



Chartered
Institute of
Housing

A SOCIAL ENERGY TARIFF

THE BENEFITS OF ENERGY MARKET REFORM
FOR THE SOCIAL HOUSING SECTOR



JULY 2023

Executive summary

There is an urgent need to find a long-term solution to unaffordable gas and electricity costs for lower income households. In 2021, most households were unlikely to have paid much more than £100 on their gas and electricity costs. Since then, a surge in wholesale energy prices forced the government to step in with short-term support over the winter and spring of 2022/23 in the form of the Energy Price Guarantee.

Even with this support in place, social housing residents have been hit hard by unaffordable energy costs. In February 2023, the Office for National Statistics demonstrated that 61 per cent of renters found it difficult to afford their energy bills. More recent research in the sector has also suggested a **50 per cent increase in the number of social housing residents going without heat to save money in the past 12 months.** With wholesale prices expected to stay high for the rest of the decade, a sustainable alternative to cycles of reactive government intervention needs to be found.

An energy social tariff would provide this protection.

It would be tightly targeted at low-income, vulnerable, and fuel poor households, and would ensure that irrespective of Ofgem's price cap, which would be retained in the energy market as a separate mechanism, those on the lowest incomes and most vulnerable to the cold would pay a rate that would enable them to keep their whole homes warm and safe. The energy social tariff would be set below the price of the cheapest available deal on the market, and eligible households would be auto enrolled so they can receive it without needing to apply.

Modelling analysis suggests that a social tariff could cut fuel poverty rates in local authority and housing association homes by over 50 per cent. It would also offer at least three co-benefits to the social housing sector:

- **Reducing the incidence of asset management issues** requiring costly repairs and maintenance by enabling residents to keep their whole homes warm in cold outdoor temperatures.
- **Improving tenancy sustainability** by easing the broader pressure on household budgets.
- **Contributing to the decarbonisation of social housing stock** by making heat pumps and other forms of electric heating affordable to run for residents.

The government intends to consult on the precise design of a social energy tariff in summer 2023. CIH will be working with partners to ensure the best possible outcome from the consultation, and we will also be encouraging and supporting members to respond to the consultation. We would welcome engagement from social housing providers and members to help shape our own thinking and work through some of the opportunities and issues identified in the full report.

If you have any comments or feedback, or would like to help us shape our work on the social tariff, please contact policyandpractice@cih.org and we will be happy to discuss further.

Introduction

The last two years have been defined by unprecedented increases in the price of gas and electricity. The situation that has followed has become known as the energy crisis, and the increasing unaffordability of domestic energy bills has been felt strongly by social housing providers and their residents.

In response to the crisis, charities and civil society groups have advocated for the introduction of a social tariff in the energy market - a discounted energy tariff targeted tightly at low-income, vulnerable, and fuel poor households.

This report aims to explain the potential benefits of an energy social tariff for social housing providers. It describes and analyses the positive outcomes a social energy tariff would have for residents and providers alike and shows why social housing providers should support and advocate for its introduction.



Background: the energy crisis

Between the introduction of [Ofgem's price cap](#) in January 2019 and the end of 2021, the average household paid approximately £100 per month for gas and electricity. In April 2022, the price cap, which defines how much the average household is likely to pay per year for their energy bills, increased from £1,277 to £1,971. Over the winter and spring of 2022/23, the government intervened to cap average bills at £2,500 after soaring wholesale prices threatened to increase Ofgem's price cap to over £3,000. From July 2023, the price cap is £2,074, almost twice the level it was two years ago, and energy prices [are not expected](#) to return to pre-pandemic levels this decade.

In addition, households that have a greater need for domestic energy services, such as [families with young](#)

[children, older people, disabled people, and those dependent on powered essential medical equipment](#), typically need to pay far more than average to access the energy that they need to maintain good health and wellbeing. In many cases, high energy prices mean they cannot afford to do so, inevitably placing their health at risk. For example, [research by Kidney Care UK](#) has evidenced that people with home dialysis machines are often unable to keep the temperature of their home high enough for their machines to function effectively. [Age UK have also shown](#) that in September 2022 two fifths (42 per cent) of people aged 60+ reported making cuts to their heat and power, with the figure rising to more than half (54 per cent) in January 2023.

