

## **Increases in gas and electricity charges from April 2023**

### **Summary**

Every year we have to prepare a budget and this includes setting rents and service charges. We realised that the way in which we calculate charges for gas and electricity would not work now. Previously we've taken the average cost of the last 3 years and added an inflationary increase. Due to the considerable increases in energy costs as the result in the war in Ukraine we have has increases in electric of 66% and gas of 224%.

We have therefore changed the way that we calculate service charges for energy cost. Looking at how many units of energy are used over the last 5 years and then applying the new rates to this level of consumption.

Tenants have seen considerable price increases as a result, which mirror those being having to be paid by customers who are billed directly by their energy supplier. Our unit rates are good value for money and at least 17% lower than the current government cap.

Taking account of what our customers have told us around giving them detailed information, we have prepared a detailed response which you can find below.

---

## **Information for tenants on increases in gas and electricity charges from April 2023**

### **How we used to do things**

In February we issued our annual rent increase letters to tenants and leaseholders. Some of our tenants who pay us for gas, electricity or are part of a scheme with a communal heating system have asked us to explain the increases in their service charges.

As a result, we have produced this template answer to be shared with tenants. It's long, but we've already had good feedback from tenants that it gives useful details they need.

Milton Keynes tenants have always paid a fixed service charge, which means that we calculate how much our service charges are estimated to be at the start of any rent year and this is what the tenant pays regardless of what we end up spending in the year.

We've received increases in gas and electricity unit rates and standing charges since 2020, but these have not always been passed on to tenants. Additional costs not covered by the collection of service charges have been met by rent.

Our historic approach to setting estimates for gas and electricity has been to look at the **actual expenditure** for each account over the last 3 years and to average out the cost and then apply a percentage increase to cover inflation. Here's an example:

Year 1	£1,100
Year 2	£1,240
Year 3	£1,410
Total spend	£3,750 divide by 3 years = £1,250 per year

Add inflation at 3% =  $£1,250 + 3\% = \mathbf{£1,287.50}$  which would be the new year estimate.

Wherever a fixed service charge is in place, tenants are protected from price increases and we cannot collect the full costs we pay.

With the very high increases in gas and electricity following the pandemic and the war in Ukraine, we cannot continue averaging costs, and have had to change our approach.

## **How we buy our energy**

Our energy is purchased through a consortium called LASER – Local Authority South East Region. The consortium purchases energy for large organisations such as local authorities, police forces, the NHS and schools. They buy units of energy continuously in advance which helps to stabilise some price increases. Our contract has annual price increases set on 1 October.

**From 1 October 2022, our gas charges have risen by 224% and electricity by 66%.**

Standing charges have also risen by a considerable amount.

The government's current Price Cap Guarantee between 1 October 2022 and March 2023 for dual fuel customers on a standard variable tariff sets the maximum unit rate of 34.0p per kWh for electricity and 10.3p per kWh for gas.

Looking at the LASER unit rates for energy from 1 October 2022, our highest unit rate for electricity is 27.456p per kWh, so 19% lower than the price cap and for gas the highest rate is 8.60p per kWh so 17% lower than the price cap.

This means that whilst our tenants will have seen a considerable increase in their service charges, the actual unit rates we are paying under the LASER contract are still well below the current Ofgem price cap levels.

## Setting service charges for 2023-2024

We are changing our approach to calculating service charges for gas and electricity. We aim to be fair and transparent about our need to set charges that meet our spend.

We have reviewed each of our 490 electricity and 63 gas accounts and looked at the actual number of units of energy in kilowatt hours we have used over the last 5 years, plus this current year.

Looking at actual units helped us to work out on average how many units a building uses. We also looked at the years 2020-2022 and 2021-2022 to see how they were affected by the pandemic, with people more likely to stay at home, and have adjusted the average accordingly.

Once we had set an estimated number of units for each account, we then applied the new unit rates from 1 October 2022 and the new standing charge confirmed for each site.

As our rent years run from April to March, there will be another energy price increase in the year on 1 October. We estimate this to be in the region of another 65% of electric and 55% for gas. Customers may have seen in the press that wholesale energy prices are predicted to start falling by the end of 2023, however this is unlikely to be passed on to customers until 2024 at the earliest.

We have also taken into consideration that we use energy in differing amounts depending on the seasons.

Electricity		Gas	
Summer months 1 April to 30 September	40%	Summer months 1 April to 30 September	30%
Winter months 1 October to 31 March	60%	Winter months 1 October to 31 March	70%

Here is an example of one of our calculations for a gas supply for a large housing scheme.

