

Committee Name and Date of Committee Meeting

Cabinet – 10 July 2023

Report Title

District Heating Charges 2023-2024

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

Yes

Strategic Director Approving Submission of the Report

Ian Spicer, Strategic Director of Adult Care, Housing and Public Health

Report Author(s)

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Ward(s) Affected

Thurcroft & Wickersley South, Boston Castle, Bramley & Ravenfield, Hellaby and Maltby West, Maltby East, Keppel, Greasbrough, Kilnhurst and Swinton East, Hooper, Brinsworth, Aston & Todwick, Aughton and Swallownest, Wickersley North, Rotherham West, Anston & Woodsetts, Dalton & Thrybergh

Report Summary

The purpose of the report is to seek approval to revise the price of District Heating for 2023-24 given the significant reduction in the price of utilities to the Council since the price was agreed by the Council on 1 March 2023.

It is also proposed that authority be delegated to the Assistant Director of Housing and Assistant Director of Financial Services in consultation with the Cabinet Member for Housing to agree revised pricing in certain circumstances.

Recommendations

That the Cabinet note the content of the report and recommends that Council: -

1. Notes the decision Council took in March 2023 to increase the District Heating unit charge to 20.68 per Kwh for 2023-24 so that an average bill was equivalent to the heating element of the then Government's Energy Price Guarantee, leading to a proposed District heating budget deficit of £2.592m.
2. Notes that the actual cost to the Council of purchasing energy to supply District Heating schemes is lower than the cost assumed in March 2023; and that the

agreed unit charge now exceeds the Energy Price Guarantee and the Office of Gas and Electricity Markets (Ofgem) price cap for July 2023 onwards.

3. Agrees that in light of these changes, the District Heating unit charge per Kwh for 2023-24 is reduced to 15.94 pence per kwh and weekly prepayment charges are reduced by 59% to 67% depending on property size (Option 4 in this report), bringing prices into line with the Ofgem price cap for July 2023 onwards and well within the Energy Price Guarantee.
4. Agrees that this charge should be backdated to 3rd April 2023.
5. Agrees that the decision to reduce the price further during 2023-24 be delegated to the Assistant Director of Housing in conjunction with the Assistant Director of Financial Services following consultation with the Cabinet Member for Housing. The delegation would only be used to respond to a change in Government policy or a significant change in the Ofgem price cap that has the effect of necessitating a lower unit price, and the approved budget deficit of £2.592m cannot be exceeded through a delegated decision.

List of Appendices Included

- Appendix 1 Revised 2023-24 Pricing Options
- Appendix 2 Part A - Initial Equality Screening Assessment form
- Appendix 3 Part B – Equality Analysis form
- Appendix 4 Carbon Impact Assessment

Background Papers

- Housing Revenue Account Rents & Service Charges 2023-24 – (Council - 1 March 2023)
- District Heating Scheme Charges Review – (Council -13 December 2017)

Consideration by any other Council Committee, Scrutiny or Advisory Panel

- Cabinet – 19 June 2023
- Council – 19 July 2023

Council Approval Required

Yes

Exempt from the Press and Public

No

Revision to District Heating Charges 2023/24

1. Background

- 1.1 This report sets out proposals for revised District Heating charges for 2023-24 given the reduction in utility prices paid by the Council since the Council approved the Housing Revenue Account Rent and Service Charges 2023-24 on 1 March 2023.
- 1.2 Approximately 1,260 properties receive heat through the Council's 18 District Heating schemes.
- 1.3 During 2017-18, there was an extensive review of District Heating pricing to ensure that charges were fair and reasonable for all tenants. A revised schedule of charges was approved by the Council on 13th December 2017. Scheme charges were fixed until April 2022, when a tapered increase over 4 years was agreed.
- 1.4 During 2022-23, significant increases in gas and electricity costs led to the Council operating the District Heating network at a deficit of £1.612m. This equates to support of £1,279 per District Heating user. In 2021-22 the total deficit was only £29.5k.
- 1.5 At the time of writing the HRA Rent and Service Charges 2023-24 report, it was predicted that the Council's gas price for 2023-24 would increase by approximately 100%. This meant the cost of operating the District Heating network was predicted to increase from £2.273m in 2022-23 to £4.738m in 2023-24. The Council approved a recommendation to increase District Heating charges by 186.43% for 2023-24 to 20.68 pence per kwh. Even with this increase, the forecast operating deficit was £2.59m for 2023-24.
- 1.6 The energy market remains volatile. Whilst the market has stabilised over the past few months, some uncertainty is anticipated to continue during 2023/24. However, projected falls in energy costs and changes to Government policy means a revision to District Heating pricing is necessary. In developing revised pricing proposals, a balance has been sought between achieving sufficient income to deliver a viable District Heating network, and the impact the price charged will have on tenants and residents.
- 1.7 Ongoing work mitigating the effects of the cost-of-living crisis is a priority. The Council is committed to supporting tenants and will do this through continuing early intervention and arrears prevention. This includes supporting tenants to continue to pay their District Heating charges by offering support with money, benefits, and debt advice.

