Chartered Institute of Housing response to Ofgem Standing Charge Review Call for Input

Introduction and summary of our response

The Chartered Institute of Housing (CIH) is the professional body for people who work or have an interest in housing. We welcome the work that Ofgem is undertaking to review the standing charge element of domestic energy bills, and the opportunity to feed into the initial stages of this process. As a member of the End Fuel Poverty Coalition, we are also grateful to have had the opportunity to engage directly with Ofgem on these issues and believe that with ongoing, mutually constructive engagement we can obtain an outcome that better protects people who are disproportionately affected by high standing charges.

In preparing this response, we have consulted with several CIH members, as well as with wider partners and stakeholders. Specifically, in November 2023 we produced a briefing for our members summarising some of the main points in Ofgem's discussion paper, and invited their comments. We have used the feedback we received to inform this response, and will continue to harness the experience and expertise of our members to support Ofgem's work in this area. The key points we would like to make in this submission to the call for input are as follows:

1. We would welcome further work and analysis to help us and our members understand the implications of possible standing charge reforms for social housing residents. As we set out in more detail below, social rented households are more likely to contain residents with long-term illnesses or disabilities, more likely to have prepayment as their payment type, and are more likely to be financially vulnerable than other tenures. While we do not think social housing residents should necessarily receive privileged attention in the present review, changes to the standard charge could have uneven, and possibly detrimental, impacts for them. We would like to see further analysis that examines these impacts, primarily because it will help to inform how the social housing sector engages with or responds to any proposals that Ofgem puts forward at later stages of this review.

2. **Without financial support or legislative action from central government, it is uncertain if any interventions in standing charges that Ofgem might**

consider would be able to adequately minimise the risk of producing negative outcomes for some consumers. If one of the starting points for this review is that the costs currently attached to standing charges must be recovered from the energy bills of consumers in one way or another, it is inevitable that any reallocation of costs from the standing charge to the unit rate will create winners and losers. We would welcome proposals for these higher bills to be offset by radical tariff reform, the movement of policy costs from energy bills to general taxation, changes to the Warm Home Discount, and/or by the introduction of proportional financial support for households that are disadvantaged by any changes to the standing charge regime (e.g. a social tariff). Accordingly, we feel that the findings of the review must feed into a broader dialogue with government about ensuring people can afford to access the energy they need to stay safe and warm at home.

3. Despite this, there are some options that we would like to see explored in the subsequent phases of Ofgem's review. Specifically, building on work undertaken and shared with us by National Energy Action, we would welcome consideration of the following potential solutions:

- Introducing standing charge freezes, caps, or exemptions is well-defined situations or for some vulnerable consumers.
- Examining how to reduce the accumulation of gas standing charge debt over the summer months, when heating is not being used, which can lead to difficulties in getting back on supply before winter.
- Implementing standing charge tariff bandings for domestic users based on a consumption threshold, and/or a rising block tariff.
- Moving standing charge accrual 'to the back' of prepayment meters to minimise impact on self-disconnection.

4. Engagement with the Regulator for Social Housing could present a pathway to identifying the complex needs of vulnerable customers. Under forthcoming consumer standards in the social housing sector, social landlords will be required to collect and retain information on the service needs of their residents. Specifically, under the proposals, social landlords will be required to "*understand the diverse needs of tenants, including those arising from protected characteristics, language barriers, and additional support needs*" and "*assess whether all tenants have fair access to, and equitable outcomes of, housing and landlord services*." This will necessarily include gathering information about the vulnerabilities and needs of residents. This may well be challenging and difficult (at least in the short-term), but we might envisage a situation where data collected by social landlords can be used to target standing charge freezes, caps, or exemptions, as well as broader energy bill support.

We expand on these points below, and would welcome the opportunity to discuss them further with Ofgem. In our responses to the specific questions, we have answered only those questions to which we can give an informed response.

