Energy, economy, environment: Protecting social housing residents from compounding crises

Research report

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Peabody (@PeabodyLDN) / Twitter

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Peabody

Established in 1862, Peabody is one of the oldest and largest not-for-profit housing associations in the UK. Following a merger with Catalyst in April 2022, the Peabody Group is responsible for over 104,000 homes and 220,000 customers across London and the Home Counties. We have 20,000 care and support customers.

Our purpose is helping people flourish. We do this by providing great homes and services, by making a positive difference to the communities we serve and by providing an inclusive and inspiring place to work.

The aim of our research programme is to deliver robust research that uses our insight and experience to develop evidence-based arguments on a range of areas impacting our residents, the housing sector and London and the South East as a whole. Our focus is on proposing solutions, not just identifying problems. We use our research both to influence others and stimulate wider debate as well as to challenge ourselves and inform our decisions, services and approach. Our research was led by our in-house team who provide analytical and research expertise. We also collaborate with a wide range of partners such as universities, think-tanks and other research agencies.

Acknowledgements

We would like to give our thanks to those who attended and contributed to our roundtable event: National Energy Action, Sustainability First, Chirpy Heat, Clarion, Switchee, National Housing Federation, Metropolitan Thames Valley, Citizens Advice and Simon Lannon. And also to our colleagues and residents across Peabody who have contributed to this research by sharing their views and experiences with us.

Energy, economy, environment September 2022

Foreword

The energy crisis has shown how vulnerable the country is to the volatility of the fossil fuels market. With some of the poorest insulated homes in Europe and a squeeze on incomes, the recent energy price increases have pushed the poorest and most vulnerable into choosing between heating and eating. As a provider of social housing for many people on low to medium incomes, this is a major concern for us.

At Peabody we have been concerned for some time about many of our residents struggling with their fuel bills. We are continuously interviewing our residents to understand how changes to the economy are affecting their lives. In our most recent Peabody Index research report, we found that residents were worried about the cost of energy long before the current crisis. For example, many people said they went without heat to save money. Limiting heat is a key sign of fuel poverty, this led us to further investigate fuel poverty in social housing.

This research found that, in April 2022, most residents were already going to great lengths to pay their energy bills – cutting back on food or keeping their heating off when they would normally have it on. With prices due to rise again in a few weeks, more people will have to make these kinds of tough choices. For households that were already struggling, we are very worried about how they will cope.

The cost of living support announced by the chancellor in May 2022 will be a lifeline for many. But it is only a short-term solution where we need a long term approach to solve both the challenge of fuel poverty and realising our net zero ambitions.

We believe this this can be achieved by retrofitting our homes and investing in the technologies to harness renewable energy. This would serve a dual purpose of increasing the energy efficiency of homes as well as lowering our residents' fuel bills.

However, working with residents to do this in a collaborative and sensitive way will take time. We must ensure retrofit upgrades are done at a standard we would be happy with if it were our own homes. We are calling on policy makers to protect the most vulnerable, make the energy market fairer for consumers, and continue to provide long term commitment and funding to support social housing providers to make their homes more energy efficient.

Richard Ellis – Peabody Director of Sustainability

Executive Summary

The rising costs of fuel have driven up inflation and are a source of great difficulty for many. Without further support the increase in utlity bills is expected to result in 1 in 3 households experiencing fuel poverty this winter.[1]
Low-income people are most likely to be impacted by this as they spend a larger proportion of their income on fuel bills and have the least spare capacity in their budgets to start with.

At Peabody, most of our residents are on low to middle incomes so we are concerned about how they will cope at the sharp end of the crisis.

What did we find?

Our survey of 287 Peabody residents found that:

- Prepayment meters are more expensive and often inconvenient to use. Yet, 65% of residents preferred prepayment methods to the alternatives.
- Prepayment is the default for many in social housing. Only 18% of prepayment meters in Peabody homes were installed to recoup debt – 56% were already in the property when the resident moved in.
- At the beginning of April 2022, our residents were already cutting back in order to pay for energy bills:

80%
of our social housing residents were already heat restricting

42%
were spending less on food

12%
had borrowed from a short-term lender

41%
were restricting heat use and spending less on food – thus neither heating nor eating adequately

- There can be a conflict between support for government intervention on net zero and the cost of living pressures for our residents.
- Those struggling the most are less likely to be supportive of government commitments to reducing carbon emissions if it means that their costs increase.

1 About National Energy Action (NEA)

We also spoke to staff across Peabody and other housing associations and found that:

- The energy crisis has exacerbated existing problems that housing associations face when managing debts owed to utility companies in vacated properties.
- Heat network customers and suppliers are paying for a lack of regulation to protect them from volatile and anticompetitive energy markets.
- There are significant barriers to achieving net zero in the social housing sector. This includes the value of funding awarded through the Social Housing Decarbonisation Fund not keeping up with inflation, insufficient time allowed to thoroughly consult residents, and hard-to-treat properties.

What should be done about it?

Ofgem should make it easy and affordable for people to pay for their energy in a way that suits their needs by:

- Committing to the implementation of a Social Tariff, like the one proposed by National Energy Action and Fair by Design[2]. This would bring the cost of using a prepayment meter to the same level as direct debit customers.
- Speeding up the smart prepayment meter roll out to make it easier for people to switch to direct debit if they want and are able to.
- Abolishing the increasingly expensive standing charges that disproportionately impact those on the lowest incomes.

Ofgem should also regulate heat networks in a way that encourages responsible management and protects consumers. We suggest:

- The implementation of a price cap that would prevent residential customers from paying more than they would if they were not on a heat network.
- Protections for non-profit heat providers from volatile wholesale markets.

Central government should support social housing providers in decarbonising stock by:

- Providing an inflation uplift on funds awarded by the Social Housing Decarbonisation Fund to ensure adequate funding is available at the time of construction and maintain financial viability.
- Adjusting the administration of the Social Housing Decarbonisation Fund to allow more time for resident engagement. We are asking for a one-year extension to the current time allowed by the Social Housing Decarbonisation Fund guidelines, allowing three years for project delivery.
- Creating a closer alignment of heritage protection and environmental sustainability in the National Planning Policy Framework as well as policies for carbon reduction in relation to all designated heritage sites.
- Addressing the skills gaps present in retrofitting, particularly for historical buildings.

Finally, central government should help fight fuel poverty by reducing poverty by:

- Re-committing to an uprating of all benefits in line with inflation – including the benefits cap.
- Revising the cost of living support package to reflect the recently announced price cap increase and explore ways to help those not entitled to means tested benefits who may also struggle.

