

SFHA Briefing: Net Zero, Energy & Transport Committee Inquiry into Rising Energy Prices

May 2022

SFHA is the membership body for, and collective voice of, housing associations and co-operatives in Scotland. We exist to represent, support and connect our members.

Introduction

Even prior to the recent energy price hikes, people in social housing were more likely to live in fuel poverty than owner occupiers¹, despite the best efforts of our members: this discrepancy is largely due to lower income among social tenants. Changes to welfare benefits and their continuing reduction relative to inflation have meant many people have seen their incomes eroded, and this is expected to continue as part of the wider cost of living crisis². We therefore support calls by other organisations like the Joseph Rowntree Foundation³ for broader reforms to social security at a UK level to bring incomes in line with the cost of living.

There are also clear differences in how fuel poverty is experienced across the country and many social landlords operate in locations where access to affordable warmth is particularly challenging⁴. Some of our members also offer housing with care and support to vulnerable tenants who may have higher energy demands due to health reasons. More recently, the COVID-19 pandemic has also led to increased financial hardship with our members reporting growing demand for energy advice and help with fuel costs, even amongst tenants who have not previously required support⁵.

However, much can be learned from the swift action that was taken during the pandemic to support people and deliver help where it was needed. Our members have been working closely with tenants to help increase incomes, manage energy debt and make changes to how they heat their home as well as investing in improvements to the physical fabric or heating system. As already outlined by the Zero Emissions Social Housing Taskforce

¹ <https://www.gov.scot/publications/scottish-house-condition-survey-2019-key-findings/>

² <https://www.jrf.org.uk/press/400000-people-could-be-pulled-poverty-real-terms-cut-benefits-april>

³ <https://www.jrf.org.uk/press/jrf-responds-scottish-governments-plan-cost-living>

⁴ <https://www.sfha.co.uk/news/news-category/sector-news/news-article/highland-residents-face-unfair-additional-energy-costs>

⁵ <https://www.sfha.co.uk/mediaLibrary/other/english/86714.pdf>

(ZEST)⁶, further investment is now needed to sustain this activity and ensure the greatest resources are directed to those with the greatest fuel poverty pressure.

As a priority, we are calling for the **Scottish Government to respond to the ZEST report's recommendations** immediately after the local elections. However, this submission also sets out how the Scottish Government could help to alleviate the effects of the energy crisis, either alone or by working with the UK Government. Our suggestions centre around **improved targeting of financial support, investment in frontline advice services, acceleration of social housing retrofit programmes and wider energy market reforms.**

Improved targeting of financial support

Although all consumers are being affected by the energy crisis to some degree, evidence from our members indicates that further action is needed to ensure social housing tenants are not unfairly disadvantaged. It is welcome that the Scottish Government has introduced a £290 million package to help address the rising cost of living and confirmed continuation of the Fuel Insecurity Fund. The repayable £200 rebate on electricity bills announced by the UK Government may also help to delay the impacts, however, as already raised by Energy Action Scotland⁷, these interventions will be insufficient to support those most at risk.

Social housing tenants living in rural communities are particularly disadvantaged due to a combination of higher living costs, colder temperatures and a longer heating season in addition to the lack of access to the gas network and a high proportion of hard-to-treat housing stock. Regional differences in distribution costs also mean that consumers in the Highland and Islands have historically paid more despite being a net exporter of green electricity. The reliance on unregulated fuels also increases vulnerability to fuel poverty and the price of heating oil in particular has increased considerably over the last two years. Vulnerability to extreme fuel poverty has been exacerbated in remote and rural areas and yet many of the previous recommendations of the Rural Fuel Poverty Taskforce⁸ from back in 2016 have not been fully addressed. The Highlands & Islands Housing Associations Affordable Warmth group⁹ has also raised concerns about the gaps within the recent Fuel Poverty in relation to tackling the existing discrimination facing these communities.