2017 - 2018	2018 - 2019	2019 - 2020	2020 - 2021	2021 - 2022	2022 - 2023	Average over Years 1 to 5	ESTIMATED UNITS
YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	CURRENT		
1048786	1080767	947448	1022592	1001185	435736	1,020,156	1,020,200

- The average supply over 5 years was 1,020,156 so we have set the estimate at **1,020,200**
- Summer months is 30% of 1,020,200 = **306,060 units**
- Winter months is 70% = **714,140 units**
- Unit price per kWh from 1 October 2022 is **8.595** pence
- Unit price per kWh from 1 October 2023 is **13.3223** pence
- Standing charge is £32.58 per day from 1 October 2022 – increase by 7% from 1 October 2023

### Calculation

Standing charge 1.4.2023 – 30.9.2023 = 183 days @ £32.58 =	£5,962.14
Standing charge 1.10.23 – 31.3.2024 = 182 days @ £34.86 =	£6,344.63
Unit costs – Summer months = 306,060 x 8.595 =	£26,305.86
Unit costs – Winter months = 714,140 x 13.3223 =	£95,139.52
Total estimated cost for this scheme	<b>£133,752.15</b>

The total estimate would then be divided by the number of properties receiving the service and by 52 rent weeks to arrive at the weekly service charge amount.

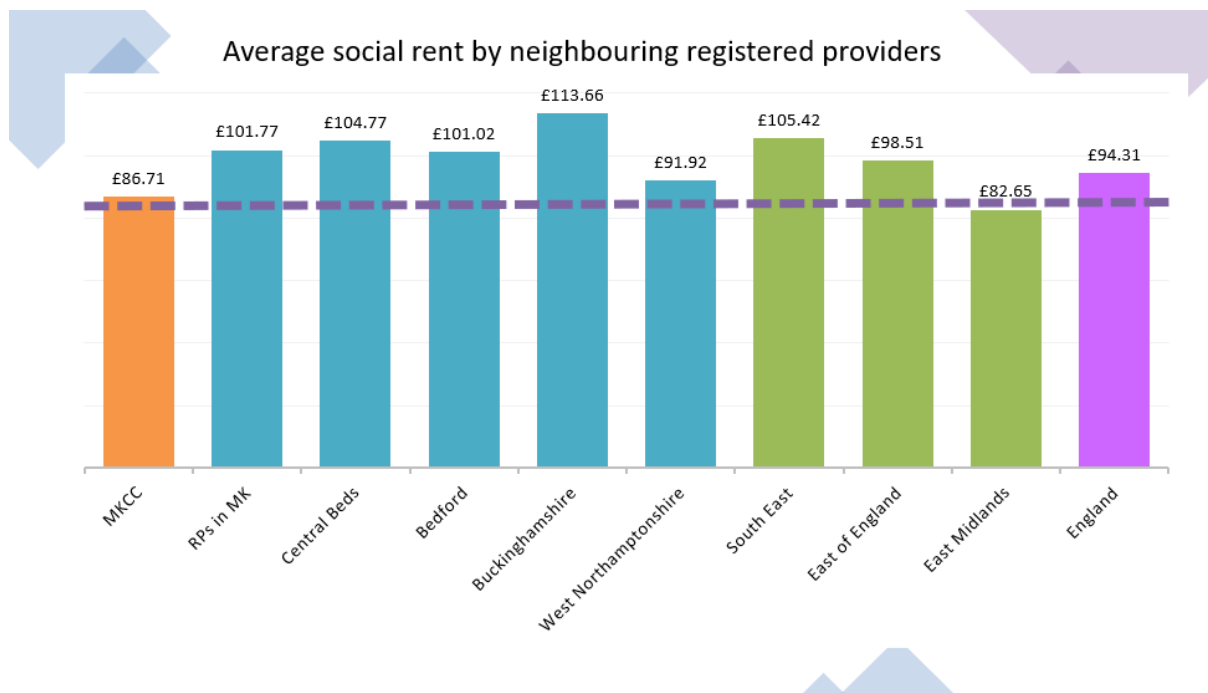
### **Affordable Housing**

Some tenants have contacted us asking why, as tenants of social housing they are not protected from these increases in rents.

For many years our rents have been set as low as possible. When the government introduced its new rent restructuring policy and the introduction of social formula rents in April 2000, we have continued to ensure that the rent for your property (excluding service charges) is as low as possible.

If we compare the social formula rents for each of our properties - the amount the government would allow us to charge a new tenant and the rents that our current tenants actually pay - the difference for 2023-2024 is £5,100,000.

Our rents compared to those other social housing providers in and around Milton Keynes:



Where part of a tenant's gross weekly rent has a service charge, this service charge is an estimate and we aim to collect from tenants and leaseholders what we estimate we have to pay in the coming rents year, so we do not make any 'profit' in charging service charges.

From this year, your service charges will move to a variable service charge. We are already working with a group of tenants and leaseholders on how best to set out service standards and how to charge customers in the future.

## **Cost of living help**

Social housing rents and most service charges are eligible for housing benefit and universal credit. If you're struggling to pay your rent and haven't applied for this, please contact us.

More help is available. Please visit [www.milton-keynes.gov.uk/cost-living-support](http://www.milton-keynes.gov.uk/cost-living-support) for details of emergency funds for essentials such as food and paying bills, as well as applying for free or low cost food from local organisations, and where to find free advice on money and debt.