

<b>Report To:</b>	<b>CABINET</b>
<b>Date:</b>	<b>25<sup>th</sup> JANUARY 2022</b>
<b>Heading:</b>	<b>HEAT METERING – COMMUNAL HEATING INSTALLATIONS</b>
<b>Portfolio Holder:</b>	<b>DEPUTY LEADER AND HOUSING PORTFOLIO HOLDER – CLLR TOM HOLLIS</b>
<b>Ward/s:</b>	<b>VARIOUS</b>
<b>Key Decision:</b>	<b>Yes</b>
<b>Subject to Call-In:</b>	<b>Yes</b>

## **Purpose of Report**

To review and comply with the requirements of the Heat Network (Metering and Billing) (Amendment) Regulations 2020.

## **Recommendation(s)**

### Primary

- 1) A) To install heat meters only to those where the Regulations require it (including future installations where required by the Regulations);  
Or  
B) To install heat meters to all the Council's buildings providing communal heating to its respective occupants.

### Administratively

- 2) To develop a heating charge, a rate per kwh of heat used (per building) for heat provided to the flats, and review annually;
- 3) To establish a Common Areas heating charge to recoup the residual costs of providing heating and hot water (and heat losses in transferring heat from the boilers to their respective destination) to the respective buildings to enable the Council to break even with respect to its outgoings when compared to income;

## **Recommendation(s) (cont....)**

- 4) Charges included in points 2 and 3 above to include all applicable costs including:-
  - Installation charges
  - Maintenance charges
  - Heat used (kwh)
  - Metering and billing charges
  - Common Areas heating charge
- 5) For the Corporate Finance Manager (& Section 151 Officer) to determine the most appropriate approach to charges in terms of whether such charges are to be fixed or variable, and the timing of payment of such charges;
- 6) Maintain heating to corridors and common areas (however introduce remote control of temperature by the Council where considered appropriate);
- 7) Source an external consultant to administer the additional metering and billing functions, including implementing a system such that meter readings are undertaken remotely (via sim card or other electronic means);
- 8) Charge users at the end of each accounting period (monthly) as opposed to the use of pre-payment meters;
- 9) To disconnect users if bills are not paid, unless by reasonable representation and determination of the Director of Housing and Assets;
- 10) To notify tenants of the changes, including a potential revision to their respective Tenancy Agreements, relating to individual charges, as a move away from fixed charges to meet Regulatory requirements;
- 11) To notify relevant tenants in a timely fashion when charges and the approach has been established and agreed;
- 12) To delegate authority to the Director of Housing and Assets and the Corporate Finance Manager (and Section 151 Officer) to decide whether to retain pooled charges or not in future if heat meters are not used across the relevant stock, following legal advice.
- 13) To notify relevant leaseholders (if applicable) in a timely fashion when charges and the approach has been established and agreed. Charges to be applied at the discretion of the Director of Legal and Governance based upon the contents of the respective leases, and compliance with relevant leaseholder legislation.

## **Reasons for Recommendation(s)**

To comply with the requirements of the Heat Network (Metering and Billing) (Amendment) Regulations 2020.

A) To leave buildings not considered 'viable' on a fixed heating charge (owing to its popularity), and to avoid higher charges for less thermally efficient of larger buildings, and to minimise administration costs.

Or

B) To install heat meters to all buildings on the grounds of an expected reduction in heat usage by users where they pay directly for their respective heat. This will yield carbon savings, but no financial benefit to the Council as either way the Council will look to recoup its expenditure. This will result in some tenants paying more than others as a consequence of the building characteristics i.e. in less thermally efficient, larger buildings.

To recoup costs associated with provision of heat to the Council.

To source billing and monitoring from a specialist provider as there is no in-house expertise or resource availability.

## **Alternative Options Considered**

Not to comply with the Regulations; not considered as the Council would be in breach of the Regulations.

A) Introduce heat metering across the authority; although this may realise some reduction in energy demand, it would impose higher costs on certain users where the building is larger, less thermally efficient or using less efficient means of heating e.g. biomass. This would also introduce a further cost associated with individual administration and billing.

Or

B) To install heat meters where only classed as viable under the regulations. This would not be expected to yield any significant saving in terms of carbon emissions.

## **Detailed Information**

### **Background**

The Council is a heat supplier of heat networks in the scope of the Heat Network (Metering and Billing) Regulations. The Heat Network (Metering and Billing) Regulations 2014 provided a statutory obligation on operators of heat networks to notify the Government and prepare for the introduction of heat metering and accurate billing based on consumption.