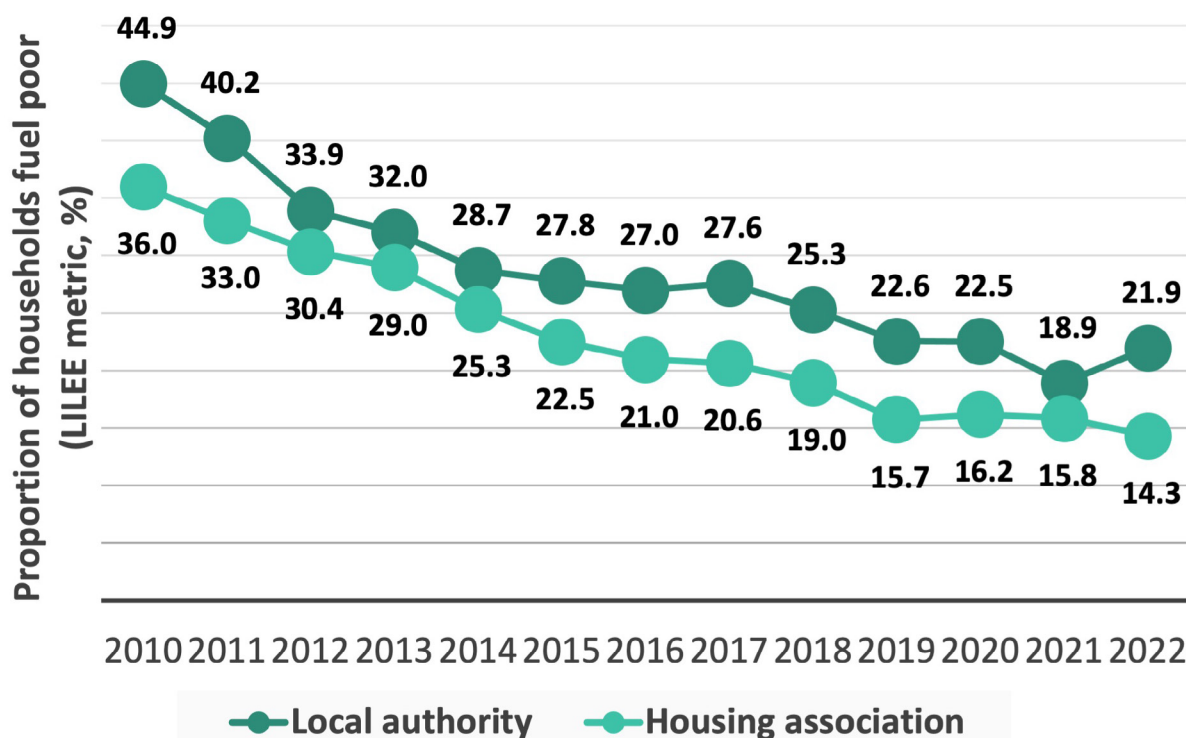
The energy crisis in the social housing sector

Despite generally living in more energy efficient homes than private renters or owner occupiers, **social housing residents have not been immune to the detrimental impacts of these price increases**. The latest government statistics show that around **one in six social housing residents are defined as living in fuel poverty**, primarily driven by low household incomes.

Social housing residents are also among those most vulnerable to the cold. **In 2020 and 2021**, 55 per cent of social rented households had at least one occupant with a long-term illness or disability, compared to around 30 per cent in owner occupied or private rented homes. Living in a cold home is associated with the **worsening or exacerbation of cold-related illnesses and disabilities**, especially respiratory, cardiovascular, and musculoskeletal conditions. Social housing residents are also more likely to be financially

vulnerable and unable to afford further increases in energy prices, **with half of social housing residents in the lowest income quintile**. **Seven in ten social housing residents have no savings**, compared to **two in ten owner occupiers and around 45 per cent of private renters**. Social housing residents are also **more likely to be lone parents with dependent children**, and **more than one quarter** are aged 65 or over.