Those who rely on electricity as a primary heating fuel, and particularly where restricted meters which limit the available tariff options are in place, are also at risk and these households are again more prevalent in remote and rural areas. Data gathered by one of our rural members illustrates that, as of April 2022, the cheapest variable rates for a single credit rate meter in the Highlands and Islands (either credit or pre-payment) would cost an average user around £3,000 under the new cap while the best available fixed rate is over

⁶ <https://www.gov.scot/publications/achieving-net-zero-social-housing-zero-emissions-social-housing-taskforce-report/>

⁷ https://www.eas.org.uk/en/fuel-poverty-set-to-break-the-50-barrier-in-parts-of-scotland_59652/

⁸ <https://www.gov.scot/publications/action-plan-deliver-affordable-warmth-rural-scotland-proposed-scottish-rural/>

⁹ <https://www.parlamaid-alba.scot/-/media/files/committees/net-zero-energy-and-transport-committee/hihaaw-submission.pdf>

£4,000. This compares to the proposed cap of around £2,00 for a typical dual fuel customer. Reports from Orkney Housing Association also indicate that emergency funds of over £500 per household have been required to support tenants with electric heating systems, even prior to the April increase.

Customers with pre-payment meters have historically paid a 'poverty premium' and there remains a disproportionately higher number of pre-payment customers in Scotland. While a higher price cap rate applies to these households, unlike credit customers these costs are not evenly spread over the year. These customers are also restricted in ways to top up with hidden costs associated with travelling to appropriate pay points. For those with gas pre-payment meters, important gas safety checks can also be delayed if the tenant has insufficient funds resulting in the supply being temporarily 'capped'.

With a further price cap increase expected in the autumn, there will be even greater pressure on household budgets as we enter the heating season. Our members have already been reporting increased levels of anxiety amongst tenants in addition to high levels of fuel debt and energy rationing, even for those in urban areas who have the option of gas heating. The collapse of the market has also been a concern for tenants and although the Supplier of Last Resort mechanism should ensure consumers remain on supply, they are not guaranteed the same terms or price with their new supplier. During the uncertainty of this transition period, some tenants are also failing to keep up with payments with one of our members reporting that transfer process is taking more than three months – resulting in significant accumulation of debt.

Households with 'Heat with rent' or similar models, where the building owner has a commercial contract with the energy supplier and is then responsible for charging tenants, are also at risk. These scenarios are particularly common in supported and sheltered accommodation which often house tenants who are older or who have disabilities and therefore have higher energy demands (e.g. enhanced heating regimes or the use of medical equipment). However, these end users are there not classed as domestic customers and are therefore not offered the same protections as other consumers.

Actions:

- The Committee should encourage the **Scottish Government** to apply pressure for an immediate expansion of the Warm Home Discount which better reflects current energy costs and for alternative safeguards for households who are neither protected by the energy price cap nor eligible for current support mechanisms.
- The **Scottish Government** should consult on its plans for a separate Warm Home Discount scheme in Scotland as soon as possible to ensure any new scheme reaches those who are most in need, including those with inefficient electric heating. The budget for other devolved winter heating benefits should also be increased in line with rising energy prices.
- The **Scottish Government** should increase the amount and duration of its support to social housing tenants through the Social Housing Fuel Support Fund to facilitate

activities with sustained impact (e.g. employment of energy advisors) alongside emergency support.

- The **Scottish Government** should review the eligibility and reporting criteria for other community grant funding (e.g. Investing in Communities Fund) to ensure this does not unfairly disadvantage organisations operating in remote/rural areas where tenants are geographically dispersed.

Investment in frontline advice services

As reported in our previous case studies¹⁰, community-based organisations, including housing associations and co-operatives, have a good track record at reaching people in fuel poverty and delivering including face-to-face support. Tailored energy advice is essential and while some of our members already employ in-house advisors, not all social landlords have the resources to offer this type of specialist service. Some of our members will signpost tenants to other local, third sector organisations, however much of this activity can be subject to short term funding schemes and many have already been working to capacity.

