitigate the long-term effects that a lack of strategic policies have had on early education and childcare in the past. It is important to have a childcare strategy that caters for the diversity of needs of families below the poverty line and that is rural-proofed to allow for commute times. We also want to see expanded funding for the provision of breakfast and homework clubs and an expansion of the Sure Start provision.

- ***Development of Home Insulation Grant Scheme to improve energy efficiency of existing housing stock in NI as outlined in Alliance's Green New Deal.***

In accordance with the recommendations of the Fuel Poverty Coalition, we would implement this on a 'whole house basis' and on 'Worst First' principle. This would prioritise housing stock most in need of enhanced insulation and ensure that a holistic approach is adopted, relating to the entirety of the building to maximise improved efficiency.

- ***Investment to make transport greener and more affordable.***

We would widen concessionary travel to extend half fares to other groups, including young people and seek to ensure that public transport is available and affordable to the most vulnerable members of society.

- ***Commission an independent review of Non-Domestic Rates in NI to ensure that the rates burden is being distributed fairly and in a manner that is pro-business.***

We propose that this be utilised to enable targeted rates reliefs for eligible businesses, including those that are exposed to unfair detriment as a result of the NAV based system. Consideration of interim reliefs for affected sectors should also be prioritised, to safeguard vulnerable businesses and associated jobs.

In terms of other non-financial interventions, we also propose the following:

- ***Establishment of a Fuel Poverty Taskforce, bringing together industry leaders, policy experts, government and expert charitable organisations to seek to mitigate the worst impacts of the Energy crisis.***

This would enable a strategic and cohesive response to the crisis.

- ***Establishment of a new Fuel Poverty Strategy, informed by the Fuel Poverty Taskforce, which would set fuel targets including minimum efficiency standards in the private rented sector.***

Northern Ireland is currently the only region in the UK without a fuel poverty target. As part of redressing this, Alliance would implement the recommendations of the Fuel Poverty Coalition in its Manifesto for Warmth, including the implementation of the National Institute for Health and Care Guidelines (NICE NG6) in relation to tackling excess winter deaths, illness and the health risks associated with cold homes.

- ***We would bring the regulation of home heating oil within the remit of the Utility Regulator.***

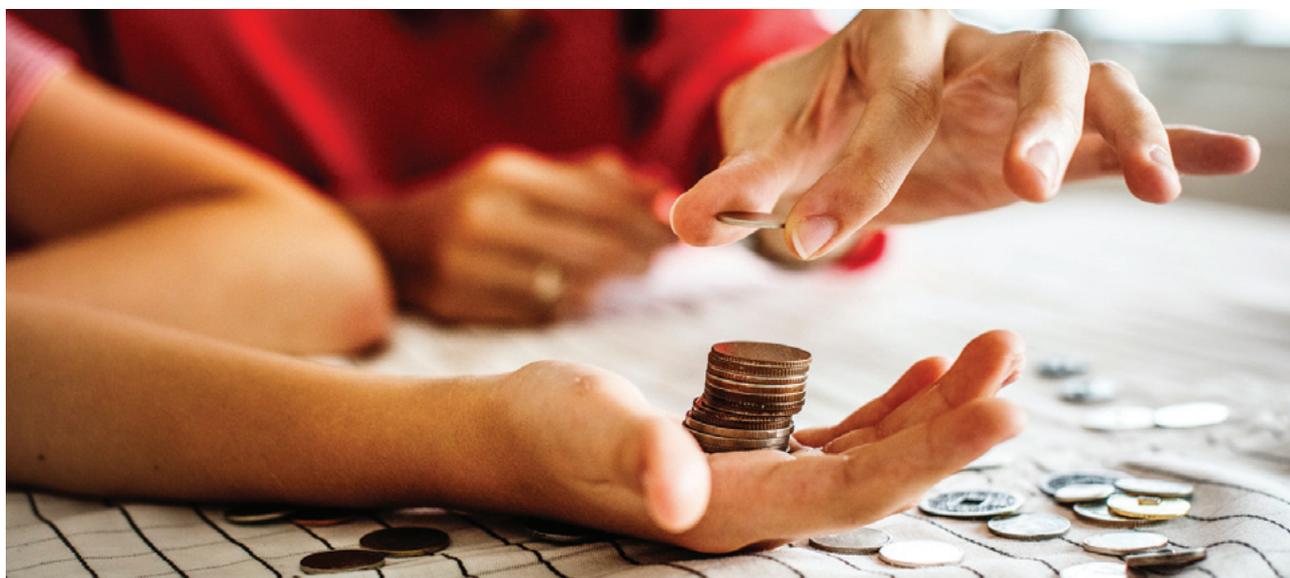
This would put it in line with electricity, gas and water, and provide better price transparency for consumers.

- ***Promotion of local debt advice and information services to help advise households struggling with cost pressures.***

It is important to ensure households have access to high quality information to aid them in managing the crisis, including in relation to any resultant debt. We believe the services of Advice NI should be more widely promoted, as well as other schemes for working families that are already in existence, but of which there is sometimes limited awareness (e.g. tax-free childcare scheme). Information will be vital to help minimise detrimental effects. For example, we would ensure promotion of guidance to ensure that every combi boiler is set to optimised “flow temperature”. It is estimated that this simple measure could save anywhere between 6% and 8% of an annual energy bill.

- ***As referenced previously in a UK context, it is vital that a longer-term environmental perspective be sustained alongside other related policy interventions.***

We must transition towards clean energy sources to reduce our exposure to potential repeated fuel crisis and emerging geo-political risks associated with this. ***Alliance believes that the best means of achieving this transition and a more inclusive, sustainable economy for Northern Ireland is via our Green New Deal*** allianceparty.org/alliance_green_new_deal ***al which combines job creation, social justice and action on climate change.***



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