

Summary Sheet

Name of Committee and Date of Committee Meeting:

Cabinet and Commissioners' Decision Making Meeting – 13 November 2017

Council Report:

Review of District Heating Charges

Is this a Key Decision and has it been included on the Forward Plan?

Yes

Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director for Adult Care and Housing

Report Author(s)

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Executive Summary

A review of district heating has been undertaken following capital investment made to infrastructure that has improved the efficiency and concerns raised by tenants on the Swinton Fitzwilliam Estate about the high cost of heating.

A previous report to Cabinet in July 2017 recommended that a weekly standing charge of £2 be introduced to enable a reduction in kwh charge to 5.65p so mitigating a payment spike for residents on the Swinton Fitzwilliam Estate who are on pre-payment meters. The equivalent charge per kwh if no standing charge was levied would have been 7.09p per kwh. There were concerns expressed by some tenants and ward Members that prompted a further review of charges to be undertaken.

Subsequently, the review has focused on anticipated costs for 2017-18 based on full year operating costs for 2016-17 now being available and the known cost reductions from significant investment in district heating infrastructure over the last 3 years now coming to fruition.

This report recommends the reduction of the kwh charge to 6.28p per kwh with no standing charge for 2017-18 which will be applied retrospectively from 1 April 2017. These cost reductions will mean that charges for district heating in Rotherham for 2017-18 are comparable to both Sheffield and Doncaster.

Recommendations

1. That the content of the report be noted.
2. That the Council be recommended:-
 - a) To approve the revised district heating cost model.
 - b) To reduce the unit Kwh charge across all district heating schemes to 6.28p per kwh (incl. VAT) and apply retrospectively from 1 April 2017.
 - c) To reduce weekly pre-payment charges on all pooled schemes as detailed in Option 3 of the report.

List of Appendices

Appendix 1 – Options Analysis (Exempt)

Background Papers

Review of District Heating Charges, 10 July 2017

District Heating Scheme Charges 2017/18 (9 January 2017)

Self-Regulation Select Commission – Review of RMBC's District Heating Schemes (November 2012).

Consideration by any other Council Committee, Scrutiny or Advisory Panel

Overview and Scrutiny Management Board – 8 November 2017

Council Approval Required

Yes – 13 December 2017

Exempt from the Press and Public

An exemption is sought for Appendix A under paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part I of Schedule 12A of the Local Government Act 1972 is requested, as this report contains sensitive commercial information with regards to the potential acquisition of land and negotiation strategy which could disadvantage the Council if the information were to be made public.

It is considered that the public interest in maintaining the exemption would outweigh the public interest in disclosing the information, as the parties' commercial interests could be prejudiced by disclosure of this commercial information.

Review of District Heating Charges

1. Recommendations

- 1.1. That the content of the report be noted.
- 1.2. That Council be recommended:-
 - a) To approve the revised district heating cost model.
 - b) To reduce the unit Kwh charge across all district heating schemes to 6.28p per kwh (incl. vat) and apply retrospectively from 1 April 2017.
 - c) To reduce weekly pre-payment charges on all pooled schemes as detailed in Option 3 of the report.

2. Background

District Heating Charges

2.1 The Council operates two distinct district heating schemes:

- A pooled metered scheme and;
- A pre-paid card meter scheme at Swinton.

Over the last few years charges for each scheme have been brought into line with a phased increase in the kilowatt hour charge towards achieving full cost recovery.

2.2 District heating charges are based on a metered charge per kilowatt hour of heat used. A weekly charge is paid by tenants through their rent account for all schemes with the exception of Swinton Fitzwilliam which is via pre-payment meter. Weekly charges for most pooled schemes exceed the actual metered costs and hence 19% of all income received from weekly charges was returned to customers via a refund in 2016/17. This refund is calculated on each individual tenant's kwh usage and does not represent a reduction in kwh charge rate. The Cabinet in January 2013 recommended that the cost of district heating is fully recovered on a phased basis and therefore charges are set at the appropriate level. For 2016-17 there was no increase in charges at 8.72p per kwh. This was the second consecutive year that charges had been unchanged.

2.3 In July 2017 the Cabinet agreed to recommend to Council that charges for District Heating should be reduced to 5.65p per kwh and a weekly standing charge of £2 payable from the 2nd October 2017. Subsequent to this decision a number of tenants at Swinton Fitzwilliam and local Members expressed concerns that; the standing charge element is confusing and removes choice and they questioned whether staffing and administration costs should be passed onto tenants as they created financial difficulties. As a result a further review of the cost model has been undertaken with the aim of trying to address these concerns.