2 Solving the cost of living crisis: the case for a new social tariff in the energy market - National Energy Action (NEA)

Background

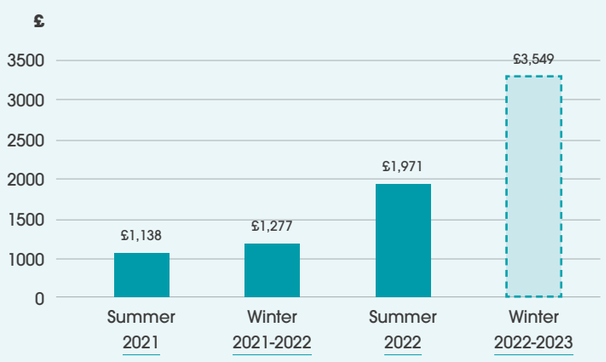
The energy market and high fuel costs

In August 2022, **inflation hit 10.1%**. A key driver of this inflation has been energy costs. There has been an unprecedented increase in wholesale gas prices over the past year which placed serious financial strain on the energy retail market. In response to this, Ofgem made the decision to raise the default tariff price cap. The price cap was initially introduced as a safeguard to protect customers from poor deals if they did not switch at the end of their fixed tariff. Since utility companies are currently unable to offer attractive tariffs, an increasing number of customers are defaulting to this tariff – essentially making it the standard rate for energy.

The price cap is a combination of the maximum rate for standing charges and unit costs. For illustrative purposes, Ofgem calculates this based on the usage of the average household.

Figure 1, below, shows the estimated impact of these changes on a direct debit payer with average levels of fuel consumption.

Figure 1. Default tariff price cap increases over time (direct debit)



In the past year the price cap has risen steeply. meaning people will pay almost three times as much for their energy as they were last Winter.

These dramatically higher fuel costs have contributed to an increase in households making difficult decisions, such as 'eat or heat'. Current estimates are that the energy crisis has pushed 6.5 million households into fuel poverty.[3] It is now expected that as a result of the recent price cap increase one third of all households will be in fuel poverty.[4]

In May 2022, we were pleased when the chancellor announced a cost-of-living support package that aimed to support those on low incomes through the crisis. This included:

3 Energy price cap: Typical energy bill set to rise by £800 a year in October - BBC News
4 About National Energy Action (NEA)

- £400 discount on energy bills
- £650 for families on means tested benefits
- An additional £300 for pensioners
- Extra £150 for those on disability benefit

This support was well targeted with analysis by the IFS showing that those most likely to benefit were low wage workers and those on universal credit.[5] However, the latest price cap increase means that this support package with fall significantly short.

Paying for fuel – the use of prepayment meters

Households usually pay for the fuel they use in one of three ways: by direct debit (spreading the costs evenly across the year), standard credit (monthly or quarterly bills) or by prepayment meters.

As a result of the 'Ability to pay' principle, energy suppliers are entitled to install a prepayment meter for customers struggling to pay to prevent them from accruing further debt.

It is estimated that around 15% of customers in the energy market use a prepayment meter – and they tend to be on low incomes and/or vulnerable. They typically pay more for their energy due to a price cap that is around £60 per year than the price cap for a direct debit customer. The reason provided for this by Ofgem is that it costs suppliers more to operate a prepayment meter.

5 IFS response to government cost of living support package - Institute For Fiscal Studies - IFS

Prepayment meters: smart or dumb?

A prepayment or pay-as-you-go meter is a method of payment that involves loading a meter with funds. Both gas and electricity can be paid for this way.

Traditionally it has involved visiting a pay point (usually in a post office or shop) to have money loaded onto a key or card. This key/card is then inserted into the meter of the home and at this point energy becomes available. Meters that work in this way are often called 'dumb' or 'legacy' prepayment meters.

Newer 'smart' prepayment meters make it possible to top up online reducing the inconvenience of topping up. They also offer the capability to switch between credit and prepayment (subject to credit checks).

Prepayment meters are a more expensive way to pay for energy than direct debit, exacerbating the problems for those already struggling with costs. They are more expensive due to:

- Little to no availability of competitive tariffs (even when the market is functioning normally)
- Higher standing charges due to the payment uplifts allowed to cover the supposed higher cost of managing prepayment meters.

These were among the factors that led the Competitions and Markets Authority (CMA) to investigate the prepayment market. The investigation found significant barriers to switching providers faced by prepayment customers. They found that prepayment customers were often:

- vulnerable
- disadvantaged
- less able to navigate the energy market effectively

Their recommendation was a separate price cap to protect these customers. This protection was scheduled to end in 2020 when energy companies were expected to have installed enough 'smart' prepayment meters. These meters were expected to provide a fairer experience for prepayment users as the standing charge would come down and consumers would be able to switch suppliers more easily. The rollout of smart prepayment meters was not sufficient to meet these goals. Regardless, this price protection was still removed.

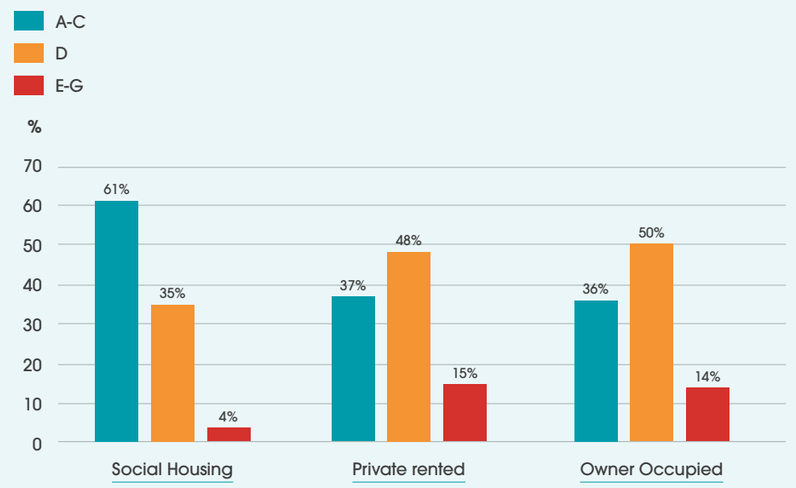
Instead, prepayment customers were moved to the 'default tariff price cap' which costs prepayment customers around £60 a year more than direct debit customers.

This has happened despite none of the conditions listed in the CMA report changing, other than dramatic price increases which are disproportionately impacting prepayment users.

Who is most at risk of fuel poverty in social housing?

Social housing is – on average – the best insulated and most energy-efficient housing tenure. This is demonstrated by how energy performance ratings (EPC ratings) are distributed by tenure in figure 2.

Figure 2. EPC ratings by Tenure



Source: English Housing Survey 2019 fuel poverty dataset, own analysis

What is an EPC rating?

An Energy Performance Certificate (EPC) is a review of a property's energy efficiency. EPC assessors carry out a brief survey the property before producing the EPC. The assessor considers a range of factors from insulation through to heating type. The property is then placed on a colour-coded scale from A to G (A being the most efficient with the cheapest fuel bills). The certificate also includes a potential rating and gives an indication of what improvements would need to be made to achieve this higher rating.

Nevertheless, 18% of social housing tenants were classed as being in fuel poverty in 2019 – meaning that they have an energy inefficient home (D rated or below) and a low income. The rate of fuel poverty is higher in private renting (27%) but much lower in owner occupation (8%). This way of looking at fuel poverty doesn't account for the impact of the cost of fuel – with energy costs soaring as they are currently it becomes a measure of those in the most severe fuel poverty.

A key issue is that social housing tenants are more likely to be on low incomes. As shown below, those who **do** live in energy inefficient housing are particularly likely to be in fuel poverty.