Services are reporting high levels of demand for energy advice coupled with increased levels of anxiety around energy suppliers going bust, high levels of fuel debt and requests for help with fuel costs or other essentials like food¹¹. However, at present, there are limits both in the financial support available (and the amount of heat/comfort which this can purchase) and the advice which can be offered around tariff switching. For smaller housing providers who rely on referrals to outside agencies, some are reporting wait times of up to six weeks for appointments. With pressures expected to continue over the coming years, additional investment will be needed to sustain these vital services and deliver a more effective ‘boots on the ground’ approach.

There are also opportunities to increase public awareness, both on the support available and the behaviour changes which may help to improve energy efficiency. The Scottish Government has previously promised to develop a ‘bespoke’ public engagement strategy to support the Heat in Buildings Strategy while the ZEST report also recommended developing a national winter education campaign materials which also support the rollout of new heating technologies.

Actions:

- The **Scottish Government** should provide direct revenue funding to sustain existing, local energy advice services, including those provided by social landlords, and create further capacity where required ahead of the coming winter.
- The **Scottish Government** should develop a co-ordinated national winter campaign which promotes home energy efficiency, including heating and ventilation practices, alongside clear routes to ongoing advice and support.

¹¹ <https://www.sfha.co.uk/mediaLibrary/other/english/86714.pdf>

Acceleration of social housing retrofit programmes

The social housing sector will play an important role in the transition to decarbonised forms of heat in line with Scotland's climate change targets. However, this needs to be aligned with fuel poverty objectives and supported with adequate capital investment. Given the new context of energy price volatility, the importance of the 'fabric first' approach, in which buildings are made as energy efficient as possible before investing in alternative heat sources, is even more important in maintaining affordability for tenants. Recent examples of this approach include Queens Cross Housing Association's upgrades to high-rise block in Glasgow¹² and the Wheatley Group's *Greener Homes, Greener Lives* programme¹³.

Minimising overall energy demand and promoting the transition to renewable energy, including energy storage solutions, will help protect consumers from future energy price shocks and can be delivered in relatively short timescales if the right support is in place. Yet our members report that sourcing funding and the capital investment for retrofit measures is very challenging, primarily due to the complexity of the funding landscape. There also remains uncertainty around the next milestone of EESSH given the plans for a further review and we have already raised concerns that the proposed target for 2032 would have only a modest impact on fuel poverty despite costing RSLs over £2bn¹⁴.

While we welcome initiatives like the Low Carbon Infrastructure Programme and the Social Housing Net Zero Heat Fund, these need to be expanded in line with the scale of the challenge ahead. Social housing tenants are also not eligible for other fuel poverty programmes (e.g. Warmer Homes Scotland and the Area Based Schemes) and have very limited access to Energy Company Obligation (ECO) due to the stricter eligibility requirements for social housing. The retrofit standards required to access these funds (e.g. PAS2030/35) are also driving up the cost of measures in an already challenging environment of labour and material shortages, and particularly for social landlords operating in rural areas.

Actions:

- The **Scottish Government** should initiate the review of EESSH2 as soon as possible to align the objectives of the Heat in Buildings Strategy and the Fuel Poverty Strategy while taking account of the current energy crisis.
- The **Scottish Government** should ensure there is adequate investment to accelerate social housing retrofit programmes to help minimise energy costs and ensure the required upgrades do not compromise rent affordability.
- The **UK Government** should reconsider its decision to exclude battery storage solutions from the 0% VAT rate announced during the Spring statement given that

¹² <https://www.sfha.co.uk/news/news-category/sector-news/news-article/greener-high-rise-flats-attract-cop26-praise>

¹³ <https://www.sfha.co.uk/news/news-category/sector-news/news-article/minister-sees-how-wheatley-is-driving-green-agenda>

¹⁴ <https://www.sfha.co.uk/news/news-category/sfha-news/news-article/energy-efficiency-target-would-only-reduce-fuel-poverty-by-24-but-cost-2bn>

this technology, in combination with renewables, could improve affordability for the occupants.