Investment in District Heating

- 2.4 Over the past 3 years there has been considerable investment upgrading the district heating infrastructure. This has included replacement boilers, distribution pipework and heat meters. Total investment funded through the Housing Revenue Account over the period has been £3.2m.
- 2.5 Given this significant investment in new infrastructure it has resulted in some district heating schemes being more energy efficient so reducing the Council's running costs. This has been particularly evident at the Swinton Fitzwilliam Estate where new boiler installations have reduced operating costs and new heat meters have ensured heat use is now recorded and billed accurately.

Swinton Fitzwilliam Estate

- 2.6 Tenants on the Swinton Fitzwilliam Estate, supported by ward Members have raised concerns about the difficulties they were having in being able to afford the costs of heating their homes. Many tenants were experiencing difficulty paying to heat their homes during the winter period based on the prevailing 8.72p per kwh charge rate. This rate had been agreed by Council in January 2016 for the 2016-17 financial year.
- 2.7 Given the upgrade to the district heating system was ongoing at the time of 2016-17 budget setting, potential cost savings from installation of new infrastructure were not known and so the previous decision by Cabinet in January 2012 to pursue full cost recovery across the district heating schemes the charge rate of 8.72p per kwh was retained for 2017-18 pending a review.
- 2.8 Within the budget setting report a commitment was made that after a full year of operation any over recovery of income would be refunded to tenants. This was also confirmed in writing to tenants living on the estate.
- 2.9 An interim refund was issued to tenants prior to the year-end based on known income and expenditure between April – December 2016. The refund was issued to all tenants, with the exception of those with historic district heating debt, in February 2017.
- 2.10 A further refund was issued to tenants in April 2017 covering the date of heat meter installation until 31 March 2016. A final refund was issued 22 May 2017 based on known income and expenditure for the entirety of 2016-17.

3. Key Issues

- 3.1 Following the review of the prevailing charge rate for district heating at Swinton Fitzwilliam a full review of the cost model and subsequent charging rates was undertaken across all district heating schemes. The Cabinet recommended to Council at its meeting of 10 July 2017 that charges be reduced to 5.65p per kwh (applied retrospectively from 1 April 2017) and a weekly standing charge of £2 from 2 October 2017.

- 3.2 Following this recommendation tenants on the Swinton Fitzwilliam Estate along with local Councillors expressed further concerns about district heating charges. Their concerns included:
- The confusion and merit of implementing a weekly standing charge
 - The equity of treating Swinton Fitzwilliam and Pooled schemes as one for charging purposes when the Swinton Fitzwilliam Estate has different metering and is more efficient following recent investment
 - Including staffing, administration and metering costs in the cost recovery calculations makes the proposed charging rate still unaffordable for many tenants
- 3.3 As a result of these concerns a further review of the cost model has been undertaken. This report now details a further option for district heating charges that reduces costs for tenants on district heating whilst being fair to other tenants who are on mains gas fuelled heating systems. As previous, this review will ensure a charging structure that is fair to all tenants on district heating throughout the borough is adopted.
- 3.4 In calculating the revised kwh rate the following assumptions have been made:
- Forecast 2017-18 expenditure is based on actual 2016-17 costs of operating the district heating schemes and not the budget that was originally set in January 2017. The original budget was based on actual operating costs for 2015-16 as these were the only actual full year costs available at the time of budget setting.
 - Forecast income is based on the actual number of kwh purchased by tenants in 2016-17.
 - Throughout 2017-18 further investment will continue to improve the efficiency of district heating systems. No allowance has been made for further reductions in the Council's operating costs that may result.
 - The kwh charge the Council pays for utilities is assumed to remain the same. Utility costs used in calculating the cost of district heating include electricity and gas.
 - Income from the Renewable Heat Incentive subsidy scheme has been included based on actual income received in 2016/17. This reduces the amount to be recovered via tenant charges.
- 3.5 In completing this work Sheffield City Council have undertaken a review of the principles behind the cost model and are satisfied that the costs have been calculated fairly. The basis is similar to those used for the modelling in Sheffield taking into account the economies of scale that Sheffield can rely on.
- 3.6 The cost models are based on all properties on district heating schemes across the borough being pooled and treated as one scheme. As a result there will be a cross subsidy between individual district heating scheme locations i.e. one location may make a loss and another profit, but all tenants throughout the borough will pay the same kwh rate. However, all tenants will see a reduction from the current charge rate of 8.72p per kwh. The details of each option previously recommended along with the new recommended option are set out below:

**Option 1 – Reduced kwh charge and £2 per week standing charge
(Recommendation to Cabinet 10 July 2017)**

	2017-18 (current)	Average Bill £ (7,200 kwh)	2017-18 (proposed)	Average Bill £ (7,200 kwh)	Reduction £
Unit Cost per kwh	8.72p	627.84	5.65p	406.80	
Standing charge	0	0	£2 per week	104	
Total £		627.84		510.80	-117

3.7 This would ensure all costs of operating district heating are recovered including administration. It is proposed to include a weekly standing charge to mitigate against seasonal payment spikes.

