

Summary Sheet

Council Meeting:

Cabinet and Commissioners' Decision Making Meeting of 10th July 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)

Paul Elliott, Business and Commercial Programme Manager

Kath Andrews, Principal Finance Officer

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 about high running costs.

The review has focused on reviewing 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.

The report recommends the introduction of a standing charge so tenants at Swinton Fitzwilliam do not have a significant payment spike over the winter period and a reduction in the kwh charge across all district heating schemes. These cost reductions will mean that charges for district heating in Rotherham are comparable with other local authorities in the sub-region whilst still continuing to ensure full cost recovery.

Recommendations

That the Cabinet notes the content of the report and recommends to Council:-

- a) To approve the revised district heating cost model.
- b) To reduce the unit Kwh charge across all district heating schemes to 5.65p per kwh (incl. VAT) and apply retrospectively from 1 April 2017.

- c) To introduce a standing charge of £2 per week (incl. VAT) on all schemes and apply retrospectively from 1 April 2017.
- d) To reduce weekly pre-payment charges on all pooled schemes as detailed at 3.10 of the report.

Background Papers

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

Council Approval Required

Yes

Exempt from the Press and Public

No

1. Recommendations

1.1. That the Cabinet notes the content of the report and recommends to Council:-

- a) To approve the revised district heating cost model.
- b) To reduce the unit Kwh charge across all district heating schemes to 5.65p per kwh (incl. vat) and apply retrospectively from 1 April 2017.
- c) To introduce a standing charge of £2 per week (incl. VAT) on all schemes and apply retrospectively from 1 April 2017.
- d) To reduce weekly pre-payment charges on all pooled schemes as detailed at 3.10 of the report.

2. Background

District Heating Charges

2.1 The Council operate 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 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 based on 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.

Investment in District Heating

2.3 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.

2.4 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 Swinton Fitzwilliam 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

- 2.5 Tenants on the Swinton Fitzwilliam Estate, supported by Local Ward Members have raise concerns about the difficulties they were having in being able to afford the costs of heating their homes. In January 2017 a campaign started by a local resident, sought a reduction in the price paid for district heating. 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.
- 2.6 Given the upgrade to the district heating system was ongoing at the time of 2016-17 budget setting, so potential cost savings from installation of new infrastructure were not known and 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.
- 2.7 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.
- 2.8 Given the campaign by tenants to seek a reduction in the kwh rate, 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. The average refund was £126 including VAT.
- 2.9 A further refund was issued to tenants in April 2017 covering the date of heat meter install until 31 March 2016. This was for an average of £80 including VAT. A final refund was issued 22 May 2017 based on known income and expenditure for the entirety of 2016-17. The average total refund given to tenants on the estate for 2016-17 was £232 including VAT. This meant the kwh charge reduced from 8.72 pence per kwh to 5.52 pence per kwh for 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 has been undertaken across all district heating schemes. This review will ensure a charging structure that is fair to all tenants on district heating throughout the borough is adopted.
- 3.2 Three options have been modelled based on full cost recovery of utilities only, full cost recovery including all utilities and administration and a subsidised scheme where the Council will incur a loss of 20%. These 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.

3.3 In calculating the revised kwh rate the following assumptions have been made:

- Forecast 2017-18 expenditure is based on known 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 known 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 will remain the same. The current average kwh charge for gas is 2.418p per kwh. Utility costs used in calculating the cost of district heating include electricity, gas and water.

3.4 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.

The details of each option are set out below:

Option 1: Partially subsidised district heating charges (Utilities only i.e. gas, electric and water) – not recommended

3.5 This would limit cost recovery to expenditure on utilities only. As a result, this will result in the Council operating the scheme at an annual deficit.

3.6 It is also proposed to introduce a daily standing charge as this will assist tenants at Swinton Fitzwilliam by alleviating a seasonal payment spike in the autumn and winter months as they are on pre-payment meters. The fixed daily standing charge would result in a lower kwh charge as a proportion of costs are being recovered throughout the year. The standing charge is used to generate income towards the overall cost of running the district heating schemes. The charge rate across all schemes will be:

District heating charges	2017/18 (current)	2017/18 (proposed)	Revised Annual cost based on 7,200 kwh
Unit Cost KWh (incl. VAT)	8.72p	5.19p	£374
Standing charge per week (incl VAT)	0p	£2.00	£104
Total			£478
Pre-payment Charges per week			
Bedsit	£11.81	£9.56	
1 Bed	£13.76	£11.13	
2 Bed	£15.78	£12.77	
3/4 Bed	£18.26	£14.78	

- 3.7 This option is not recommended as it would result in tenants on district heating effectively receiving subsidised heating.

