Written evidence submitted by the Chartered Institute of Housing (ENB0009)

The Chartered Institute of Housing (CIH) is the professional body for people who work and have an interest in housing. We are pleased to have the opportunity to respond to the Committee's inquiry on energy bills for domestic consumers. We have focused on three of the inquiry's questions, to which we feel we can give an informed and evidence-based response.

To support our response to this inquiry, in November 2023 we prepared a briefing for CIH members, asking for their views on the inquiry's questions and any relevant examples they could provide. We have drawn on the feedback obtained from our members in what follows, and hope it adds additional evidence to the Committee's work in this area. We would welcome the opportunity to provide further evidence to the Committee on the issues experienced by social housing residents with affording their energy bills.

What are the justifications for allowing or removing standing charges from energy bills?

1.1. CIH recognises the prior justification for the existence of standing charges. They provide a way of consistently recovering network and supplier operating costs, as well as policy and other costs. However, the events of the last three years have led to large increases in electricity standing charge costs, which have risen from £86 to £186 per annum for a typical household paying by direct debit. Dual fuel households are paying over £300 per annum before they have used a single unit of energy. Even before these increases, because standing charges are fixed for each household and not set proportionally, there is a fundamental inequality embedded within them. This is to the extent that someone in the lowest income decile living in a small one-bedroom flat will pay the same standing charges as someone in the highest income decile living in a large, detached home.

1.2. The impacts of rising electricity standing charges, as well as the unprecedented increases in wholesale prices, have been well documented. In social housing, data gathered by the sector shows that:

> 1.2.1. After food bills, electricity (63%) and heating (60%) bills were the most common bill that residents at one housing association struggled to pay in summer 2022, according to a survey.[1] When residents were asked how they would cope with the rising energy costs, 37% said they were not going to use their heating at all.
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> 1.2.2. One in four households living in social housing last winter (2022-23) did not heat their homes for a period of at least one week, according to data gathered by Switchee.[2]
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> 1.2.3. Recent research by the housing association Orbit suggested that 60% of their residents are paying more than 10% of take-home pay on energy costs.[3]
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> 1.2.4. In a survey undertaken in August 2023 by Community Housing Cymru, difficulty affording their energy bills was the main reason residents contacted their housing association for help and support.[4]

1.3. Evidence we have gathered from CIH members also points to an increase in the number of tenants seeking help with their energy bills. Some of our members have had more requests to support tenants who cannot clear standing charge debt on their prepayment meters, even when they do not use the supply at all. Although gas standing charges have remained broadly flat since 2021, we are also aware of instances where standing charge debt on prepay gas meters has prevented social landlords from undertaking legally required annual gas safety (LGSR) checks. In some circumstances, this leads to the landlord being forced to cap the supply.

1.4. While we do not have a firm view on whether standing charges should be removed entirely, we do feel that the above evidence is sufficient to justify action that aims to reduce the standing charge burden for low-income and vulnerable households. In addition to the implementation of a social energy tariff, which we discuss in detail below, we feel that a prospective solution could be one that pegged standing charges (as well as unit rates) to consumption, perhaps through the implementation of standing charge tariff bandings for domestic users based on a consumption threshold. This would mean that very low energy consumers would pay a proportionally smaller standing charge – or potentially no standing charge at all – with high energy consumers paying proportionally more to reflect the additional demand they place on the energy networks. However, we would need to understand how to set bandings in a way that does not detrimentally affect high-usage low-income households (e.g. those dependent on essential medical equipment like dialysis machines), and assess how to determine household consumption fairly, especially in homes where a smart meter is not present.

Is it right to expect those in more remote areas of the country to pay higher amounts in standing charges?

2.1. The higher standing charges paid by households in remote areas of Great Britain is one part of a broader issue with access to adequate energy services in these areas. This is reflected in fuel poverty statistics across the nations. In Scotland, for example, the rates of fuel poverty and extreme fuel poverty in remote rural households (where 29% are in fuel poverty, and 21% are in extreme fuel poverty) were far higher in 2021 than the national figures (where 20% are in fuel poverty, and 10% are in extreme fuel poverty).[5] In Northern Ireland, 34% of households defined as living in small villages, hamlets, or open country areas were in fuel poverty in 2016, compared to the national figure of 22%.[6] Furthermore, although remoteness is not defined in the latest fuel poverty data for England and Wales, official estimates in both nations show higher levels of fuel poverty in rural areas than urban areas.[7] Due to the different definitions of fuel poverty used across the nations, making direct comparisons is difficult, but these statistics all indicate that remote rural households face significant issues in accessing the energy they need to maintain good health and wellbeing at home.

2.2. The reasons for this are complex, but academic research has suggested at least six characteristics of remote areas that shape their access to adequate energy services.[8] These are low household incomes; limited connectivity, especially in relation to travel and transport poverty;[9] limited access to other essential services (e.g. banking); older and harder-to-treat housing; socio-demographics, especially a higher proportion of older households, who need to spend more on energy to stay warm and well at home; and the greater likelihood of colder and more extreme weather conditions, especially in Scotland. Notably, research undertaken for the Scottish Government in 2021 identified additional minimum living costs for households in remote rural Scotland that typically add 15-30% to a household budget, compared to urban areas of the UK.[10] Remote areas are also more dependent on unregulated fuels for heat and power (e.g. LPG, oil, or diesel generators), which can be more expensive and more difficult to access.[11] This means that people in remote areas tend to live in energy inefficient homes, experience colder and more challenging weather conditions, have higher living costs more generally, but have lower household incomes, making it especially difficult for them to afford their required energy costs.