Where the Regulations apply and heat metering is required, users are to be charged for the heat they use rather than a fixed fee which is the historic and current approach. Charges are to be fair and transparent.

In November 2020, the Heat Network (Metering and Billing) (Amendment) Regulations 2020 came into force providing a timeline and clarity for heat network operators for installing heat meters. The amended Regulations have confirmed the deadlines by which cost-effectiveness determinations and any required installations of metering devices must be completed. These are:

- a) Cost-effectiveness tools to be completed by 27 November 2021; to determine if we are obliged to install heat meters
- b) Meter and / or heat cost allocators to be installed by 1 September 2022 if applicable;

All buildings fall into one of three categories:-

- a) Viable; these building must have heat meters installed
- b) Open; which will be assessed via the cost effectiveness tool (on the BEIS portal) to determine if it is cost effective to install heat meters, or
- c) Exempt; heat meters do not need to be installed.

Further to Executive Decision Record AHSD163 - Heat Metering - Communal Heating Installations, this report focuses on the approach to be taken in terms of the operation and administration of the implementation of charges in relation to the implementation of the Heat Network (Metering and Billing) Regulations to the Council's domestic properties with Communal heating installations.

Council buildings with communal heating

The Council currently has 9 Housing complexes which have a central communal heating system and have been subject to assessment, namely:-

- Beauvale Court
- Titchfield Court
- Nuncar Court
- Summerhill Court
- Sherwood Court
- Desmond Court
- Langton & Brookhill Court
- Brook Street Court
- Darlison Court

In addition, Aspley Court is due to receive communal heating imminently, and Brand Court and Stoneyford Court are due in the next financial year to have their electric storage heating replaced with a suitable alternative (which will consider renewable technologies) and which may be a communal heating installation as opposed to individual heating to each flat. If a new communal system is installed then the Heat Network (Metering and Billing) Regulations will apply.

*NB: The Regulations also apply to District Heating installations, however the Council does not have any such installations.*

### **Cost effectiveness tool and outcome**

The Council engaged an independent consultant to assess the above sites currently providing communal heating to its tenants and residents, to provide the Council with the data required to fulfil the Government requirements to report on its Communal heating installations by November 27<sup>th</sup>, 2021. The data was received and lodged on the due date set by BEIS.

The outcome of the assessment is included in the table below.

<b>Building</b>	<b>Viable</b>	<b>Not Viable</b>	<b>Exempt</b>	<b>Grounds</b>
<i>Beauvale Court</i>		Y		<i>Not financially viable</i>
<i>Titchfield Court</i>		Y		<i>Not financially viable</i>
<i>Nuncar Court</i>	Y			<i>Financially viable</i>
<i>Summerhill Court</i>		Y		<i>Not financially viable</i>
<i>Sherwood Court</i>		Y		<i>Not financially viable</i>
<i>Desmond Court</i>		Y		<i>Not financially viable</i>
<i>Langton and Brookhill Court</i>		Y		<i>Not financially viable</i>
<i>Brook Street Court</i>		Y		<i>Constructed after the 2014 Regulations came into force.</i>
<i>Darlison Court (1-20)</i>		Y		
<i>Darlison Court (21-39)</i>	Y			<i>Although constructed after the 2014 Regulations were implemented, the Building contain 'extra care' units which enable an exemption.</i>

Only Nuncar Court under the regulations is currently showing as requiring the installation of heat meters. Failure to install heat meters where 'viable' under the regulations carry both civil and potentially criminal penalties.

*Note: The Council is currently validating the results, and should any other Court be identified as being viable, such Court(s) will also require the installation of heat meters.*

It is also important to note that when the heating systems of the above are replaced, when they reach the end of their respective operational life, heat meters will need to be installed as part of the new installations.

In the short term this will apply to Summerhill Court whose existing communal heating system will be replaced in the next financial year.

Similarly, new communal installations (where none exist currently) will require heat meters to be installed, subject to the assessment. This will apply to Aspley Court, Brand Court and Stoneyford Court in the next financial year (if communal systems are the preferred option as a replacement to the existing electric storage heating, currently paid for directly by the tenants via their electricity provider).

That said the Council can choose to install heat meters to:-

- 1) All Communal heating installations (irrespective of whether they are viable or not, on the grounds of consistency)
- 2) A selection of Courts outside of the 'viable' category if it so wishes .