2. Key Issues

2.1 Cost of gas to the Council

- 2.1.1 The Ofgem price cap for an average dual fuel bill reduced to £2,074 from the 1 July 2023 meaning it is less than the Government's Energy Price Guarantee.

This reduction in the cost of gas and electricity is also reflected in the price the Council will pay in 2023-24. At the time of budget setting it was anticipated the price paid by the Council for gas would increase by approximately 100%.

2.2 Government Policy

2.2.1 The Council decision to increase prices by 186.43% was based on matching the then proposed Energy Price Guarantee that an average dual fuel bill would be £3,000 per year. This was considered the fairest way to ensure all tenants were paying a similar price for their energy. This meant an average gas bill would have been £1,611 per year and so District Heating prices were increased to match that figure.

2.2.2 Subsequently, in the national budget of 15 March 2023 the Government announced that the Energy Price Guarantee would remain frozen at £2,500 per year for an average dual fuel customer until the end of June 2023, instead of increasing to £3,000 per year as was proposed. It is unclear what will happen to the Energy Price Guarantee after this date. However, given the Ofgem price cap reduced to £2,074 per year on the 1 July 2023, even if the Energy Price Guarantee remained at £2,500 per year it will make no difference to the price paid for energy.

2.2.3 In the budget the Government also announced an extension to the Energy Bill Discount Scheme (EBDS) with a cap on the price heat network providers (i.e. the Council in this instance) pay for gas and electricity during 2023-24. The Council needs to apply for support. If secured, it is anticipated that EBDS will halve the price the Council would pay for gas and electricity. Daily standing charges would remain at the contract value as they are not supported by EBDS.

2.3 Impact on the cost of operating the District Heating Network

2.3.1 As a result of the factors outlined above, the cost of operating the District Heating Network in 2023-24 will be significantly less than anticipated. Depending upon the Council's eligibility for the Energy Bill Discount Scheme this could be up to £3m less than budgeted. Further details are provided in Section 6 of the report.

2.3.2 In reviewing the pricing, the following principles have been applied:

- As far as possible, pricing should be aligned with other residents' bills, i.e. those not on District Heating.
- Further spikes (up or down) in District Heating pricing should be avoided.
- The operating deficit should be reduced over time.

2.3.3 Given the uncertain economic and policy environment, it is proposed that authority to reduce the price further (should this be necessary within 2023-24), is delegated to the Assistant Director of Housing in conjunction with the Assistant Director of Financial Services following consultation with the Cabinet Member for Housing. The delegation would only be used to respond to a change in Government policy or a significant reduction in the Ofgem price cap. The approved budget operating deficit of £2.592m should not be exceeded.

3. Options considered and recommended proposal

- 3.1 Appendix 1 shows the impact of each proposed option in terms of actual unit charge and both weekly and annual prepayment charges per type of property. It should be noted that the prepayment charge is the amount a tenant would pay to their rent account on an annual basis. The annual cost to the tenant will depend on their actual usage, therefore the annual cost could be higher or lower than the amounts in Appendix 1.
- 3.2 A tapered reduction to the weekly pre-payment charges have been applied based on property size to ensure the charges are proportionate. Tenants will be advised of their usual annual usage so that they can consider their payment options.
- 3.3 Under all options, it is proposed to back date charges to the 3 April 2023. Residents on credit meters will receive an adjustment to their rent accounts on 31 July 2023 and weekly payments for the remainder of 2023-24 will be as detailed in Appendix 1. All residents will receive a letter confirming the price reduction and details of how they can request a refund for any credit on their rent account. A refund will only be paid where there is a credit and the equivalent of one week's rent will be left on the account in accordance with rental agreement terms and conditions.
- 3.4 For residents on pre-payment meters, a credit based on their actual usage between 3 April and 31 July 2023 will be applied to the heat meter in early August 2023.
- 3.5 **Option 1 – Retain approved 2023-24 pricing**
- 3.5.1 This option would leave pricing unchanged at 20.68 pence per kwh for the remainder of 2023-24. The cost of operating the District Heating network under the Council's utility contract is forecast to be £2.775m for 2023-24. Retaining current pricing would mean the Council would operate the network at a deficit of £0.629m. This option is not recommended as it does not align an average District Heating bill to those of other residents and is inconsistent with the Government Energy Price Guarantee and, from July, the Ofgem price cap.
- 3.6 **Option 2 – Full cost recovery**
- 3.6.1 Pricing would need to increase to 31.77 pence per kwh, an increase of 11.09 pence, to achieve full cost recovery. This would result in an average bill of c£2,140. This option is not recommended as it would see bills of District Heating customers increase whilst other residents are forecast to see significant falls in their utility bills. It is also inconsistent with the Government Energy Price Guarantee and, from July, Ofgem price cap.