Option 2: Full Cost Recovery (Utilities i.e. gas, electric and water & administration costs) - recommended

- 3.8 This would ensure all costs of operating district heating are recovered. Again it is proposed to include a daily standing charge to mitigate against seasonal payment spikes.
- 3.9 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.
- 3.10 The charge rate across all schemes would be:

Pooled district heating charges	2017/18 (current)	2017/18 (proposed)	Revised Annual cost based on 7,200 kwh
Unit Cost KWh (incl. VAT)	8.72p	5.65p	£407
Standing charge per week (incl. VAT)	0	£2	£104
Pre-payment Charges per week			£511
Bedsit	£11.81	£9.56	
1 Bed	£13.76	£11.13	
2 Bed	£15.78	£12.77	
3/4 Bed	£18.26	£14.78	

- 3.10 This option is recommended as it provides a significant reduction for the tenant of approximately £117 per year.
- 3.11 It is the intention to apply the charges retrospectively from 1 April 2017. As a result any credit following changes to the charging model will be applied to the rent account for properties on pooled meter schemes and to the heat meter for properties at Swinton Fitzwilliam.

Option 3: Subsidised District heating Charges – not recommended

- 3.12 This would result in subsidising the cost of operating all district heating schemes at a rate of 20% to that recommended at Option 2. This would mean the district heating scheme operated at a potential deficit of £350k for 2017-18 against original budget.
- 3.13 In operating at a loss this would result in a charge rate across all schemes as detailed below:

District heating charges	2017/18 (current)	2017/18 (proposed)	Revised Annual cost based on 7,200 kwh
Unit Cost KWh (incl. VAT)	8.72	4.23p	£305
Standing charge per week (incl. VAT)	0	£2	£104
Pre-payment Charges per week			£409
Bedsit	£11.81	£9.56	
1 Bed	£13.76	£11.13	
2 Bed	£15.78	£12.77	
3/4 Bed	£18.26	£14.78	

- 3.14 This option is not recommended as it would result in tenants on district heating effectively receiving an even higher level of subsidised heating than Option 1. It would also be inequitable to tenants on mains gas who do not receive subsidised heating.

Option 4 – Replace district heating with Individual Gas Boilers – Not recommended

- 3.15 The Council could commission a review into closing all district heating schemes and providing tenants with individual gas boilers. This would mean there had been an abortive cost of £3.2m over the last 3 years upgrading the existing district heating schemes. It would also require significant new investment in gas mains infrastructure, installation of new boilers and heating distribution systems into all properties currently supplied by district heating. It is likely these costs would be well in excess of £5m assuming new gas infrastructure was required on estates. The option is not recommended.

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 chose. To ensure that all tenants on district heating pay at the same rate and other tenants not on district heating do not subsidise other tenants heating charges it is recommended that the Council move to district heating Scheme (Option 2). This ensures full cost recovery and will result in an average bill reducing by £117 per year assuming the average 7,200 kwh usage remain unchanged. For Swinton Fitzwilliam this would mean the average bill reduced from £612 per annum based on 8.72p per kwh to £500 per year based on average usage on that scheme.
- 4.2 District heating charges will continue to be reviewed annually and increase or decrease 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 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	5.65	6.09	3.04
Standing charge	£2 per week (over 52 weeks) – equivalent of 28.57p per day standing charge	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	£511	£438.48	£418.88

- 4.4 It should be noted the reason for Doncaster's annual cost being the lower is they have significantly invested in biomass boilers, which attract government grant subsidy so reducing the kwh charged. Sheffield currently offer a subsidised rate due to previously generating a surplus on district heating charges, 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 This report will be subject to review by the Overview and Scrutiny Management Board.

6. Timetable and Accountability for Implementing this Decision

- 6.1 Final approval is required by the Council on 13 September 2017, this will ensure revised charges are implemented in time for the period of peak demand during autumn/ winter.

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 2 would see this average cost fall to £511 per annum. Appendix 1 shows the details for each option.

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 operate at a 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)

- 14.1 Tom Bell, Assistant Director of Housing and Neighbourhoods Services.

Appendix 1

		OPTION 1		OPTION 2 (PROPOSED)		OPTION 3	
Pooled district heating charges	2016/17 (current)	2016/17	Revised Annual cost based on 7,200 kwh	2016/17	Revised Annual cost based on 7,200 kwh	2016/17	Revised Annual cost based on 7,200 kwh
Unit Cost KWh (inc. VAT)	8.72p	5.19p	£374	5.65p	£407	4.23p	£305
Standing charge per week (inc. VAT)		£2.00	£104	£2.00	£104	£2.00	£104
Total Annual Cost to Tenant (inc. VAT)			£478		£511		£409
Potential deficit vs 17/18 Budget			-£264k		-£222k		-£350k
Potential Deficit based on revised 17/18 calculations			-£42k		£0		-£128k
Pre-payment Charges per week							
Bedsit	£11.81		£9.56		£9.56		£9.56
1 Bed	£13.76		£11.13		£11.13		£11.13
2 Bed	£15.78		£12.77		£12.77		£12.77
3/4 Bed	£18.26		£14.78		£14.78		£14.78

	Number of properties	DH Units used	Average Units Used	2016/17 Unit Rate Inc Vat	Average Cost per DH User
All DH properties	1315	9,482,570	7211	£0.0872	£628.80