3.8 The administration costs include the cost of service charges for heat meters, staffing costs for management and administration of accounts, postage and printing for billing. All charges would be applied retrospectively from 1 April 2017 and relevant refunds placed on the rent account and issued as part of district heating quarterly billing cycle. It is anticipated this would take until mid-January 2018 to action.

Advantages

- Full cost recovery including administration and metering costs
- Consistent charging across all schemes
- Reduced costs for tenants

Disadvantages

- Does not address tenants concerns in relation to levying a standing charge and recovery of administration costs.

**Option 2 - Reduced kwh charge and £2 per week standing charge from 2
October 2017 (Approved by Cabinet 10 July 2017)**

	2017-18 (current)	Average Bill £ (7,200 kwh)	2017-18 (proposed)	Average Bill £ (7,200 kwh)	Reduction £
Unit Cost per kwh	8.72p	627.84	5.65p	406.80	
Standing charge	0	0	£2 per week	52	
Total £		627.84		458.80	-169

3.9 This would ensure all costs of operating district heating are recovered. It is proposed to include a weekly standing charge to mitigate against seasonal payment spikes.

3.10 The administration costs include the cost of service charges for heat meters, staffing costs for management and administration of accounts, postage and printing for billing. All charges would be applied retrospectively from 1 April 2017 with the exception of the standing charge which would have been applied from 2 October 2017. Relevant refunds would be placed on the rent account and issued as part of district heating quarterly billing cycle. It is anticipated this would take until mid-January 2018 to action.

Advantages

- Full cost recovery including administration costs for future years
- Consistent charging across all schemes
- Reduced costs for tenants

Disadvantages

- Under recovery of full costs by £65k in 2017-18.
- Does not address tenants concerns in relation to levying a standing charge and recovery of administration costs.

Option 3 – Charge fuel cost only with no standing charge – recommended

	2017-18 (current)	Average Bill £ (7,200 kwh)	2017-18 (proposed)	Average Bill £ (7,200 kwh)	Reduction £
Unit Cost per kwh	8.72p	627.84	6.28p	452.16	
Standing charge	0	0	0	0	
Total £		627.84		452.16	-176
Weekly pooled meter charges:	£		£		
Bedsit	11.81		9.66		-2.15
1 Bed	13.76		11.25		-2.51
2 Bed	15.78		12.90		-2.88
3/4 Bed	18.26		14.93		-3.33

- 3.11 This would limit cost recovery to fuel costs only. All staffing, administration and metering costs have been omitted and would in future be funded through general HRA resources which is the same as staffing costs associated with Gas Servicing and Safety inspections for individual central heating systems. All charges would be applied retrospectively from 1 April 2017 and relevant refunds placed on the rent account and issued as part of district heating quarterly billing cycle. Tenants on pre-payment meters would be issued with refunds for the period 1 April to 30 November 2017 following decision by the Council. The remaining refund for the period 1 December to 13 December 2017 would be applied as a credit to the heat meter. By processing the refunds in this way it will ensure tenants receive a refund prior to Christmas. The new charge rate will be applied to the meter remotely on 14 December 2017.

Advantages

- Reduced costs for tenants. The average bill will reduce by £176.
- Consistent charging across all schemes so is equitable for all tenants
- Is a positive response to tenant and member concerns

Disadvantages

- Does not deal with winter payment spike for tenants and residents on pre-payment meters.

- It would result in a cost under recovery of £73k in respect of not recovering the costs of staffing, administration and metering charges which would therefore be a general cost to the HRA.

