

# Energy crisis: fuel poverty and communal and district heating systems

## Briefing for housing associations

17 June 2022

### Summary

Housing associations are doing all they can to help mitigate the impact of energy price rises on tenants and leaseholders. This briefing sets out the National Housing Federation's position on how the energy price cap financially affects housing associations and their residents and sets out short and long-term measures to address the impact of the fuel crisis.

# How is the energy crisis impacting housing association residents?

## Households on heat networks and communal heating systems

Based on the [English Housing Survey](#), we estimate that more than 150,000 housing association residents have their heating and hot water delivered to their home via a communal or district heat network, rather than an individual boiler. Around 90% of these schemes use gas as their fuel source. These heat networks are subject to little regulation currently, and the Ofgem price-cap does not apply. Many communal heat networks are operated by housing associations, historically managed on very tight financial margins to give residents the best value energy prices.

Market volatility is currently having an unsustainable financial impact on both residents on low incomes and housing associations. Housing associations at the end of their current gas contracts are facing particularly steep rises in the prices and in some instances are struggling to renew at all. As a result, housing associations face the prospect of having to either absorb these costs or pass them on to tenants and leaseholders. Housing association tenants are much more likely to be older, disabled or have long-term health issues.

## What is a heat network?

Heat networks distribute hot water and heating from a centralised heat source (such as a single, central boiler) directly to homes and other buildings, which can be an efficient way of delivering heat. Many heat networks use gas as their fuel, although some use more renewable heat sources. There are 14,000 heat networks in Britain, serving around 500,000 households.

Communal heat networks heat two or more dwellings within one building (such as flats), while district heat networks connect multiple buildings. Of the 14,000 networks, approximately 2,000 are district heat networks and 12,000 are communal heat networks. However, more people are served by district than communal heat networks due to the scale of them. Communal networks are also common in supported and sheltered housing with shared facilities.

## The future of heat networks

Heat networks can reduce the greenhouse gas emissions of heating and the costs of heating for end users. The government is exploring ways to expand the use of heat networks in the future and shift them away from using fossil fuels to help the UK achieve its target of net zero carbon emissions by 2050.

## Heat network regulation

Unlike gas and electricity, heat networks do not currently have an official regulator. This means that while the supply of gas to a heat network is regulated, the supply of heat from the network to homes is not. This is set to change as the government has appointed Ofgem to regulate heat networks in various ways to facilitate their expansion for net zero and to better serve current customers. The government has [committed to legislation this parliament to enact this](#).

The government does not currently have plans for introducing an energy price cap on heat networks, although price regulation has not been ruled out.

The [Heat Network \(Metering and Billing\) Regulations 2014](#) require that where possible, heat network suppliers must provide individual meters to heat network customers and provide them with bills based on their meter readings.

## Energy bills and heat networks

The energy price cap, also known as the [Default Tariff Cap](#), sets a price limit on units of gas and electricity provided through default tariffs for domestic supplies of electricity and gas. It is not an overall cap on energy bills – the more energy you use the more you will pay. Ofgem has moved from setting the price cap twice a year to quarterly from October 2022.

On 1 April 2022, the cap rose by 54%, increasing the average annual domestic energy bill to around £2,000. It is forecast to rise by a further 30-50% in October 2022. There is no equivalent cap on commercial energy bills.

Purchasing gas for heat networks is a large-scale commercial transaction that has meant that historically, the price to residents of heating and hot water has been lower than standard domestic energy bills.

While some of the larger and better-run heat networks have been able to lock themselves into multi-year price deals prior to the energy price increases (and so are

not currently impacted), others have reported gas price increases of up to 700%. Heat networks face particular challenges where their gas contracts have come up for renewal since the energy crisis started.

Most heat network customers are not protected by the energy price cap since the supply of gas to heat networks is commonly classed as 'non-domestic'. This is because the heat network operator purchases gas and then converts it to heat before selling the heat on to households, often on a commercial basis.

Housing associations traditionally operate heat networks on very tight margins and so face a difficult choice between absorbing losses and passing on costs to tenants and leaseholders. In addition, there will be thousands of social housing residents reliant on commercial heat networks that the housing association cannot control.

## Help for tenants and leaseholders

### Existing help with fuel bills

Many people on heat networks will have a normal domestic electricity supply and have access to:

- The [council tax rebate](#) (£200 discount on council tax bills for properties in bands A-D).
- [The Household Support Fund](#) (discretionary local authority funding).
- [Warm Homes Discount Scheme](#) (where eligible, increased to £150 in October 2022).
- £400 of support with energy bills through the change in the [Energy Bills Support Scheme](#).
- Pensioner households entitled to the [Winter Fuel Payment](#) will receive an extra £300 in 2022.

In the 2021 Autumn Budget, the government announced its plan to introduce a new 100% business rates relief for qualifying low carbon heat networks that have their own rates bill to support the decarbonisation of non-domestic buildings. This has been brought forward from 1 April 2023 to 1 April 2022. We expect the government to publish the eligibility criteria for this exemption very shortly.

## What else is needed?

### Immediate support

We are calling on the government to provide targeted financial support for residents who are on heat networks but without a domestic metered electricity supply. This should be at least equivalent to the £400 that other households will receive. There is also an immediate need to target support for all residents on heat networks to cover the expected rise in energy bills for households not protected by the energy price cap. They should have similar protection and support to domestic energy customers. This could take the form of a dedicated hardship fund or the extension of existing schemes.

### Longer-term support

Although our priority is the immediate financial pressures facing residents and our members, insulating and retrofitting our homes will be vital to keep bills lower and improve the UK's energy independence in the next few years. We are delighted that 90 housing associations have received funding from Wave 1 of the Social Housing Decarbonisation Fund but an additional two years of funding to 2027 would provide more certainty and capacity across the sector and allow housing associations to do more at a faster and more efficient rate.

We would also encourage the following:

- Bring forward new funding from the Heat Network Efficiency Scheme as a matter of urgency, to improve the heat loss efficiency of existing heat networks and bring down running costs and bills.
- Accelerate the rollout of funding for decarbonisation and target insulation interventions at those blocks on heat networks to bring down bills.
- Provide support for operators or smaller heat networks with expert advice on procuring cheaper gas and encouraging inclusion in larger procurement consortia.
- Bring forward Ofgem regulation as quickly as possible.

## What can housing associations do?

- Contact your MP with evidence of the impact on residents and your organisation.
- Share concerns with local councils – local authority landlords are experiencing the same issues as housing associations and local authorities also run some district heating schemes, e.g. for leisure centres.
- Share your experience with the NHF, especially on the impact of price increases on residents. Please [email Ewan Fulford](#) in our Policy team.

## Other organisations and further information

- [Association of Decentralised Energy](#) and the [UK District Energy Association](#) each represent a variety of heat network operators in the country, including some NHF members like Clarion, Newport City Homes, Guinness and L&Q.
- [Citizens Advice](#) represent energy consumers and offer independent advice on debt and fuel bills.
- [The Heat Trust](#) acts as a government-endorsed Code of Standards that heat network providers sign up to and commit to improve the experience of consumers, but it does not regulate pricing.
- [The Heat Network](#) brings together social housing landlords that manage heat networks.