3.7 Option 3 – Match an average bill to the Government’s energy discount guarantee (currently £2,500 per year for an average dual fuel bill)

3.7.1 Under this option, the unit rate would decrease from 20.68 pence to 19.86 pence per kwh, giving an average annual cost per user of £1,337. If the Council receives EBDS support, District Heating would generate a surplus of £127k in 2023-24. The Scheme would return to deficit in 2024-25. If EBDS support is not received, District Heating would run at an operating deficit of £981k in 2023-24. This option is not recommended as it would result in the average District Heating bill being higher than the forecast bill for other residents not on District Heating as, from July, it will be inconsistent with the Ofgem price cap.

3.8 Option 4 – Match an average bill to the Ofgem energy price cap (from July, c. £2,000 per year for an average dual fuel bill) - Recommended

3.8.1 The unit rate would decrease from 20.68 pence to 15.94 pence per kwh and would mean an average annual cost per user of £1,074. If the Council receives EBDS support, District Heating would run at a deficit of £195,432 in 2023-24. If EBDS support is not received, District Heating would run at an operating deficit of £1,303,432 in 2023-24. This option is recommended as it would result in the average District Heating bill being similar to other resident’s gas bills under the Ofgem energy price cap, assuming the price cap of £2,074 from July 2023 for a dual fuel bill remains at a similar price for the rest of the financial year.

3.8.2 If the actual Ofgem energy price cap dropped significantly below c£2,000 per year for a dual fuel bill it is proposed authority is delegated to the Assistant Director of Housing in consultation with the Cabinet member for Housing to reduce the price to match the revised Ofgem price cap for an average dual fuel bill. Any reduction in price would be capped at a rate so that the budgeted deficit for operating the District Heating network would not exceed £2.59m in 2023-24.

4. Consultation on proposal

4.1 The Council has a strong track record of tenant engagement and has recently been recognised by the Tenant Participation and Accreditation Service for the excellent framework that is in place to consult and work with tenants on how services are developed and improved.

4.2 The Housing Involvement Panel will be updated in respect of District Heating charges on 12 July 2023.

4.3 Officers have held multiple drop-in sessions with tenants throughout March 2023 about the increased cost of District Heating in 2023-24 offering benefit checks, referrals to support agencies and supporting applying for the Council’s Energy Crisis Scheme.

5. Timetable and Accountability for Implementing this Decision

5.1 This report will be considered by the Council on 19 July 2023 and subject to approval, would be implemented from 31 July 2023 with pricing back dated to 3 April 2023.

6. Financial and Procurement Advice and Implications

6.1 The District Heating charges and budgets for 2023/24 were set during a period of high-cost volatility. At that time, it was anticipated that there would be a 100% increase on actual costs. The District Heating fuel contract costs were not finalised until early May 2023 and are significantly lower than those anticipated at budget setting. The usage during 2022/23 was also lower than anticipated.

6.2 The fuel costs in all options consider the revised costs of contract fuel and the lower usage rate. Table A below provides a breakdown of current revenue budget and anticipated costs as a result of the new contract rates.

Table A: Fuel Costs 2023/23	Current Budget	Updated Contract Cost	Updated Contract Cost with EBDS Support
Electricity	373,428	238,996	205,631
Gas	4,162,468	2,399,971	1,294,051
Bio Fuel	202,451	136,162	136,162
Total	4,738,347	2,775,129	1,635,844

6.3 The Government portal to apply for the EBDS monies opened early in late April 2023. The Council is in the process of completing an application and if secured this support will be provided for the full financial year to 31 March 2024.