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A view from the social housing sector on high energy bills and standing charges

Before responding to individual questions in the call for input, we would like to set out some evidence on how rising energy bills and standing charges are impacting social housing residents. Although CIH works across the entire housing sector, a significant proportion of our members work in social housing. Many of our members work in frontline roles, and have experienced first-hand the impacts of rising energy prices on vulnerable residents. We present this evidence to try and support Ofgem's understanding of how potential standing charge changes might affect the social housing sector and its residents, and to encourage Ofgem to release further analysis of potential options that are disaggregated by tenure.

The latest English Housing Survey (EHS), released in December 2023 and covering 2022-23, is a useful starting point because it sketches the characteristics of people who live in social housing. Other data is also available that compliments the EHS, especially on prepayment meter prevalence and priority need. Some of this information is relevant to the review because they relate to vulnerability, health, disability, income, and payment type. Specifically, this data shows that:

- **In 2022-23, the tenure with the highest proportion of households containing someone with a disability was the social rented sector** (56%). There were 33% in the owner-occupied sector and 28% in the private rented sector. While the EHS data does not tell us the specific nature of the disability, it is fair to conclude from this that social housing residents are more likely to have health- and disability-related needs for energy (e.g. due to the presence of cardiovascular, musculoskeletal, respiratory, or mental conditions or illnesses).
- **In 2022-23, the highest proportion of economically inactive households was in the social rented sector** (24%). CIH's latest UK Housing Review also shows that there are approximately two million housing benefit claimants in the social rented sector. Furthermore, although this data is not yet available in the latest EHS, the previous EHS data showed that in 2021-22, over half of social housing residents were in the lowest income quintile. National fuel poverty statistics for England also consistently show that social housing residents have a lower median annual income than owner-occupiers or private renters. It is therefore fair to conclude that social housing residents may be less able to absorb increases in standing charges,

and may be more likely to fall into energy debt because of an inability to pay their bills.

- **Although robust data is not available, [approximately] four in ten (978,000) social rented homes in England are fitted with a prepayment meter.** There is also [some evidence] to suggest that as many as 18% of these may have been forced installations to recover debt. In Wales and Scotland, this proportion is higher, with [around half] of social rented homes in Wales being fitted with a prepayment meter.
- **[Government data] from 2017-18 shows that new social housing lettings for different types of priority has consistently been high in the past,** with 37% of lettings associated with homelessness and 25% of lettings associated with medical welfare. Given rising homelessness and the use of temporary accommodation, and the health impacts of the Covid-19 pandemic, we do not expect these figures will have decreased.

Taken together, this evidence suggests that social rented households are more likely than average to contain occupants with a long-term illness or disability, more likely to be fitted with a prepayment meter, and more likely to be financially vulnerable or have a priority need. Evidence collected through our engagement with CIH members provides some additional layers to this data. For example, one CIH member, working in a money advice team at a large housing association, told us that:

"We have certainly seen an increase in customers seeking help with their energy bills; being unable to afford to top up their prepayment meters as often as they need due to increasing costs, and customers unable to afford the increase in their direct debits. Also, we have had more requests to support customers who cannot clear the debt on the meter – even when they do not use the supply at all, due to the standing charge a debt has accumulated. Many of these are customers on a benefit income which is fixed and where they are already living on the poverty line, unable to cope with financial stresses."

Data gathered by the sector also shows that:

- 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]. 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.

- One in four households living in social housing last winter did not heat their homes for a period of at least one week, according to data gathered by Switchee.
- 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.

We highlight this evidence not because we necessarily feel that social housing residents should be privileged in any reforms of standing charges, but to highlight that any reforms will have complex effects for residents that the sector needs to better understand. For example, shifting electricity costs from standing to volumetric charges (in the way modelled in Ofgem's paper) would probably benefit many social housing residents (as they have a lower median household income), but also risk increasing costs for a large number with high health- or disability-related needs for energy. Of course, these groups will not be mutually exclusive – it is likely, on the contrary, that there is considerable overlap, and we might therefore expect the net impact of this shift for many social housing residents will be negative. In contrast, any changes that seek to relieve the standing charge burden on prepayment metered households would have a positive impact for more social housing residents.