Figure 3. Proportion of households in fuel poverty (low income and EPC D or below)

EPC rating	Social housing	Private rented	Owner occupied
A/B/C	0%	0%	0%
D	47%	42%	12%
E/F/G	56%	46%	15%

In contrast, only 15% of owner occupiers living in E or below rated homes were on low incomes and therefore classed as being in fuel poverty. The high rate of fuel poverty across all social tenants living in D-G properties highlights the need to do more to drive up the energy efficiency in these homes.

We explored which tenants within social housing are at most risk of fuel poverty (see Annex 1) and found that disability, ethnicity, and old age were not large drivers. Factors associated with a low income, such as being unemployed or a single parent, were the most significant drivers, and in particular the use of prepayment meters. We have focussed on the issues of low incomes and prepayment meters in this report.

Net zero housing

Housing accounts for 23% of the UK's carbon emissions (37% in London).[6] This makes it an important area of focus for decarbonisation. As well as reducing the impact on the environment, reducing the carbon emissions of homes is likely to reduce energy bills and reduce fuel poverty. These factors combine to create a strong motivator for housing associations to retrofit their stock to increase energy efficiency. This is usually achieved with a 'fabric first' approach which prioritises insulation and window upgrades, though new technologies such as heat pumps and renewables are also starting to be used.

This has been heavily supported by the Social Housing Decarbonisation Fund (SHDF). However, there are still significant barriers to retrofitting stock. This includes some tensions between net zero ambitions and cost of living challenges. Through this report we will detail these challenges and propose solutions.

6 Peabody sustainability strategy: final-sust-strategy-21-24.pdf (peabodygroup.org.uk)

Methods

To get a detailed and holistic view of the challenges facing residents, housing providers, and other stakeholders we approached data collection in three ways.

Survey

To inform our research we conducted an online survey of a random sample of our general needs (social housing) residents. The survey was sent via email and received 287 complete responses. The sample was broadly representative of the demographics of our resident population.[7]

Interviews with Peabody colleagues

We also interviewed several Peabody employees with insight into some of the issues raised in this report. We used a semi-structured approach which allowed us to explore the themes specific to our research. It also provided insight into our colleagues' priorities and other challenges they were facing.

Roundtable session with external stakeholders

We also consulted with a range of external stakeholders from across the energy and housing sector via individual interviews and a roundtable discussion to get their input on our research and thoughts on the emerging findings.

7 This research was initiated before our merger with Catalyst. Since our systems were not yet aligned to deliver the same survey across both organisations, this sample only includes residents from Peabody.

Research findings

Social housing and prepayment meters

The use of prepayment meters is strongly associated with fuel poverty across all tenures. The use of prepayment meters in social housing (42%) is over twice the rate of use in private rented homes (20%) and over 10 times the rate in owner occupied homes (4%). So, the association with fuel poverty is particularly important for the social housing sector.

Our survey found 37% of Peabody residents used a prepayment meter for either gas, electric or both.

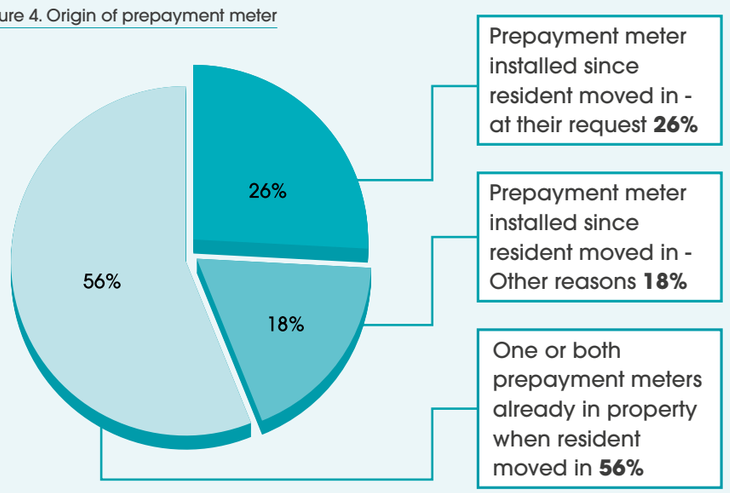
Prepayment meters are a default for many in social housing

The typical rationale for an energy supplier to install a prepayment meter is to recover debt. However our survey found that the prepayment meter was already in the property when the tenant moved in 56% of the time.

A further 26% of residents with prepayment meters had asked for the meter to be installed. So only 18% of the time was a meter installed for other reasons that may include a forced installation to recover debt.

This shows that prepayment meters are often present in social housing for reasons other than problem debt. It also suggests that the presence of a prepayment meter is less of a consumer choice, and more of a default for many living in social housing.

Figure 4. Origin of prepayment meter



We asked our Lettings and Voids Team to shed some light on this issue:

"A high proportion of the properties that become available for reletting have a prepayment meter installed. Non-smart prepayment meters present significant challenges in having any debt removed ready for our next resident to move in. We spend a lot of time on the phone with suppliers and must dedicate staff to waiting at empty properties for a technician to come and reset the meter. This means it takes longer to prepare a property for a new resident to move in – many of whom have already waited a long time for a home."

Peabody Lettings and Voids Team

Smart prepayment meters alleviate this problem to some extent since debt can be wiped remotely, speeding up the lettings process. Smart meters also make it easier for residents to make their own decision on whether they would like to prepay or switch to direct debit.

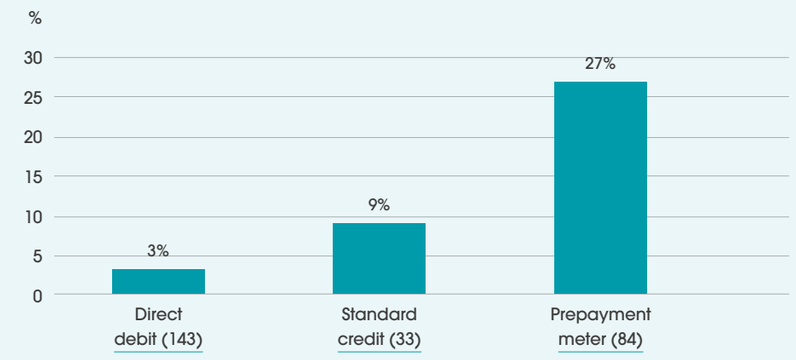
We would like to see an improved framework that helps landlords and energy suppliers work together to reduce the number of dumb prepayment meters. This would enable us to get people into their new homes sooner and make it easier for them to choose a way to pay for their energy in the way that suits them best.

Prepayment meter customers are more likely to take on expensive debt to pay bills

We found from our survey that residents using prepayment meters were equally likely to be in debt with their energy supplier as those using direct debit to pay. It is likely that this is due to some prepayment customers having debt built up before it was installed.

However, they were nine times more likely to have borrowed from a short-term lender specifically to pay for energy bills.

Figure 5. 'Borrowed from a short term lender specifically to pay for energy bills' by payment type



People using prepayment meters cannot get into further debt with their energy suppliers. Instead, many are borrowing from other more expensive sources to pay for their energy. This type of borrowing is usually very expensive due to extremely high interest rates. This means for many there are additional indirect costs to being on prepayment meters.