2.3. In our view, this broader geographical inequality in access to energy services justifies action to reduce the standing charge premium in remote areas. Together, government and Ofgem should work together to assess options for equalising standing charges across Great Britain. Government has already taken action to reduce electricity network costs for households in North Scotland through the Hydro Benefit Replacement Scheme and Common Tariff Obligation, and its Review of

Electricity Market Arrangements (REMA) presents an opportunity to address deepen inequalities in electricity network costs more widely.

How should a social tariff be implemented to address inequalities in billing?

3.1. CIH supports the introduction of a social tariff in the energy market. In July 2023, we published a report setting out the benefits of a social tariff for the social housing sector and its residents.[12] However, different proposals exist on the exact design of a social tariff and how it should be implemented in the energy market.

3.2. Irrespective of its exact design, the implementation of a social tariff in the energy market should aim to meet specific principles. These principles are:

3.2.1. Affordability. The exact unit rate (and if applicable, standing charge) of the social tariff must be guided by a rigorous assessment of the minimum that is required to enable people to access the energy they need for good health and wellbeing. This would mean pricing it below the default tariff price cap. Analysis produced by Age UK suggests that a tariff rate could be set at 50% of the energy tariff market rate, or 50% below the price cap – whichever delivers the greatest cost savings to households.[13]

3.2.2. Automatic enrolment. Previous energy bill support schemes have often been exclusionary to certain vulnerable groups because they require people to apply. This creates barriers to access, for example for digitally excluded households (who may struggle with complex online application processes), or households who speak English as an additional language.[14] Developing mechanisms for automatic enrolment will therefore be important to ensure support reaches all households that are eligible.

3.2.3. Implementation across the entire energy market. It is critical that households without a relationship to a domestic energy retail supplier, such as some people on heat networks or living in park homes, are not excluded from accessing the social tariff. The Covid-19 pandemic illustrated the challenges of delivering energy bill support to these groups,[15] and the implementation of a social tariff should seek to include them by design from the beginning.

3.2.4. A wide-ranging eligibility criteria. Government's own projections suggest that 12 million households in England – or approximately half of all households – were unable to keep their homes warm at an affordable cost in 2023.[16] Research by National Energy Action has documented how a range of vulnerable groups, including (but not limited to) older people, prepayment meter users, and those with a terminal illness have been unable to afford their required energy costs, with detrimental impacts for their health and wellbeing.[17] CIH's work on a social tariff has also shown that social housing residents are particularly affected by higher energy prices.[18] While the exact eligibility criteria would require further analysis and consultation by government, this evidence shows that if a social tariff is to be a truly sustainable solution to energy unaffordability, it will need a wide eligibility criteria that can encompass as large a proportion of low-income and vulnerable households as possible.

3.2.5. Long-term funding and commitment. Recent estimates from Cornwall Insight show that power prices in Great Britain will remain well above pre-2021 levels for the rest of the decade despite an improvement in short-term forecasts.[19] Furthermore, research by the Centre for Competition Policy shows that the ability of a household to maintain (or reattain) sufficient levels of energy affordability, financial solvency, and resilience in the face of high prices is worsening, with 32% of households unable to do so in 2022, compared to

approximately 25% in previous years.[20] This is primarily because the energy and wider cost-of-living crises have drained the small quantities of savings or other financial resources low-income households can access to mitigate higher prices. In this context, a social tariff must be committed to, and funded for, a minimum five-year period (i.e. to the end of the decade) if households are to be sufficiently protected from the negative consequences of persistently high energy prices.

3.2.6. A recognition of co-benefits, and the incorporation of these benefits within value for money analyses. Any proposed social tariff design will be accompanied by a not insignificant cost to the taxpayer, especially if funded for a multi-year period. However, evidence suggests that the benefits of a social tariff will stretch beyond its core imperative of addressing fuel poverty and energy unaffordability. For example, in 2023, the Building Research Establishment demonstrated that tackling cold homes would save the NHS £540mn per year.[21] Evaluations of fuel poverty and energy efficiency schemes have shown that improving access to affordable energy boosts local economies, as households spend the money they save on their energy costs on local high streets.[22] Energy unaffordability also has extensive knock-on financial impacts for the social housing sector, causing costly repairs and maintenance issues such as frozen or burst piping.[23] While more exact analysis is required, the implementation of a social tariff would undoubtedly lead to vast savings across other areas of the economy and society. We would like to see these savings acknowledged in any value for money appraisals of different social tariff proposals, which is difficult due to Green Book rules and current Treasury practice on cost benefit analysis.

3.3. Ultimately, progress on implementing a social tariff will not be made unless government brings forward and consults on a range of options. CIH strongly feels that the government should revive its work on a social tariff and look to consult on different options as soon as possible.

About CIH

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. We have a diverse membership of people who work in both the public and private sectors, in 20 countries on five continents across the world. Further information is available at: www.cih.org

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[3] Orbit (2023) Working with customers to make net zero carbon a reality.
[4] Community Housing Cymru (2023) Cost of Living Report: October 2023.
[5] Scottish Government (2023) Scottish House Condition Survey: 2021 Key Findings: Fuel Poverty.
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[10] Loughborough University for the Scottish Government (2021) The Cost of Remoteness: Reflecting higher living costs in remote rural Scotland when measuring fuel poverty.
[11] See House of Commons Library (2024) Households off the gas-grid and prices for alternative fuels.

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