These matters are important for the social housing sector, which has a duty and imperative to act in the public interest and provide warm, safe homes for some of the most vulnerable people in society. To aid the sector and our members, **we would therefore like to see further work and analysis to help CIH members and the wider social housing sector understand the implications of possible standing charge reforms for social housing residents.**[1] This will help to inform how the social housing sector engages with or responds to any proposals that Ofgem puts forward at later stages of this review.

[1] We note that Ofgem's archetypes segment customers by tenure, as well as by other household characteristics. A full analysis of how Ofgem's analysis of 50% reallocation of costs from the standing charge to the unit rate by tenure, as well as any further proposals, would be a very welcome way of fulfilling this purpose.

Chartered Institute of Housing

Responses to call for input questions

Q4: As a result of TCR and changes to the recovery of residual costs, domestic consumers with very low consumption now bear a share of fixed network costs which is more in line with the cost of maintaining access to gas and electricity networks. Is this fair? Should more be done to shield these customers from these costs?

We agree that it is not fair for domestic consumers with very low consumption levels to pay the same fixed costs (and standing charge more generally) as consumers with high energy consumption levels. More should be done to shield consumers from these costs. Specifically, we feel that the ideal outcome is for standing charges (and/or unit rates) to be pegged to consumption. This would mean very low consumers would pay a proportionately smaller network cost, with high consumers – those who place the most demand on the energy networks – paying proportionately more.

This is for two reasons: firstly, a 'user pays' principle, which would see consumers pay network costs in relation to the amount of energy they take from the network; and secondly, a distributional justice principle, which would see higher-income households paying proportionally more towards network costs than lower-income households (i.e. cross-subsidisation).

Q11: How significant an impact do standing charges have on customers' incentives to use energy efficiently? What evidence can you provide that this is the case?

While we do not have an evidence-based view on how standing charges affect the efficient use of energy, we do believe the current structure of most energy bills, with fixed standing charges and unit rates, helps to incentivise *overconsumption* of energy among higher-income households in a way that is detrimental to our climate targets.

The recommended pathway in the Climate Change Committee's 6th Carbon Budget requires a 78% reduction in UK territorial emissions between 1990 and 2035, a 63% reduction from 2019. Research by the Centre for Research into Energy Demand Solutions (CREDS) in 2022 showed that the poorest fifth of households contributes 16% of all building emissions, while the wealthiest fifth is responsible for 25%, with little incentive to reduce their energy use because they can afford the higher expenditure. Further findings from CREDS suggest that meeting carbon budgets aligned with net zero by 2050 without substantial reductions in energy demand is extremely difficult, and prohibitively expensive. Policies to reduce energy consumption of all households are sometimes not equitable, because lower income households are often not consuming the amount of energy that is required for good health and wellbeing in the first place; these households need to be enabled to use *more* energy, not less. Accordingly, policies to specifically reduce the energy consumption of the wealthiest income quintile are preferable, especially if they can subsidise or offset (in terms of both emissions and costs) increases in energy consumption by lower-income households.

While it is not the primary aim of Ofgem's review into standing charges, we note that under the Energy Act 2023, an amendment requires the regulator to consider how their decisions may assist the Secretary of State in meeting the government's net zero targets. We therefore feel there is an opportunity to examine how two policy aims can be met: improving energy affordability for lower income households, and disincentivising excessive energy consumption by higher income households. Implementing standing charge tariff bandings for domestic users based on a consumption threshold, as detailed in our response to Q12 below, may be one way to accomplish this, as it may encourage higher income households to consume less to avoid a higher standing charge banding.

