

1.	Meeting:	The Cabinet
2.	Date:	Wednesday 16 January 2013
3.	Title:	District Heating Scheme Charges 2013/14
4.	Directorate:	Neighbourhoods and Adult Social Services

5. Summary

The purpose of this report is to seek approval from Members for the proposed increase in charges for District Heating for 2013/14 taking account where possible of the recommendations contained in the recent review undertaken by the Self Regulation Select Commission.

There are a range of heating schemes, but in general district heating charges are made up of two components, a weekly charge and a metered charge per kilowatt hour of heating used. Weekly charges for most schemes exceed the actual metered costs and hence 32% of all income received from weekly charges are returned to customers. This report recommends no increase in weekly charges (with the exception of St Ann's) but, an increase in kilowatt hour charges to more accurately reflect true costs. The impact of this on consumers of district heating is that they the vast majority will pay no more on a weekly basis, but some will receive less of a rebate once actual personal charges have been calculated following individual meter readings.

6.0 Recommendations

The Cabinet is asked to note the content of this report and recommend:

- That weekly charges (with the exception of St Ann's which will follow the formula agreed in 2010-11) are not increased.**
- That the various proposed increases to the kilowatt hour charges outlined in section 7 of this report are approved as a means of achieving full cost recovery.**
- That to assist tenants, increases in the kilowatt hour charge are phased over a period of up to five years.**

7.0 Proposals and Details

7.1 The Housing Rent Setting Report in January 2012 highlighted that the current charges for District Heating do not recover the full cost of providing the service. Due to ongoing and significant increases in the prices of gas and utility charges the initial three year strategy for ensuring full cost recover has yet to be fully realised. The Self Regulation Select Commission agreed to undertake a review to explore how cost effective and fuel efficient provision of District Heating can be achieved. One of the recommendations within the report was to consider the review of district heating charges separately from the annual rent review. District heating improvements have been built into the three year capital plan, to ensure that infrastructure is modern and efficient.

7.2 The council operate three distinct District Heating schemes:

- A pooled metered scheme;
- An unmetered scheme at Beeversleigh; and
- Switch 2 card meter scheme at Swinton

Each scheme currently has a separate charging scheme, and the extent to which full cost recovery differs between the various schemes, and between the numerous metered schemes themselves. Overall in 2011/12 district heating cost the authority £865k. Of this cost, £579k was received as income.

Pooled metered schemes

7.3 Pooled metered schemes have a weekly pre-payment flat rate charge collected through the rent system, applied to all properties dependant upon the size of the property. The actual costs of each property's heating is determined by meter readings of the amount of kilowatt hours of heating actually used. In the vast majority of cases (88%) this results in a rebate. The current basis of kilowatt hour charges does not accurately reflect the actual costs of the pooled metered schemes. In order to achieve full cost recovery and ensure that charges are fair and affordable to tenants it is proposed that there is a phased approach to increasing unit costs of kilowatt hour charges, however, given the size of the actual rebates made, it is not necessary to increase the weekly prepayment charge.

7.4 The charges for the fifteen pooled schemes (984 properties),excluding St Ann's in 2013/14 is proposed as follows:-

Pooled district heating charges		2013/14	% Increase	2012/13
Unit Cost KWh		7.21p	10.00	6.55p
Pre-payment Charges per week				
Bedsit		£12.80		£12.80
1 Bed		£14.90		£14.90
2 Bed		£17.10		£17.10
3/4 Bed		£19.78		£19.78

- 7.5 In order to move towards recovering more of the costs of the service it is proposed to increase the unit rate charged from 6.55 pence per kWh to 7.21 pence per kWh, an increase of 10%. It would require a further four years at this level of increase to achieve full cost recovery based on the current cost of service.
- 7.5 St Ann's (73 properties) was added to the pooled scheme in 2011/12. The Council agreed to bring charges at St. Ann's into line with the pooled metered schemes over a three year period.

The proposal for the 2013/14 (year 3) fixed weekly payment is shown in the table below and this now brings the charges in line with all other pooled metered schemes:

St Ann's	Proposed Charge 2013/14	Actual Charge 2012/13
1 Bed	£14.90	£12.80
2 Bed	£17.10	£14.90
3 Bed	£19.78	£19.78

Beeversleigh

- 7.6 The 48 properties at Beeversleigh are not metered and therefore not part of the pooled metered district heating scheme. Weekly charges are in line with the pooled schemes and currently income collected covers the full cost of the scheme.

It is therefore proposed not to increase the weekly charge for 2013/14. This will enable costs on this scheme to remain in line with other pooled schemes.

Beeversleigh	Proposed Charge 2013/14	Actual Charge 2012/13
One bed flat	£14.90	£14.90
Two bed flat	£17.10	£17.10

Swinton

- 7.7 A third category of district heating is the dwellings charged by the installation of "Switch 2" card meters at the 238 properties at Fitzwilliam, Swinton.

At present the income received from charges is significantly less (34% being recovered) than the full cost of the scheme. In 2011/12 the scheme cost £146,000, but recovered only £50,000 through income from charges. Perhaps not surprisingly, heating charges in Swinton are much lower than elsewhere. The average annual cost paid by the tenant for heating a property in Swinton in 2011/12 was £210, compared to an average of £480 in other pooled metered schemes. To recover full costs on the Swinton scheme the average annual bill would need to rise to £614 at current prices. Seeking to recover the total cost in one go, would potentially create significant budgeting problems for tenants, and it is therefore proposed to recover full costs over four years. In 2013/14 it is proposed to increase the unit charge from 4.50 pence per Kwh to 5.85 pence per kWh. Whilst this amounts to an increase of 30% in 2013/14, it is still significantly below the actual cost for pooled schemes.

8.0 Risks and Uncertainties

The greatest risk is not recovering the full cost of District Heating in the long term which may have an adverse impact on the Housing Revenue Account. Any significant increase in the future prices of gas could also result in further increases in charges.

9.0 Policy and Performance Agenda Implications

The proposals contained within this report are in line with Council priorities and policies, as established and set out in key planning documents. The aim is to deliver effective, value-for-money services for people within Rotherham.

10.0 Background Papers and Consultation

Housing Rents Report 2012/13 – January 2012.

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

Contact Names:

Mark Scarrott Finance Manager (Neighbourhoods and Adult Services),
Ext 22007, Email: mark.scarrott@rotherham.gov.uk

Dave Richmond, Director of Housing and Neighbourhoods, Ext 23402,
Email: dave.richmond@rotherham.gov.uk