4. Options considered and recommended proposal

- 4.1 The options detailed in the main body of the report outline the cost to tenants and forecast deficit to the HRA depending on the option chosen. To ensure that all tenants on district heating pay at the same rate it is recommended that the Council move to district heating scheme (Option 3). This will result in an average bill reducing by £176 in 2017-18 assuming the average 7,200 kwh usage remain unchanged.
- 4.2 There will continue to be an annual review each year as part of the budget setting cycle. This will continue to increase or decrease the kwh charge depending on total income and expenditure forecast for the forthcoming year. Any forecast over-recovery of income in the current financial year would lead to a price adjustment in the subsequent financial year.
- 4.3 By adopting the recommended option this would mean for 2017-18 charges were comparable to other Local Authority district heating providers in the sub-region as illustrated in the table below:

Charge Rate	Rotherham	Doncaster	Sheffield
Pence per kwh	6.28	6.09	3.04
Standing charge/ credit	0	0	£4 per week (over 50 weeks) (£14.54 monthly amenity charge for leaseholders and RTB properties only)
Total based on 7,200 kwh per annum	£452	£438.48	£418.88

- 4.4 It should be noted Sheffield currently offer a subsidised rate, if this was not offered the charge rate would be 3.72p per kwh or £467.84 per year based on 7,200 kwh.

5. Consultation

- 5.1 The Improving Places Select Commission has been briefed on the options review.
- 5.2 A series of consultation events have been held on district heating schemes during August and September 2017. The feedback has been included in developing this report

6. Timetable and Accountability for Implementing this Decision

- 6.1 Cabinet is asked to consider the proposals at its meeting on 13 November 2017 and to recommend final approval by the Council on 13 December 2017. Assuming Council agreement, Tenants will be advised of revised charges week commencing 18 December 2017.

- 6.4 Pooled schemes will have relevant refunds placed on the rent account and issued as part of district heating quarterly billing cycle. It is anticipated it will take until mid-January 2018 to update all pooled metered accounts.
- 6.5 Tenants on pre-payment meters will be issued with refunds for the period 1 April to 30 November 2017 during the w.c.18 December 2017. The remaining refund balance for the period 1 December to 13 December 2017 will be applied as a credit to the heat meter. The new charge rate will be applied to the meter remotely on 14 December 2017.

7. Financial and Procurement Implications

- 7.1 The financial implications of each option are outlined in sections 3 and 4 of the report. The new unit rates have been calculated using the 2016/17 actual financial and usage data for district heating.
- 7.2 In 2016/17 the actual average annual usage of all tenants was approximately 7,200 kwh. This has been used to model the average costs for all tenants. However, individual charges to tenants could be higher or lower than this value dependent upon their actual usage.
- 7.3 The average cost per tenant in 2016/17 was £628 per annum. Option 3 would see this average cost fall to £452 per annum. Appendix 1 shows the details for each option.
- 7.4 The proposed option would result in a potential cost under-recovery of £73k for the HRA which would therefore fall as a general cost to the HRA. This would be funded from emerging revenue underspends in the current year and in future years would be absorbed within the HRA business plan to ensure the future sustainability of the HRA.

8. Legal Implications

- 8.1 Section 24 of the Housing Act 1985 allows local authorities to make such reasonable charges as they may determine for a tenancy or occupation of their houses. Further, it requires the local authority from time to time to review rents and other charges (such as district heating charges) and make such changes, as circumstances may require. The changes proposed in the recommendations to this report would fall within the ambit of the Council's discretion as set out in section 24 of the Housing Act 1985.

9. Human Resources Implications

- 9.1 There are no Human Resources implications arising from this report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 The reduction in district heating charges will assist families and vulnerable adults living in properties on district heating. This will mean they have more money for other living expenses such as their rent, thereby reducing the risk of being evicted due to rent arrears.

11. Equalities and Human Rights Implications

- 11.1 There are no direct implications in approving the recommended option. However if the option to subsidise the heating charges of tenants on district heating was pursued this would create inequality with other tenants who are on mains gas and do not have the option to receive a subsidy from the Council towards the cost of their heat and hot water.

12. Implications for Partners and Other Directorates

- 12.1 There are no direct implications for partners and other directorates.

13. Risks and Mitigation

- 13.1 Through reducing the rate charged the Council may not be able to recover any additional costs it incurs so inadvertently operating at an even greater deficit. This may occur if kwh charges for utility cost were higher than budgeted or Renewable Heat Incentive Income is lower than budgeted. These risks are minimal and the financial impact would be borne by HRA reserves if required.
- 13.2 There is also a reputational risk that the Council may be criticised for not investing further in district heating infrastructure, such as Biomass which can reduce costs to the tenant due to grant income received.

14. Accountable Officer(s)

Tom Bell, Assistant Director of Housing and Neighbourhoods Services.

Approvals Obtained from:

	Named Officer	Date
Strategic Director of Finance & Customer Services	Judith Badger	26/10/2017
Assistant Director of Legal Services	Neil Concannon	06/09/2017
Head of Procurement (if appropriate)	N/A	
Head of Human Resources (if appropriate)	N/A	

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