A rising block tariff, as analysed in Ofgem's discussion paper, could be another way to achieve this. Moreover, we feel that setting the higher consumption brackets of a rising block tariff (e.g. 2,201-3,000kWh) at a significantly higher rate could act as a means of cross-subsidisation, paying for lower-income households to access up to (e.g.) 1,100kWh for significantly less, and without a standing charge. This is a similar approach to that set out by the New Economics Foundation, although we would not advocate a quota of free energy for all households as their analysis does. This could solve the question of how to more fairly allocate the fixed costs that are currently attached to the standing charge, and have the secondary benefit of reducing overconsumption, thus contributing to the energy demand reduction from domestic homes described as important by CREDS's analysis.

We would welcome further exploration and modelling of how this might be possible. However, we acknowledge that while the above sounds possible on paper, there seems to be no evidence of a rising block tariff or standing charge banding of this kind working as we have described (a point also made in Ofgem's discussion paper). For higher income households / higher energy consumers, a balance would presumably need to be struck between a) how much energy demand is reduced and b) how much consumption takes place in higher bands, to effectively cross-subsidise the tariff structure. There would also need to be some way of ensuring the tariff structure does not increase costs for lower-income households with (e.g.) higher health- or disability-related needs for energy, or who are dependent on electricity for medical reasons (e.g. hoists, dialysis machines).

Q12: Are there any forms of intervention in standing charges that Ofgem might consider that would minimise the risk of producing negative outcomes for some customers?

Building on work undertaken and shared with us by National Energy Action, we believe the following immediate changes are worthy of analysis and consideration by Ofgem.

- **Introducing standing charge freezes, caps, or exemptions for some groups of vulnerable consumers, or in specific circumstances.** We agree with National Energy Action's suggestion that suppliers could be given an obligation to offer standing charge freezes in well-defined situations, or that targeted caps or exemptions could be offered to some consumers. This could be used to reduce the build-up of debt during self-disconnections, or to offer support with a temporary situation such as bereavement and the loss of a main household income earner.
- **Examining how to reduce the accumulation of gas standing charge debt over the summer months, when heating is not being used, which can lead to difficulties in getting back on supply before winter.** There is evidence from our engagements with social housing providers that the build-up of standing charge debt on prepayment meters can lead to the capping of gas supplies due to legally required Landlord Gas Safety Record (LGSR) checks. By law, social landlords must undertake a yearly LGSR check to ensure their properties are safe. We are aware of instances where the build-up of standing charge debt during the summer months (i.e. when gas is not being used) leads to situations where LGSR checks cannot be carried out, because they require money on the meter. In such situations, landlords are sometimes forced to cap the supply because an LGSR check cannot be carried out, leaving the household without gas heating until the debt can be cleared and the LGSR check undertaken. It is possible an exemption of this kind would significantly reduce this situation from occurring, as well as

ensuring that residents do not need to pay a lump sum at the end of summer to clear the debt and get back on supply.

- **Implementing standing charge tariff bandings for domestic users based on a consumption threshold.** This would ensure that households with less consumption pay a smaller contribution to network costs, and higher consumption households pay an increased contribution. However, we would need to understand how to set bandings in a way that does not detrimentally affect high-usage vulnerable households, and assess how to estimate household consumption fairly, especially in homes where a smart meter is not present, and consumption therefore cannot be accurately ascertained.
- **Moving standing charge accrual 'to the back' of prepayment meters to minimise impact on self-disconnection**. This could reduce barriers to getting back onto supply for households that self-disconnect by switching the clearing method from a single lump sum to a repayment plan.

However, without financial support or legislative action from central government, it is uncertain if any interventions in standing charges that Ofgem might consider would be able to adequately minimise the risk of producing negative outcomes for some consumers. Put differently, it seems likely that any reallocation of costs from the standing charge to the unit rate will create winners and losers. The key question is how to ensure that the winners are lower-income households, and that the losers are higher-income households, who are more able to afford the higher bills that might accompany standing charge changes.