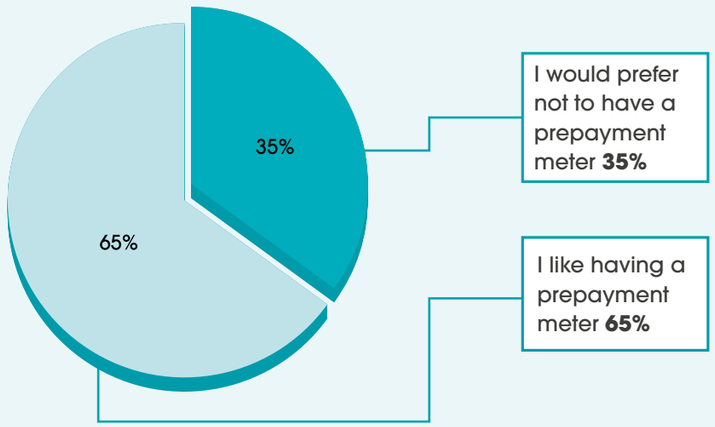
"The prepayment meter was added because I got into debt with my energy supplier. Although I have paid off the debt my gas and electricity doesn't last very long because of standing charge for having the meters and the massive expense of gas and electricity rising so I'm often left having to borrow money to top them up or do without."

Survey response

65% of social housing residents preferred using prepayment to other methods

We asked residents who used a prepayment meter if they liked to use it or if they would prefer to pay another way.

Figure 6. "Do you like having a prepayment meter, or would you prefer to pay another way?"



Despite the challenges facing prepayment customers discussed above, two thirds of them (65%) said that they liked to use a prepayment meter citing reasons such as:

- Being able to monitor/control energy usage
- Concern about the manageability of large monthly/quarterly bills
- Ability to 'pay for what you use' and general distrust of estimated billing

Many residents voiced concerns about managing large monthly or quarterly bills. This demonstrates that affordability is not simply about the amount of money something costs. It is also about how and when that money arrives and is spent. For example, those in insecure work who have varying incomes may find it easier to use a prepayment meter.

We also asked about any other views residents had on using prepayment meters. The most common themes were:

- Expense – residents were aware that they cost more
- Inconvenience – mostly related to the process of topping up
- Worries about the meter running out – many residents had experienced disconnection

These views were present even amongst those who said they liked using prepayment meters. This indicates that some residents prefer prepayment meters despite being aware of the high costs or downsides associated with them.

Issues around topping up were mainly found among those using dumb prepayment meters. Smart prepayment allow users to top up online from a mobile device. In contrast, customers using dumb prepayment meters need to visit a paypoint and manually top up the meter.

"I can manage my payments, see how much gas and electric I am using, no chance of getting into debt or being overcharged on quarterly bills as you use what you pay for."

Survey response

"It's hard to top up when it cuts off unexpectedly especially when I am at work most days."

Survey response

"Having a prepayment meter is inconvenient especially as it is not a smart meter this means I have to make regular trips to the shop to top up the key/card. I have to constantly check the meter to ensure the electric or gas does not cut out which does happen and if it is night time this means walking about in the dark locating the key and fumbling around with the torch to put the key into the meter."

Survey response

Policy asks:

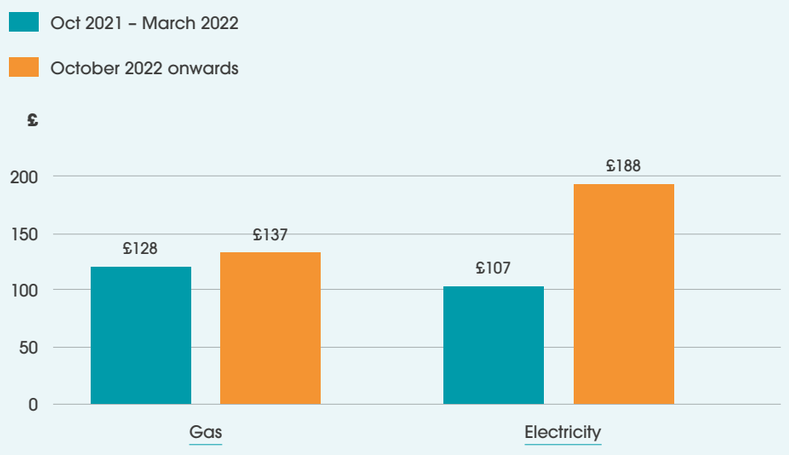
Ofgem should make it easy and affordable for people to pay for their energy in a way that suits their needs by:

- Committing to the implementation of a Social Tariff like the one proposed by National Energy Action and Fair by Design.[8] This would bring the cost of using a prepayment meter to the same level as direct debit customers.
- Speeding up the smart prepayment meter roll out to make it easier for people to switch to direct debit if they want and are able to.

Standing charges

Standing charges are a fixed daily charge that all energy customers pay regardless of how much fuel they use. They contribute to the cost of operating and maintaining the energy networks. While wholesale gas prices make up most of the increase in most people's energy bills, the recent increases in standing charges have also been substantial. The April price cap increase put the electricity standing charge for a prepayment customer up from 29.25p a day to 51.41p. Inflation has played a part in this increase but also the cost of re-allocating customers from energy suppliers that went bust to a supplier of last resort is also driving up standing charges.

Figure 7. Annual standing charge cost for a prepayment meter user



8 Solving the cost of living crisis: the case for a new social tariff in the energy market - National Energy Action (NEA)

These costs are fixed regardless of how much energy a household uses, meaning they cannot be avoided. They also form a bigger part of the bill for those who use the least power who, on average, are poorer households. The standing charges are also higher for prepayment meter customers than for those who pay by direct debit, further penalising many of the poorest households.

Self-disconnection

Self-disconnection is when customers on pre-payment meters allow the meter to run out, meaning that their electricity or gas supply is cut off. This is as opposed to paying by direct debit where it takes much longer to cut of the supply of a customer that isn't paying.

Citizen's advice has reported that in the first half of this year they had seen a total of 10,802 people who were unable to top up their prepayment meter. This is more than the total amount they saw in the whole of 2021 (8616).[10]
These individuals had experienced self- disconnection since their meter had run down and required urgent help to get their meters topped up. Peabody's support teams have also seen an increase in self-disconnection.

Disconnection can have many negative outcomes such as:

- Fridges being switched off and the resulting impact of that on food safety and meeting dietary needs
- Reduced ability to regularly bathe or shower
- Being unable to charge electrical devices or contact emergency services

While a customer has 'self-disconnected' standing charges will still accrue at **around 50p a day for electricity and 37p for gas.** This can lead to problems reconnecting to supply as this debt must be repaid first. This is often an issue with gas meters over the summer if customers are not using any gas and then find there is a debt on the meter when they first try to use their heating in the autumn.

Policy ask:

Ofgem should make the energy market fairer by:

Abolishing the increasingly expensive standing charges that disproportionately impact those on the lowest incomes.