More recent analysis from the Office for National Statistics (ONS) has shown that 61 per cent of renters found it difficult to afford their energy bills in February 2023. The combination of high energy prices that are likely to continue, low household incomes among social housing residents, and the higher likelihood of social housing residents being particularly vulnerable to the cold makes it vital for a long-term solution to be found. A social energy tariff can offer an answer.



The number of households defined as living in fuel poverty by the government's Low Income Low Energy Efficiency (LILEE) metric, disaggregated by social housing tenure.

What is an energy social tariff, and how can it help?

Different proposals for an energy social tariff have been put forward by different organisations, including the [New Economics Foundation](#) and the [Social Market Foundation](#). In CIH's view, the most appropriate version has been developed by [Age UK](#) and [National Energy Action](#), especially Age UK in their report [Keeping the lights on: The case for an energy social tariff](#). The energy social tariff is defined as a discounted energy tariff targeted at low-income, vulnerable, and fuel poor households. It would ensure that irrespective of Ofgem's price cap, which would be retained in the energy market as a separate mechanism, those on the lowest incomes and most vulnerable to the cold would pay a rate that would enable them to keep their whole homes warm and safe. The energy social tariff would be set below the price of the cheapest available deal on the market, and it would be tightly targeted at low-income and fuel poor households.

A review of the options for an energy social tariff has been publicly backed by the energy regulator, Ofgem, and it is expected that a UK government consultation on developing the tariff will be launched in summer 2023. Whatever eventual form it may take, the preliminary proposals developed by Age UK would support a substantial number of social housing residents struggling with their energy bills.

[Age UK have proposed that](#), among other criteria, receipt of means-tested benefits would be one of the ways that eligibility would be conferred. Included in the list of eligible benefits alongside universal credit and others, would be housing benefit. Analysis undertaken in [CIH's latest UK Housing Review](#) shows that there are approximately two million housing benefit claimants in the social rented sector. As a result, a significant proportion of social housing residents would be automatically eligible and enrolled on the social tariff. Furthermore, while there would

undoubtedly be some overlap between housing benefit recipients and recipients of other eligible means-tested benefits in the social housing sector (e.g., disability benefits and carers allowance), many more of the most vulnerable residents would also be captured by Age UK's proposed criteria.

In addition, in a decade of high energy prices there is a strong likelihood that some social housing residents will need ongoing support with their bills even if they are not captured by Age UK's suggested eligibility criteria. To prevent these residents from falling through the cracks, [Age UK have also proposed](#) the creation of a ringfenced flexible fund that will provide equivalent financial support. The fund will be designed in a way that enables multiple agencies who regularly encounter vulnerable people to refer them to the social tariff to receive support. These agencies could include, among others, social housing providers, local authorities, health and care providers, charities, and similar organisations. In Age UK's words, this will "allow proactive identification of households struggling with their bills, who may otherwise miss out on the tariff."

There is therefore a strong argument that an energy social tariff - irrespective of the finer points of its eventual design - would protect a large proportion of social housing residents from the negative impacts of rising energy prices. Viewed in numeric terms, [preliminary modelling](#) published by Child Poverty Action Group has suggested **a social tariff could cut fuel poverty rates in local authority and housing association homes by over 50 per cent** and be much more effective than ongoing cycles of cost of living payments. But more than this, it would likely prevent some of the worst consequences of energy rationing and prevent the development (or exacerbation) of cold-related illnesses for social housing residents.

Co-benefits for the social housing sector: asset management, tenancy retention, and net zero

While the primary purpose of a social tariff would be to ensure that energy can be affordably accessed for low-income, vulnerable, and fuel poor households, there are three co-benefits to the social housing sector that would occur if it was implemented.