We feel that there are therefore three longer-term options, which are not necessarily mutually exclusive:

- **Undertake ambitious and radical reform of tariff structures that pegs costs to consumption and enables cross-subsidisation across the retail market**, whether in relation to a) standing charges, b) unit rates, or c) both. A starting point for this could be one of or a combination of standing charge tariff bandings and a rising block tariff. However, as above, we acknowledge that this would be challenging to model, propose, and subsequently regulate, with large potential for unforeseen consequences. It would also need to consider the increasing prevalence of flexibility services and demand-side response in the energy system, at both aggregate and household level.

- **Government steps in**. Ultimately, we believe that this is the only feasible option to minimise the risk of negative consequences arising from any standing charge reform for consumers. For example, if Ofgem's 50% reallocation of costs from the standing charge to the unit rate was to go ahead, we feel that government would be required to introduce an equivalent rebate, or expand Warm Home Discount payments and reintroduce them to recipients of disability benefits. These actions would be the only means of ensuring this group was not detrimentally affected. More broadly, some progress on government's rebalancing of gas and electricity levies would be welcome, which at minimum should include the shift of some legacy costs from energy bills into general taxation.
- **Government moves forward with proposals for a social tariff**. We will not rehearse the well-known arguments for a social tariff in the energy market here, but it is something that CIH supports, and we have set out in detail why it would be especially beneficial for the social housing sector.

Summarily, we feel that **a) there are potential actions that Ofgem can take unilaterally, now, that could make a significant difference for vulnerable energy consumers,** and that **b) the findings of the review must feed into a broader dialogue with government about ensuring people can afford to access the energy they need to stay safe and warm at home**.

Q13: How can we identify the complex needs of vulnerable customers and ensure that they are able to receive tariffs that benefit them the most?

We are aware that previous work undertaken by government and Ofgem has examined the possibility of using the Priority Services Register, data held by the Department for Work and Pensions, and other sources to try and understand the complex needs of vulnerable consumers. We would like to add some thoughts on one further source that may provide some insight: data held by social landlords about their residents.

Under proposed changes to consumer standards in the social rented sector, social landlords will have additional obligations placed on them by the Regulator of Social Housing (RSH). Specifically, under the proposals, social landlords will be required to "*understand the diverse needs of tenants, including those arising from protected characteristics, language barriers, and additional support needs*" and "*assess whether all tenants have fair access to, and equitable outcomes of, housing and landlord services*." In the accompanying Code of Practice, the RSH states:

"Registered providers are expected to have robust information about their tenants and keep this information up to date. This should include, but not be limited to, in relation to the protected characteristics, and their support and communication needs. It is for registered providers to work with tenants to decide the most effective approach to gathering this information and keeping it up to date, and to share with tenants how they make use of the data to improve and tailor services. Some providers may gather this information via periodic face-to-face contact with tenants, for example, while others may decide to use all points of contact with tenants to request the information, where appropriate. Registered providers should explore a range of different solutions to ensure they maximise the response rate for collecting this information from tenants."

In response to this guidance, individual social landlords are examining how they will collect the required information about their residents. At a sector level, the National Housing Federation are leading a project entitled Knowing our Homes, which aims to produce a standardised way of collecting and using this information across all social landlords. Although this will take time, a likely outcome of the new consumer standards will be that social landlords will acquire a large amount of information about the support and communication needs of their residents. It may be possible, working with the RSH and the wider sector, to explore how this information could be shared (with permission of the resident) with energy retail suppliers to enable targeted standing charge action (such as standing charge freezes, reductions, or exemptions) and broader energy bill support. This might be administratively challenging for social landlords and the sector, but if the incentive was providing vital energy bill support for their vulnerable residents, these challenges could be overcome.

We would encourage Ofgem to consider this as part of the next stage of their call for input, and work with the RSH to understand if it is a feasible proposal or not.

About CIH: The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals and their organisations with the advice, support, and knowledge they need. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing sector. 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