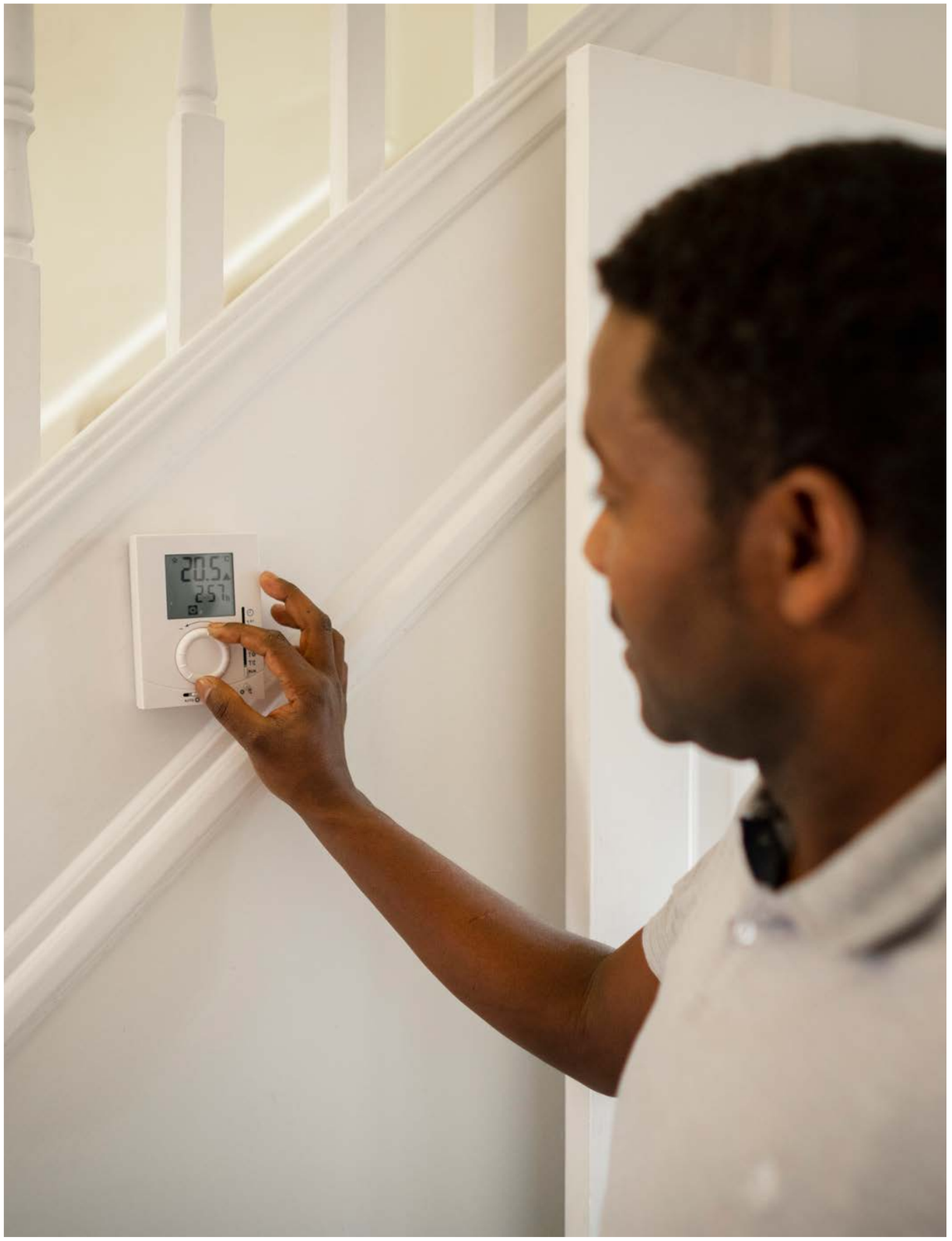
"Self-disconnection' is defined as interruption to electricity or gas supply by consumers using pre-payment meters (PPMs) because of a lack credit on the meter or account. An associated issue is 'self-rationing', where customers limit either energy use to save money, or restrict spend in other areas to ensure sufficient funds are available to keep the PPM topped up. Self-disconnection and self-rationing can have significant consequences for the health and wellbeing of consumers."

Citizens Advice[9]

"Traditionally, we heard of residents going a day or an evening without access to heating and lighting, but now it is commonplace for it to stretch into days."

Danny Hardie
Team Leader in Peabody's Financial Inclusion team

9 PPM self-disconnection short report.pdf (citizensadvice.org.uk)
10 Our new cost of living dashboard: the crisis we're seeing unfold (citizensadvice.org.uk)



All of this means that while everyone is going to feel the impact of energy price rises, those on prepayment meters will be on the sharp end of this. They are more likely to:

- Rely on high cost debt to pay bills
- Self-disconnect and accrue standing charge debt
- Struggle particularly in the winter, as they are less able to spread the costs evenly across the year.

There are also concerns that financial support provided to prepayment customers through the governments cost of living package might end up being used to pay down debt rather than go towards much-needed fuel in the winter.[11]

For these reasons, prepayment customers should be considered for extra protection in the short term. There should also be further review of the prepayment market in the long run.

How are our residents coping?

Another element of our survey included looking at residents' experiences of fuel stress. We measured this with three key indicators to show us the kinds of decisions households are making to get through the crisis.
Those indicators were:

1. Heat restricting to reduce energy bills
2. Spending less on food to pay for energy bills
3. Borrowing from a short-term lender to pay for energy bills

41% of residents were neither heating nor eating sufficiently

A significant theme of discussion in the past year has been households having to make difficult decisions such as 'heating or eating'. Our survey found that 46% respondents were cutting back on food spending specifically to pay fuel bills, and 80% were restricting their heat usage.

Even more concerning, 41% were doing both, meaning they are being forced to make even more extreme decisions. This echoes the findings of the Joseph Rowntree Foundation[12] who found that 45% of low-income households were cutting back on both heat and food expenditure in April 2022.

Heat restricting

Heat restricting is a logical response to an increased cost of heating the home. However, it can result in several problematic outcomes including:

- Increased risk of high blood pressure, heart attacks, and pneumonia
- Social isolation
- Sleep deprivation
- Stress related mental illnesses

Damp is also a problem associated with under heated homes. Sometimes damp is caused by condensation, which occurs when moist air comes into contact with a cold surface, such as a wall.

"Have you or your household done any of the following over the last year, in order to be able to pay gas or electricity bills? Please select any that apply."

"My clients have long since switched to the cheapest possible brands, and meals are heavily rice, potato or pasta based to be filling. However, these are the staples that have risen fastest, and so many residents are cutting back on these and are struggling to find alternatives. Skipping meals has become a frequently heard issue."

Danny Hardie
Team Leader in Peabody's Financial Inclusion team

11 *Energy pricing and the future of the Energy Market (parliament.uk)
12 Not heating, eating or meeting bills: managing a cost of living crisis on a low income | JRF

Cutting back on essentials

While cutting back on food is considered the main indicator of cutting back on essentials, our survey respondents mentioned cutting back on other essentials such as:

- Travel
- Educational resources for children
- Children's clothing

This can have knock-on impacts such as missing work, disrupted learning, and low self-esteem.