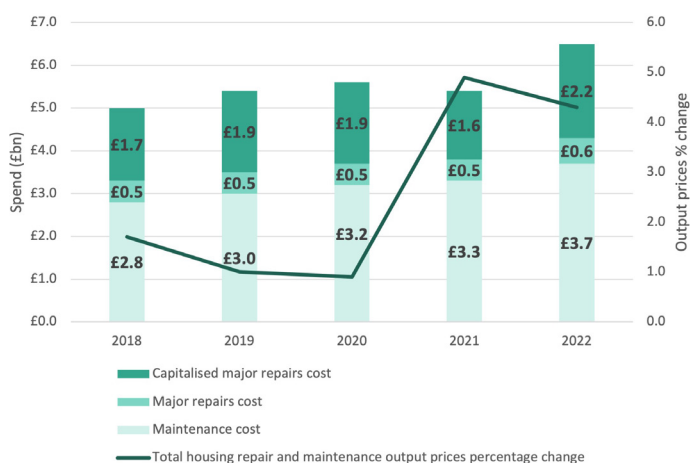
Asset management

Firstly, an energy social tariff would help to reduce incidences of reactive repairs and maintenance works in the sector. The costs of repairs and maintenance work has increased substantially in the sector in the last five years. Total repairs and maintenance spend in 2022 **increased by 20 per cent to £6.5bn**, and in the same year more than 80 per cent of providers reported a 5 per cent or greater increase in repairs and maintenance spend on a per unit basis. This has been paralleled by a surge in the repairs and maintenance output prices reported by the ONS, which increased by 4.9 per cent and 4.3 per cent in 2021 and 2022 respectively, having hovered around one per cent in the previous two years.

A small part of the increases in costly repairs and maintenance work is attributable to cold housing. In autumn 2022, **National Energy Action reported** that seven in ten households were heating fewer rooms than usual, and four in ten were turning the heating off completely, even when it was cold outside. More recent **research by Orbit** has also suggested a 50 per cent increase in the number of social housing residents going without heat to save money in the past 12 months.

Cutting back on heating in these ways can unintentionally cause issues that require repair and maintenance. For example, when temperatures drop there is a possibility that pipes will freeze, especially if cold temperatures persist for several days. **Some advice** therefore recommends that households should consider leaving the heating on a low setting continuously to help prevent frozen or burst pipes. Similarly, **some landlords** suggest that residents should test their central heating systems before winter starts by switching it on and checking the radiators warm up as expected. However, the evidence suggests that both actions are increasingly unaffordable for a significant proportion of social housing residents. This may lead to frozen or burst pipes, or delays in a landlord becoming aware of faulty heating systems, leading to potentially costly work when any issues are eventually detected.

Furthermore, in their **recent analysis** of poor housing quality, the Resolution Foundation have noted that “pre-existing housing quality problems – such as damp and mould – are likely to be have been exacerbated



Year on year total major repairs and maintenance spend by registered providers. **Figures from 2022 Global Accounts of private registered providers and ONS construction output price indices.**

by residents’ inability to heat their homes.” In February 2023 **the Regulator of Social Housing estimated** that one to two per cent of social rented homes have serious damp and mould problems, and that a further three to four per cent of homes have notable damp and mould. While a social energy tariff is clearly not an acceptable solution for issues in the sector relating to housing quality, decency, and safety, especially those relating to damp and mould, it is possible that underheating can unintentionally exacerbate pre-existing issues with damp and condensation, issues that are primarily caused by poor ventilation, insulation, and housing quality.

A social energy tariff would help to tackle the link between these issues, and their necessary remediation through repairs and maintenance work, by ensuring that social residents are able to heat their whole homes to a temperature that reduces the occurrence of problems such as frozen pipes. It would also help to prevent the exacerbation of pre-existing issues with damp and condensation. In other words, a social tariff would have the secondary outcomes of reducing asset management issues, lessening the financial pressure on repairs and maintenance work. Warm homes are healthy homes, for resident and landlord alike.

Tenancy sustainability

Secondly, it is likely that a social energy tariff would reduce wider pressure on household budgets and therefore contribute to tenancy sustainability. [Child Poverty Action Group estimate that since April 2023](#), around half of local authority and housing association residents are spending over 20 per cent of their income on gas and electricity. [Research by Orbit](#) also suggests that as many as 80 per cent of their residents are spending more than 10 per cent of their income on energy. The enormous pressure placed on already stretched household budgets by increased gas and electricity costs will potentially translate to increases in rent arrears.