6.4 Impact on budgets

6.4.1 Table B below shows the potential District Heating expenditure and the net income that each option could achieve based on the proposed District Heating unit rates and the same unit usage as in 2022/23. The deficit position for each of the options is also shown. Option 4 (recommended) would see a reduction in the deficit from £2.592m to £1.303m or £0.195m if EBDS support is secured.

TABLE B		OPTION 1	OPTION 2	OPTION 3		OPTION 4	
Impact on budgets	2023/24 Budget (current)	New Contract Cost but retain agreed charge rates	New Contract Cost Full Cost Recovery	New Contract Cost - Cap at £2.5k avg dual fuel	New Contract Cost with EBDS - Cap at £2.5k avg dual fuel	New Contract Cost - Cap at £2.0k avg dual fuel	New Contract Cost with EBDS - Cap at £2.0k avg dual fuel
Expenditure (Fuel only)	4,738,347	2,775,129	2,775,129	2,775,129	1,635,844	2,775,129	1,635,844
Net Income*	-2,145,759	-2,145,759	-2,774,846	-1,794,028	-1,762,742	-1,471,698	-1,440,412
Deficit	2,592,587	629,370	283	981,101	-126,898	1,303,432	195,432

* net income figure includes income from a primary school in Greasbrough which is in contract to pay a percentage of the costs of the fuel.

6.5 Financial Impact of Option 4

- 6.5.1 The new contract rates without the EBDS support would see the HRA budget position improve from an anticipated deficit of £2.593m to a deficit of £1.303m. If the EBDS monies are secured, the anticipated deficit reduces to £0.195m.
- 6.5.2 The District Heating unit rate (including VAT) would reduce from 20.68p to 15.94p. The weekly prepayment charge would reduce per the values in Appendix 1. The average annual bill would reduce from £1,610 to £1,074.
- 6.6 There are no direct procurement implications arising from the recommendations detailed in this report.

7. Legal Advice and Implications

- 7.1 Under section 24 of the Housing Act 1985 (the 1985 Act) the Council has a broad discretion in setting such reasonable charges as it may determine, and the Council must from time-to-time review such changes as circumstances may require.
- 7.2 The duty to review and make changes is itself subject to the requirements for notice of a variation set out in Section 103 of the 1985 Act. Prior to serving a notice of variation a preliminary notice must be served which informs the tenant of the proposed variation and invites them to comment upon the proposal within a reasonable time frame. This should follow any Council decision following a recommendation from Cabinet.
- 7.3 The Council must ensure that any support provided via various schemes is passed on in a just and reasonable way to end users.

8. Human Resources Advice and Implications

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

9. Implications for Children and Young People and Vulnerable Adults

- 9.1 No direct implications.

10. Equalities and Human Rights Advice and Implications

- 10.1 The Local Authority is aware of its duties under the Equality Act 2010 to promote equality, diversity, cohesion and integration. An initial equalities screening has been carried out to assess the impact of the proposals within the report to reduce District heating charges for 2023/24 and an Equality Impact Assessment put in place. This will ensure the Council continues to promote positive impact and reduce or remove any negative impact as a result of the changes. An Equalities Analysis is attached at Appendix 2 and 3.

11. Implications for CO2 Emissions and Climate Change

- 11.1 This report recommends decreases to the unit and prepayment charges for tenants on the Council's District Heating schemes and this may impact on their future energy usage. A completed Carbon Impact Assessment is attached to this report at Appendix 4.

12. Implications for Partners

- 12.1. No direct implications for partners and other directorates.

13. Risks and Mitigation

- 13.1 The greatest risks are the continued volatility in the energy market and an uncertain policy and regulatory context, including no visibility of what the Ofgem price cap will be during winter 2023/24 and into 2024. This is mitigated through the proposed delegation and the budget headroom.

- 13.2 All budgets carry a certain level of risk in that unforeseen circumstances may arise, causing additional pressures on the level of resources applied.

14. Accountable Officers

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Approvals obtained on behalf of Statutory Officers: -

	Named Officer	Date
Chief Executive	Sharon Kemp	26/06/23
Strategic Director of Finance & Customer Services (S.151 Officer)	Judith Badger	21/06/23
Assistant Director, Legal Services (Monitoring Officer)	Phillip Horsfield	20/06/23

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