Residents are taking on expensive debt to pay bills

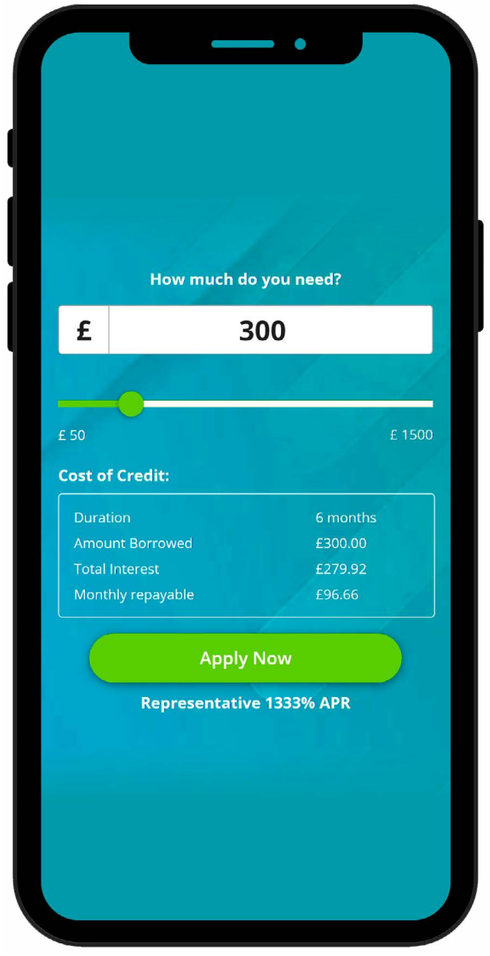
27% of surveyed residents told us that they had debt built up with their energy supplier, which it itself is a concern. However, more worryingly, 12% had borrowed from a short-term lender to pay for energy bills. As discussed previously, those using prepayment methods are more likely to be using short term borrowing.

To illustrate the impact of this, we have researched how much It would cost to borrow one month's worth of energy bills for an average prepayment meter customer.

Based on the new price cap, the average monthly cost of energy the typical prepayment meter customer will be approximately £300 (combined gas and electricity). The total repayable for this amount assuming the money is repaid on time would be around £580.[13]

Residents on universal credit are struggling the most

Those on low incomes are most severely affected by the cost-of-living crisis. Our findings confirm this by showing that those in receipt of Universal Credit were most likely to struggle.



"When I don't get my Universal Credit top up I have to consider whether to pay for my transport to work, for food, or to top up the meter."

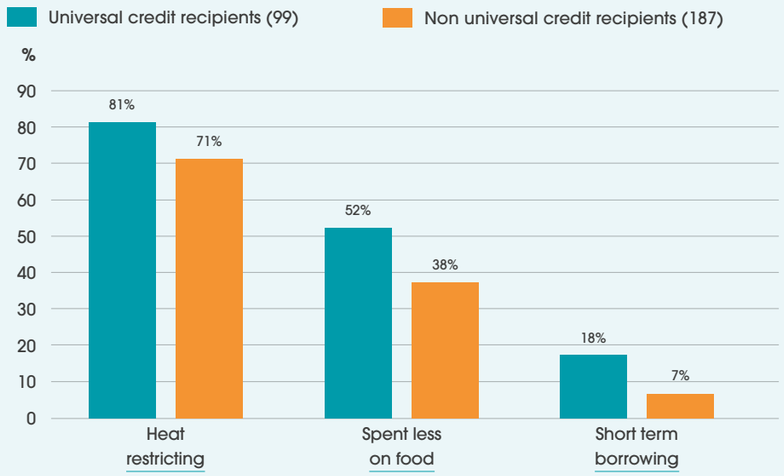
Survey response

"I am struggling to pay many bills, clothes and educational equipment for my child"

Survey response

13 The average monthly cost for a prepayment meter customer was arrived at by dividing the estimated yearly price cap by 12. However, this does not account for the variation in cost throughout the year experienced by prepayment customers.
Source for loan repayment calculator: Payday Loans Online | Direct Lender UK (lendingstream.co.uk)

Figure 8. % of respondents that had experienced each fuel stress outcome by receipt of universal credit



Policy asks:

Finally, central government should help fight fuel poverty by reducing poverty by:

- Re-committing to an uprating of all benefits in line with inflation – including the benefits cap.
- Revising the cost of living support package to reflect the recently announced price cap increase and explore ways to help those not entitled to means tested benefits who may also struggle.

Living in an energy efficient property can help, but it does not eliminate fuel stress.

We found no strong correlation between EPC rating of the respondent's home and how likely they were to experience the fuel stress outcomes we have discussed, which may be because the large majority of our homes are C rated. What was clear was that being in a C rated home did not mean that people were immune from the effects of rising fuel prices:

"Have you or your household done any of the following over the last year, in order to be able to pay gas or electricity bills? Please select any that apply."	% of residents in EPC C rated properties who answered yes
Turned heating off/down	77%
Spent less on food	46%
Borrowed from a short-term lender	9%

This indicates that ultimately these problems are driven by low income. While higher energy efficiency can reduce spending on bills, in order to offset the high energy costs, we need to aim much higher than EPC C.

Towards Net Zero, together

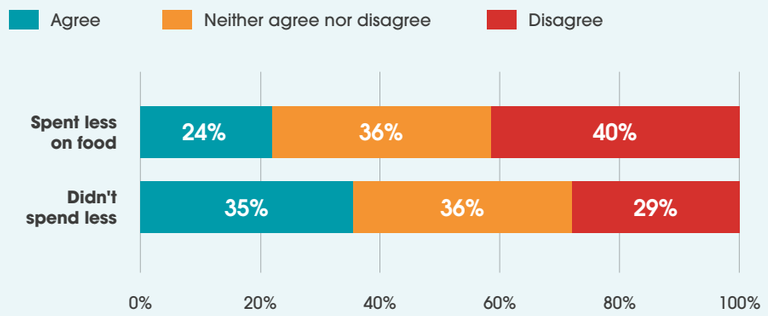
There is a conflict between residents' views on net zero and the cost of living

In many ways the move towards net zero will reduce the burden of high fuel costs on households. However, there are policies that may lead to households paying more for their bills if not implemented correctly. For example, the move from gas to more expensive electricity has the potential to negatively impact household finances.

In the energy affordability survey, we asked a question about residents' attitudes towards net zero policies.

"Do you agree or disagree that the UK should stick to its commitments to reducing carbon emissions even if it means higher energy costs for households like yours?"

Figure 9 "Do you agree or disagree that the UK should stick to it's commitments to reducing carbon emissions even if it means higher energy costs for households like yours?"



It was found that there was a diversity of opinion. However, those struggling the most – demonstrated by saying they had spent less on food to pay for heating – were 11% more likely to disagree with this statement.

Many climate policies also have a poverty alleviating effect. For example, a well-insulated home will release less carbon emissions and save the residents money on bills. But we are concerned that poorly designed policies can exacerbate poverty and lock in inequalities. One way in which this is currently happening is the unequitable distribution of the cost of transitioning towards net zero.