There is evidence that this is already taking place across the sector. For example, [a survey carried out by L&Q](#) found that 25 per cent of their 800 respondents

regularly found their rent unaffordable, and that two thirds found their rents less affordable at the time of answering the survey than they were a year ago. [The ONS have reported](#) that renters have over four times the odds of experiencing some form of financial vulnerability compared with those who own their home outright, making it more likely they will be unable to absorb high energy costs.

Considering the significant proportion of social housing residents that would be eligible, the introduction of a social tariff would have the inadvertent impact of improving rent affordability. This would likely lead to an improved (or maintained) regularity of payments, reduced arrears, and more sustainable tenancies in general.

Net zero

Finally, a social tariff can play a role in supporting the decarbonisation of social housing stock. The 2020 English Housing Survey [estimated](#) that around 30,000 social rented homes were fitted with heat pumps, approximately 27 per cent of the total number of homes with heat pumps. Since then, [social housing providers](#) have increasingly retrofitted heat pumps and other forms of electric heating into their homes as part of wider strategies to decarbonise their housing stock. Installations that have taken place through fuel poverty schemes, such as the Warm Homes Fund or the Social Housing Decarbonisation Fund, have been explicitly targeted at low-income, vulnerable, and fuel poor households. Furthermore, [the Future Homes Standard](#) is likely to see heat pumps become the primary heating technology in newly built homes from 2025. Ensuring that heat pumps and other forms of electric heating are affordable for social housing residents, and especially those on low incomes or defined as vulnerable or fuel poor, is therefore increasingly important for supporting the sector's wider efforts to decarbonise.

Although the energy crisis has led to the running costs of heat pumps [achieving broad parity](#) with gas central heating systems, the increasing cost of electricity

renders heat pumps difficult to afford for social housing residents. [A recent evaluation](#) of the Warm Homes Fund fuel poverty programme emphasised that while heat pumps installed through the programme significantly improved levels of thermal comfort, heating system control, and health for social housing residents, the running costs were often difficult to afford for residents once electricity prices began to increase.

Put differently, [the undoubted benefits of the domestic transition to net zero must be accessible to low-income and vulnerable households](#), but many social housing residents with electric heating are currently less able to access these benefits due to high electricity prices. Reducing the cost of electricity by introducing a social tariff would make heat pumps and other forms of electric heating far more affordable for social housing residents. As the sector continues to accelerate its retrofit programmes, which often include insulation and supplementary technologies such as solar PV, a social tariff would also help to increase uptake by giving residents confidence that they will be able to fully afford their running costs.

Towards a social tariff in the energy market

In summary, a social tariff would offer at least four benefits to the social housing sector:

- Making energy affordable for low-income, vulnerable, and fuel poor social housing residents
- Reducing the incidence of asset management issues requiring costly repairs and maintenance
- Improving tenancy sustainability
- Contributing to the decarbonisation of social housing stock by making heat pumps and other forms of electric heating affordable to run for residents.

A social energy tariff is not a silver bullet for fixing unaffordable energy costs in the social housing sector and must be part of a multi-pronged approach that includes improving the energy efficiency of existing social homes, wider welfare reform, and a more consistent provision of advice and support to residents interested in adopting net zero technologies inside their homes. However, as this paper outlines, it would be an enormously valuable addition to, and effective replacement for, the different forms of short-term financial support that the government has introduced to support people, including social housing residents, through the energy crisis.

Next steps

The government intends to consult on the social energy tariff in summer 2023. CIH will be encouraging and supporting members to respond to the consultation.

We would also welcome engagement from social housing providers and members to help shape our own thinking and work through some of the opportunities and issues this paper has identified.

If you have any comments or feedback, or would like to help us shape our work on the social tariff, please contact policyandpractice@cih.org and we will be happy to discuss further.





Chartered
Institute of
Housing

Suites 5 and 6, first floor, Rowan House, Westwood
Way, Coventry, CV4 8HS

T: 024 7685 1700
E: customer.services@cih.org

www.cih.org



Contact the CIH Practice Team directly
at policyandpractice@cih.org
Follow on Twitter @CIH_Policy