

Report for Resolution

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Report to Cabinet
13 July 2011

Report of Head of neighbourhood housing services

Subject Apportionment of charges for district heating in housing revenue account properties.

Purpose

The purpose of this report is to present to members, proposals for future district heating charges.

Recommendations

To agree the following recommendations for district heating charges:

- a) commence district heating charging based on pooling costs across all schemes from October 2011
- b) use the “bedroom plus 1” method of apportioning the costs
- c) Review the apportionment in 2013/14, upon completion of individual boiler and system efficiency improvements.
- d) increase the weekly charge in order to fully recover 2010/11 costs and anticipated 2011/12 costs

Financial Consequences

District heating charges currently seek to recover all costs of providing the service.

The proposed changes to the method of apportionment seek to recover all costs and will therefore result in nil cost to the HRA.

The cost to the HRA of not implementing the proposed 17.7% increase to district heating charges would be £149,630.

Risk Assessment

The housing service should recover the costs of services provided and would be subject to criticism from tenants, auditors and inspectors. Failure to recover costs would result in the services being subsidised from the HRA thereby tenants not in receipt of those services would be paying towards the cost. However this will be mitigated by the proposal to achieve full recovery.

If charges are increased to recover the costs of the service, the council may receive criticism for the levels of costs and efficiency underlying the higher charges. The

resulting higher charges may increase benefit dependency amongst service recipients, and/or lead to increasing levels of arrears and bad debts. Risks will be mitigated by continuing consultation with tenants to address concerns over value for money and the continuation of the boiler replacement programme.

Strategic Priority and Outcome/Service Priorities

The report helps to meet the strategic priority “Safe and healthy neighbourhoods – working in partnership with residents to create neighbourhoods where people feel secure, where the streets are clean and well maintained, where there is good quality housing and local amenities and where there are active local communities” and the service plan priority to maximise income.

Cabinet Member: Councillor MacDonald- Housing

Ward: All

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Background Documents

Report Background

1. A district heating scheme consists of a main boiler, often housed in a separate boiler house, which supplies heating and hot water all year round to connected flats and maisonettes. There are 1,222 tenanted and leasehold general needs dwellings and 681 sheltered properties connected to a scheme. (The exact breakdown is 52% of district heating recipients are tenants, 36% are sheltered tenants and 12% are leaseholders).
2. The main cost of each scheme is fuel, and with the exception of Normandie Tower, all are now fuelled by gas. Where there is a separate boiler house, there are additional costs for business rates, water, boiler alarms, insurance and electricity. Although district heating charges are defined by individual scheme costs these no longer reflect the actual costs of the individual schemes for various reasons.
3. The boiler house costs are classed as a standing charge, and are eligible for housing benefit if a separate charge is made. The weekly standing charge for a non sheltered property is £0.59. (It is proposed to separate this charge to enable benefit entitlement.) However, sheltered housing district heating schemes do not have separate boiler houses, instead utilising joint boilers for residents' homes and communal areas. As the cost of these is included within overall scheme running costs, the standing charge is already included in the sheltered housing service charge and is thus already eligible for housing benefit.
4. In November last year, members agreed to increase the weekly district heating charge by £0.28 (3.25%) from January 2011, pending a full review of charging options.
5. Since late 2010, both oil and gas costs have increased significantly, which in turn has led to district heating scheme operating costs exceeding initial forecasts. On the advice of energy suppliers, we anticipate further increases in fuel costs in 2011/12. This would mean an average increase of 17.7% on all current charges in the event of no changes being made to the method of apportionment.
6. Due to the volatility of the energy market, the range of tariffs and deals available and the variation in flat size, it is difficult to ascertain average costs for heating and providing hot water to the average flat. British Gas quotes average dual energy bills, based on consumption at around £80 per month. Gas supply alone £50 per month. On this basis it is assumed that an average heating and hot water cost of £60 per month (£14.40 per week). The proposed average weekly district heating charge for heating and hot water is £10.62.

Method of apportionment

7. There are two options for apportioning costs between households and full details of the calculation is attached as Appendix A. The options are as follows:
8. Combine of all district heating costs in one city-wide account which is then divided amongst all households, based on the size of their home. This is the **pooled option**.
9. Maintain an individual account for each district heating scheme to include the costs of that scheme. These costs are then divided equally amongst all households in the

scheme based on the size of their home. This is the **unpooled option**.

10. A further apportionment calculation is required, based on the size of the property. Again two methods of calculation can be used; based on the number of bedrooms or the number of bedrooms +1 to allow for other living spaces in the home.

Consultation with tenants and leaseholders.

11. Consultation with tenants and leaseholders has taken place in focus groups on the principle of charging options. Those consulted formed three distinct groups: Tenants, sheltered tenants and leaseholders.
12. There was a clear body of opinion in favour of adopting the “bedroom plus 1” option for apportionment based on the number of bedrooms, plus 1 ‘room’ representing all the other living areas of the property.
13. A small majority of tenants favoured the pooled costs option, as did an overwhelming majority of sheltered tenants. Conversely, the overwhelming majority of leaseholders favoured unpooling the costs by individual schemes.
14. Having considered the feedback and the issues raised, officers recommend that a pooled approach is adopted, with apportionment based on the “bedroom plus 1” option for 3 years to allow further exploration into the efficiency and individual control issues raised by the focus groups. A further review can be carried out in three years, taking account of any further improvements that have been made. The implication of this proposal is shown in the following table of proposed weekly changes in £5 bands.