The use of more efficient, greener, electricity needs to be strongly incentivised to reduce reliance on gas. However, levies aimed at raising funds for climate change policies are loaded onto the cost of electricity. This increases the cost of electricity relative to gas – disincentivising consumers to move away from reliance on gas. As a social housing provider, we face difficult decisions over whether to move properties onto electric heating – which would reduce carbon emissions but cost our residents more. And our residents do not generally have much money to spare.

The unequitable distribution of net zero transitional costs must be addressed by policy makers and any organisation that wishes to engage low-income groups with net zero aspirations. As a social housing provider with ambitious sustainability goals, we must take into account that there are competing priorities for residents. As demonstrated by these findings, affordability is likely to be at the top of that list. So, working to make those priorities align will be a key step in our journey towards net zero.

We are calling on policy makers and stakeholders from all backgrounds to come together to address the conflict between cost of living and net zero and push forward a just transition. A key part of that will be addressing the current disincentives to switch to greener electricity.

"For the majority of people, the future of heating will be electric. However, with electricity costing four times as much as gas we need to ensure that we improve the insulation in people's homes and put in the right technology to enable a just transition into a low carbon future."

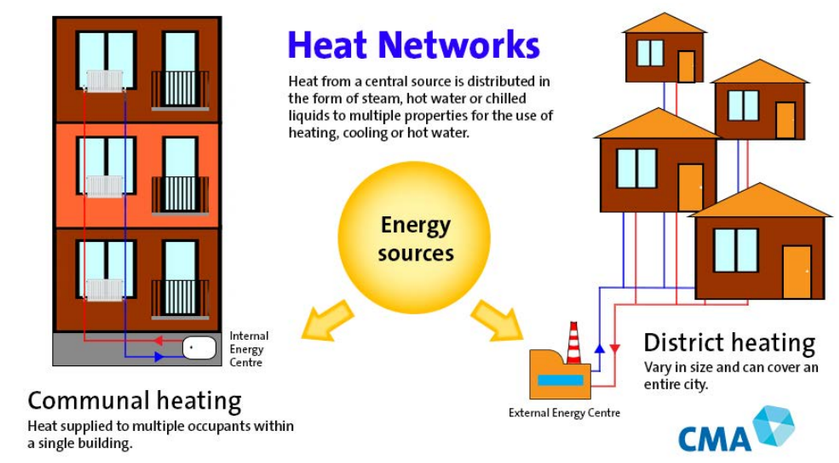
Chit Chong
Peabody Group
Sustainability Manager

Heat networks

Heat networks aren't paying off for suppliers or customers

While Mayor of London, Ken Livingstone made a commitment that 25% of the capital's heat would come from decentralised heat sources by 2025.[14] Subsequent planning conditions have led to an increasing number of new developments that rely on heat networks. Heat networks have the potential to reduce carbon emissions and provide an affordable heat source for customers. However, this has not been the case for many customers for several reasons.

What is a heat network?



Source: Competitions and markets authority: Heat Networks: advice for customers - GOV.UK (www.gov.uk)

14 Inside Housing - Insight - What is going wrong with heat networks?

Firstly, a heat network customer cannot change supplier since the whole network will be locked into a long-term deal with a supplier. This means that without protections, a heat network customer might not be able to access the best deal for them.

Secondly, heat network operators must purchase wholesale energy at commercial rates. Commercial customers are not protected by the price cap as residential customers are. This has resulted in huge price rises for the heat supplier and end customer.

A significant issue in the heat network sector is inefficiency that reduces the value for money that the end user receives. The reasons for this are:

- Poorly designed systems that are challenging to maintain and repair
- Systems that involve many organisations managing different aspects of delivery
- A lack of specialised knowledge and skills for managing heat networks

Peabody currently has around 8,000 properties on heat networks. We asked our Director of Sustainability for his perspective on this problem:

"Heat networks will provide one of the solutions to low carbon, low-cost energy future for our customers. We welcome the government's proposals for regulations to create transparency in costs and pricing and to provide customer protection. Many of the problems highlighted in this report are driven by a lack of specialist regulation around heat networks. While there are some aspects that are regulated by the Housing Act, there are many areas where the current rules don't protect the customer or supplier. As Ofgem starts to explore its responsibilities in this area we ask that any new regulations are carefully designed to complement the existing rules rather than duplicate or contradict them."

Richard Ellis
Peabody Director of Sustainability

Policy asks:

Ofgem should also regulate heat networks in a way that encourages responsible management and protects consumers. We suggest:

- The implementation of a price cap that would prevent residential customers from paying more than they would if they were not on a heat network.
- Protections for non-profit heat providers from volatile wholesale markets.

Barriers to retrofitting social housing

Energy efficient homes are essential in reducing carbon emissions and reducing fuel stress for households. There are several market-based approaches being taken to encourage homeowners to make energy efficiency improvements to their homes. However, renters are unable to make significant improvements to a property they do not own. This puts the responsibility on the property owner to complete upgrades. In the social housing sector, there are many challenges to achieving this, the key issues that impact Peabody are:

- The financial pressure of awarded funding value not keeping up with inflation
- Time needed for thorough resident consultation before embarking on major programmes
- Hard to treat properties including heritage properties and listed buildings

Funding value not keeping up with inflation

The cost of labour and materials have substantially increased in the construction sector in the last two years, making retrofitting significantly more expensive. In a time of high inflation, it is difficult to say if the amount received from the Social Housing Decarbonisation Fund will cover the costs it was expected to at the time of application. The current high inflation rate creates risks and uncertainties for social housing providers applying under future funding rounds.

Taking time to consult residents

An issue that contributes to this is the length of time needed to complete a project. Time is needed to ensure residents are on board with changes that are made to their homes and respond to any concerns they may have. The Government has rightly set out clear expectations for housing providers to do more to engage with residents. At Peabody our residents commonly stay in their homes for many years and feel a strong stake in what happens to them. Opportunities to retrofit while properties vacant between tenancies are limited. This all means that housing associations need to consult residents thoroughly and effectively on any changes – which takes time. While we strongly believe in the need to act quickly on climate change, it is also important that projects are completed to a standard we would be happy with if it were our home. The current expected timescale to deliver a project is two years which makes it difficult to engage residents as much as we would like and complete works in a timely manner.

Policy asks:

Central government should support social housing providers in decarbonising stock by:

- Providing an inflation uplift on funds awarded by the Social Housing Decarbonisation Fund to ensure adequate funding is available at the time of construction and maintain financial viability.
- Adjusting the administration of the Social Housing Decarbonisation Fund to allow more time for resident engagement. We are asking for a one-year extension to the current time allowed by the Social Housing Decarbonisation Fund guidelines, allowing three years for project delivery.

Hard to treat properties

Due to Peabody's long history, a larger than usual proportion of our homes are older than average. A large proportion of our homes were built pre-1920s, many of which were built in the 19th century. Most of these homes are within conservation areas, and some have listed building status.

At Peabody we are proud of our history and our heritage homes document that history. However, they do present particular challenges to retrofitting for energy efficiency. Since many of these buildings are in conservation areas or listed, construction works are notoriously difficult and often work that preserves their historic appearance can make them prohibitively expensive to upgrade.