Wider Energy Market Reforms

The experiences of recent months have reinforced the need for major reforms to the UK energy retail market. Even with an energy price cap designed to protect consumers, the current system is failing to deliver affordable energy costs, reducing market competition, and creating considerable uncertainty for suppliers and their customers. Despite Ofgem's proposal to commission a series of Market Compliance Reviews from suppliers to ensure they are fulfilling their licence condition, further action will be needed to improve customer service and ensure consumers are treated fairly, regardless of their fuel or meter type.

Relationships between social landlords and energy suppliers could also be improved. While there are processes in place to allow landlords to speak to suppliers on their tenants' behalf, our members have reported that this can often be challenging – particularly where in-home visits are impractical. Even where permissions are in place, housing staff are reporting allocating considerable resources dealing with energy companies due to poor customer service, long call wait times and the convoluted processes involved in trying to reach the appropriate department. This is valuable time which could otherwise be devoted to providing more direct support to tenants.

New social housing tenants are also being impacted; we are aware of cases where prospective customers of larger suppliers are only being offered expensive fixed rates, rather than capped Standard Variable Tariffs (SVT). There have also been reported cases of cold callers/door steppers who are taking advantage of the current crisis by pushing consumers on to higher fixed rates. Some of our members have also experienced difficulties in their agreements with preferred energy suppliers who are no longer taking on new customers. This is again leading to increased costs for tenants who are having to opt for an alternative, and more expensive, supplier. Some social landlords also earn commissions from these agreements which fund vital fuel poverty projects and this important revenue could be jeopardised if these suppliers can no longer operate sustainably or accept new referrals.

Other knock-on impacts include increased turnaround times in bringing empty properties back into use which is particularly important in the context of tackling homelessness. We have also received reports of particular issues for rural housing providers who are experiencing difficulties in finding suppliers to install new connections in new build properties, with reports that energy companies will not be fitting new meters on multiple sites for the foreseeable future.

With the global energy price hikes, social landlords are experiencing major increases across their wider business operations, including increased costs for communal systems which operate under commercial contracts. While our members have a duty to provide value for money to tenants and will look to procure the best fixed rate deals available, in the current context of rising costs, with no equivalent price cap and a lack of competition in the

market, this is becoming extremely challenging. As an example, one of our members has received forecasted energy prices which suggest a doubling of their current expenditure. Our members can help to protect tenants by absorbing some of these costs in the short term, however this approach is not sustainable.

More broadly, we have yet to see the UK Government's long-awaited Fairness and Affordability Call for Evidence despite decisions on reforms to social and environmental levies being promised by 2022. The current system remains regressive, failing to take account of a customer's ability to pay, and already disadvantages households who are reliant on electricity for heat. We are aware that the Scottish Government has published research¹⁵ which suggests that an alternative model based on general taxation would offer a fairer outcome but would be a 'major undertaking'. Others have also suggested introducing a new 'social tariff' which offers lower cost rates for low-income households¹⁶.

Actions:

- The **UK and Scottish Governments** should continue to work with Ofgem and Energy UK to ensure the full range of regulatory levers are being used to hold suppliers to account on their social responsibilities. This should include doing more to help vulnerable customers and pausing debt-related disconnections.
- The **UK and Scottish Governments** should work with Ofgem and energy suppliers to streamline mechanisms for social landlords to communicate with suppliers (either for individual tenants or groups of properties) to facilitate quicker problem resolution and improved processes for new connections in social housing.
- The **UK and Scottish Governments** should support a targeted acceleration of the smart meter rollout for households with pre-payment meters and restricted electricity meters, coupled with improved communication from energy suppliers which supports this transition.
- The **UK Government** should accelerate reforms to domestic energy bills to create a fairer, more progressive system which addresses existing inequalities in access to affordable warmth and reflects on the Scottish Government's research into potential levy reforms.

Contact

For further information, please contact Carolyn Lochhead, Director of Public Affairs and Communications or Cassandra Dove, Policy and Research Lead.

¹⁵ <https://www.climatexchange.org.uk/research/projects/review-of-gas-and-electricity-levies-and-their-impact-on-low-carbon-heating-uptake/>

¹⁶ <https://www.nea.org.uk/news/vulnerable-households-left-with-no-choices-as-sky-rocketing-prices-hit/>