Weekly change	Number of dwellings	Percentage of dwellings
‑£5 to £0	682	36%
£0 to £5	1098	58%
£5 to £10	108	6%
£10 to £15	13	< 1%
£15 to £20	-	-
£20 to £25	1	< 1%
£25 to £30	1	< 1%

15. Having regard to the above assessment it is proposed to limit the level of initial charge increase to be levied against larger properties to just over £6 per week.

Implementation

16. As agreed in November 2010, future annual service charge reviews, including this charge, will be implemented from October. This will allowing time for the previous years accounts to be finalised.

Appendix A

Method of apportionment

Pooling costs across all schemes

Combine of all district heating costs in one city-wide account which is then divided amongst all households, based on the size of their home.

1. The size of the home is then calculated on the number of bedrooms in the property. (This is the number of bedrooms as the property was built, not the number of rooms the household currently choose to use as bedrooms). The bedroom number is then used to calculate the share of the district heating cost for each home. The greater the number of bedrooms, the higher the cost.
2. It is then possible to either use the exact number of bedrooms (i.e. a one bedroom flat would have 1 share) or add +1 (**Option A1**) for the rest of the home. The sizes of the other living areas of a home do not increase in exact proportion to the number of bedrooms. This has the affect of increasing the number of 'shares' of the cost so that proportionally those in one / two bedroom flats pay more.

Un pooling costs – charging on an individual scheme basis.

Maintain an individual account for each district heating scheme to include the costs of that scheme. These costs are then divided equally amongst all households in the scheme based on the size of their home.

3. As above it is then possible to either use the exact number of bedrooms (i.e. a one bedroom flat would have 1 share) or add +1 (**Option B1**) for the rest of the home. Whilst it reflects actual costs of each scheme, it is affected more acutely by the efficiency of the scheme boiler and the number of properties connected to it. The charges for smaller schemes are higher because the costs are spread amongst fewer payers.
4. Table A shows the effect of all methods of charging on the average district heating charge:

TABLE A	No of Bedrooms	No of Dwellings	Average Current Weekly Charge	Average Weekly Charge +17.7%	Pooled		Unpooled By Scheme	
					No of Bedrooms	No of Bedrooms +1	No of Bedrooms	No of Bedrooms +1
General Housing	1	342	8.32	9.79	6.82	8.31	7.40	9.30
	2	768	9.44	11.11	13.63	12.47	11.07	10.72
	3	97	9.95	11.71	20.45	16.63	17.29	14.96
Sheltered Housing	1	644	8.37	9.85	6.82	8.31	9.23	9.59
	2	26	8.32	9.79	13.63	12.47	17.11	13.72
	3	11	8.82	10.38	20.45	16.63	30.54	21.46

5. Table B illustrates the effect of all methods of charging on typical 1, 2 and 3 bedroom flats in Canterbury Place, Winchester Tower, Devonshire Street and the sheltered housing scheme Silkfields. The examples also illustrate how some schemes are currently subsidising others, with Winchester Tower and Devonshire Street charges reducing and Canterbury Place charges substantially increasing if charging was unpooled on an individual scheme basis (Options B + B1).

TABLE B	Canterbury Place			Winchester Tower		Devonshire Street			Silkfields Sheltered Housing	
No of Bedrooms	1	2	3	1	2	1	2	3	1	2
Ave Current Charge	9.30	9.67	9.97	8.18	8.59	9.30	9.97	10.18	7.54	7.71
Ave Current Charge +17.7%	10.95	11.38	11.73	9.63	10.11	10.95	11.74	11.98	8.88	9.07
Option A - Pooled - No of Bedrooms	6.82	13.63	20.45	6.82	13.63	6.82	13.63	20.45	6.82	13.63
Change from Current	-26.7%	41%	105.1%	-16.7%	58.8%	-26.7%	36.7%	100.9%	-9.6%	76.9%
Option A1 - Pooled - No of Bedrooms +1	8.31	12.47	16.63	8.31	12.47	8.31	12.47	16.63	8.31	12.47
Change from Current	-10.6%	29%	66.8%	1.6%	45.2%	-10.6%	25.1%	63.4%	10.2%	61.8%
Option B - Unpooled - No of Bedrooms	10.33	20.67	31.00	4.17	8.34	2.09	4.18	6.27	3.22	6.45
Change from Current	11.1%	113.7%	210.9%	-49.1%	-2.9%	-77.5%	-58.1%	-38.4%	-57.3%	-16.4%
Option B1 - Unpooled - No of Bedrooms +1	13.73	20.60	27.46	5.23	7.84	2.78	4.16	5.55	3.45	5.17
Change from Current	47.6%	113%	175.4%	-36.1%	-8.7%	-70.2%	-58.2%	-45.5%	-54.3%	-32.9%

6. Plans are currently in place to replace 19 of the older boilers by the end of 2014. This plan is subject to amendment as technology and the market place improves and varies. In addition work with British Gas (and other funders) are hoped to accelerate the replacement programme by funding up to 60% of the cost and replace existing plant with new high efficiency and/or new technology (solar / PV / fuel cell) heating systems that are cheaper to run and produce far less harmful pollutants.
7. The proposed charging regime would also limit the level of initial charge increase to be levied against larger properties. A direct move to an unpooled charging method would result in some residents receiving an increase of over £39 per week, whereas the pooled charging method will reduce the increase to just over £6 per week. Clearly this strategy will have a differential impact for residents depending on the size of property occupied.
8. The boiler house costs are classed as a standing charge, and as such are eligible for housing benefit if a separate charge is made. The weekly standing charge for a non sheltered property is £0.59 and this will be a separate element of the charge. However, sheltered housing district heating schemes do not have separate boiler houses, instead

is included within overall scheme running costs, the standing charge is already included in the sheltered housing service charge and is thus already eligible for housing benefit.

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