Earlier this year, in collaboration with Grosvenor, Crown Estates, Heritage England and National Trust, Peabody wrote to then DLUHC secretary, Michael Gove, to highlight flaws in the NPPF that prevent it from effectively aligning conservation and sustainability goals.

Policy asks:

Central government should facilitate the retrofit of older housing stock by:

- Creating a closer alignment of heritage protection and environmental sustainability in the National Planning Policy Framework as well as policies for carbon reduction in relation to all designated heritage sites.
- Addressing the skills gaps present in retrofitting particularly for historical buildings.

Peabody Estate – Islington

"Our Heritage Estates are significant examples of early social housing, and we need to reach a balance of preserving these monuments to the history of Peabody and London whilst ensuring that homes are sustainable, economical for our customers to run, and have a long-term future. We face significant barriers in the physical challenges of the buildings themselves, planning restrictions and sourcing the skills necessary for sensitive and intelligent retrofit. The cost and risk of unintended consequences are also significant barriers to delivering successful retrofit in these historic buildings."

Ellie Probyn-Gibbs
Peabody Senior Development Manager

Conclusions

The findings of this research paint a worrying picture of how the cost-of-living crisis was already impacting social housing residents in April. With inflation now at 10.1% and a dramatic price cap increase, we expect this winter to be devastating to many of the poorest if more is not done.

While the cost of living package announced in April was a welcome relief for those likely to struggle the most, it was a sticking plaster. We suggest that the government and Ofgem use this support as breathing room to make some more significant changes to address the underlying problems. This should involve bold policies that:

- Address injustices facing prepayment customers that lead to the poorest customers paying more.
- Ensure the incomes of the lowest paid keep up with inflation.
- Address the conflict between achieving net zero and cost of living
- Understand and address challenges facing heat network customers and suppliers.
- Tackle the challenges facing social housing providers in reaching net zero in terms of funding and skills.

We believe that by addressing these challenges some real progress can be made in achieving just transition towards zero carbon across our housing stock in a way that also tackles inequalities.

Without action, we are really concerned that many of our residents will be unable to heat their homes this winter or fall into an unsustainable spiral of debt as they try to do so.

We are calling on the government, policy makers, regulators, suppliers, the housing sector, everyone, to use this crisis as a catalyst for real change.

Annex 1: English Housing Survey analysis of fuel poverty in social housing

The English Housing Survey (EHS) is made up of interviews with a sample of 11-12,000 households per year in England. The survey covers many topics and produces a wealth of data, including the fuel poverty data set. This includes a range of factors known to affect energy usage and/or fuel poverty from building fabric through to household composition.

Methods

We compared rates of fuel poverty for social housing tenants (local authority and housing association tenants combined) with private rented and owner-occupied households, and also looked at which groups of social housing tenants were at highest risk of fuel poverty. The measure of fuel poverty used in the is the LILEE (low-income low energy efficiency) metric, which considers a household fuel poor if:

It is living in a property that has an energy efficiency rating of D or below (using the FPEER methodology)

Its disposable income after housing costs and adjusted energy expenditure would be under the poverty line (Below 60% of median income)

Further details of the fuel poverty data set and associated methodology can be found here. One of the limitations of the LILEE model is its binary nature of high and low incomes. If a household is left with £1 over the income threshold, they are considered high income and thus not at risk. It also takes no account of changing energy prices – something that is clearly a limitation in the current climate of rapidly rising fuel costs. It does nevertheless provide a clear metric with which to explore which households are at highest risk of fuel poverty.

DLUHC publish analysis conducted on this dataset to explore the various drivers of fuel poverty. However, the analysis of the factors associated with fuel poverty are not always split by tenure.

Factors associated with fuel poverty by tenure

The table shows the percentage of households who were fuel poor by tenure type depending on if they had one of the characteristics in the left-hand column. For instance, 14% of social rented households who used direct debit to pay their bills were fuel poor (see highlighted section).

		Social housing	Private rented	Owner occupied
All households		18%	27%	8%
Method of payment - electricity	Direct debit	14%	21%	7%
	Standard credit	20%	28%	13%
	Pre payment	24%	48%	18%
Method of payment - gas	Direct debit	13%	23%	7%
	Standard credit	17%	27%	13%
	Pre payment	22%	45%	22%
	N/A = No gas	29%	23%	10%
Dwelling type	End terrace	27%	36%	14%
	Mid terrace	16%	30%	8%
	Semi and detached houses	26%	31%	8%
	Flats purpose built and converted	13%	19%	5%
Year of construction	Pre 1900	33%	35%	10%
	1900-1944	34%	39%	14%
	1945-1974	21%	28%	7%
	1975-1990	11%	20%	5%
	Post 1990	7%	7%	3%
Whether dwelling is on the gas grid	No	28%	25%	10%
	Yes	17%	27%	8%
Main fuel type	Gas	17%	27%	8%
	Electricity	35%	24%	11%
	Other	15%	30%	9%
Boiler	No/Back boiler	27%	23%	13%
	Standard boiler	26%	27%	10%
	Combi boiler	32%	45%	10%
	Condensing boiler	18%	19%	6%
	Combi condensing	16%	27%	8%
Wall type	Cavity insulated	14%	17%	6%
	Cavity uninsulated	23%	28%	8%
	Solid insulated	10%	8%	10%
	Solid uninsulated and other	30%	35%	12%
Tenure	Owner occupied			9%
	Private rented		27%	
	Local authority	22%		
	Housing association	17%		

		Social housing	Private rented	Owner occupied
Loft insulation	Not applicable	13%	18%	5%
	Less than 125	30%	36%	10%
	125 or more	19%	25%	7%
EPC	A/B/C	0%	0%	0%
	D	47%	42%	12%
	E/F/G	56%	46%	15%
Household composition	Couple, no dependent child(ren) under 60	12%	8%	4%
	Couple, no dependent child(ren) aged 60 or over	18%	27%	8%
	Couple with dependent child(ren)	24%	31%	10%
	Lone parent with dependent child(ren)	24%	45%	21%
	Other multi-person households	16%	29%	13%
	One person under 60	23%	28%	7%
	One person aged 60 or over	13%	28%	8%
Age of oldest	16-34	19%	23%	5%
	35-49	21%	28%	8%
	50-59	22%	32%	11%
	60-74	16%	28%	8%
	75+	12%	28%	8%
Number of members of the household	1	17%	28%	7%
	2	17%	18%	8%
	3	20%	28%	8%
	4	23%	35%	9%
	5 or more	24%	39%	17%
Ethnic origin of household reference person	White	19%	26%	8%
	Ethnic Minority	18%	32%	14%
Does anyone in the household have a long-term illness or disability?	Yes	20%	36%	11%
	No or no answer	16%	23%	7%
Under occupancy	Not under occupying	19%	27%	9%
	Under occupying	17%	26%	7%
Working status of household reference person	Working	16%	20%	7%
	Unemployed	27%	52%	55%
	Inactive	20%	45%	10%
Total floor area	Less than 50 sqm	17%	25%	4%
	50 to 69 sqm	19%	23%	8%
	70 to 89 sqm	20%	30%	10%
	90 to 109 sqm	18%	29%	8%
	110 sqm or more	24%	29%	7%

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