## **Current charging regime**

Currently, users of the existing communal heating systems are charged by way of a 'fixed fee' heating charge, covering the provision of heat for the purposes of space heating and domestic hot water to tenants and residents' flats, along with the heating associated communal areas such as corridors, common rooms, communal kitchens and the like. Charges are established by totalling the costs of provision across all the sites (pooled), divided by the number of users. Costs include the energy cost paid by the Council, plus maintenance costs. Costs are reviewed annually to account for previous surpluses/deficits and cost forecasts, to enable the costs to match income (zero surplus/deficit).

Current charges are as detailed in the table below. Larger flats pay a higher rate as they invariably require more heat. Charges take place over a 48 week period per annum.

	<b>Proposed Heating Charge (per week - for 48 weeks p.a.) 2022/23* £</b>
Band A	11.04
Band B	11.88
Band C	12.47
Band D	13.24
Band E	13.74
Band F	14.31

*\*to be approved as part of the rent setting report at the January 2022 Cabinet Meeting.*

The Council's current fixed heating charge regime is well received by the tenants (no issues raised over the cost of the heating charge or the way it is administered). The only recent contact has been in respect of Brook Street Court tenants (a newer building with better insulation) regarding the charge when they allegedly rarely have their heating on. The fixed charge allows for simple and low cost administration and billing whilst our social rent is charged on the same basis as to whether the property is new or old and therefore the 'pooled' heating charge is generally perceived as a fair charge against all communal property types. The rate of the heating charge is set by Cabinet on an annual basis.

## **Proposed charging regime where heat meters are not installed**

The Regulations allude to the fact that users should be billed for cost of heat used, which implies each building should be charged according to the heating bill for the respective Court, thus implying that it is not good practice to pool (average) charges where the landlord operates more than one building. Consequently, each building would potentially require its own set of charges, which is at a variance to the system the Council currently operates. Such charges may vary significantly between buildings dependent upon the building type and their respective characteristics i.e. recent builds are constructed to a much higher thermal efficiency standard and so need much less heat input. Costs would be significant to bring all such buildings up to modern thermal efficiency standards. The recommendation would be to retain pooled charges if heat meters are not installed, but for the Director of Housing and Assets and the Corporate Finance Manager (and Section 151 Officer) to decide whether to retain pooled charges or not in future, following legal advice.

## **Proposed charging regime where heat meters are installed**

In terms of heat usage in their own flats tenants and residents will be charged individually for their own consumption, which they can regulate themselves. However as the new regulations require meters to be installed at the point of entry into the flats measuring heat usage within tenants' and residents' respective flats, it will be necessary to implement a 'Common Areas' heating charge to the tenants and residents in order for the Council to recoup the full cost of the heating provided to the Court.

In conjunction with the above, the Council may choose to reduce heating in some common areas (predominantly corridors, as common rooms need to be suitably warm), in order to reduce the charge and/or in order to reduce the Council's carbon output.

Furthermore in order to charge tenants and residents for the heat used in their respective flats, it will be necessary to set a rate per kwh of heat used (by building).

Charges will include:-

- Installation charges
- Maintenance charges
- Heat used (kwh)
- Metering and billing charges
- Common Areas heating charge

Clause 9.7.c of the Regulations allows for charges to be fixed or variable, and so the Council will need to decide upon how it wishes to the above charges are applied.

The individual billing will be required as an extra activity to the service currently being provided, since currently a fixed 'pooled' charge is set and billed annually. The Council will need to decide whether the metering and billing function can be carried in-house or whether this needs to be outsourced to a specialist (there are many companies who specialise in the provision of heat metering services including installation, metering and billing). Such costs will include the necessity to send data from the heat meters to the billing software.

It will be inevitable that the costs charged to some tenants and residents will be more than current charges, as some will use more heat than others through personal preferences and property type/location, and also because there will be added charges associated with metering and billing. The recent significant price rises in the energy market is exacerbating the issue. Where charges are levied outside of the main billing, the Council has an option to charge for all or a proportion of the above charges, and also how and when the charge is administered e.g. for installation costs, it must be decided upon as to how such 'one off' charges are applied i.e. at the time or spread out over a defined period.

*See Appendix A which provides indicative costs for a sample of Courts of non-pooled charges with heat meters installed to give an indication of the impact on charges. This is provided as an example and it is based on a number of assumptions and estimates that are being verified. The assumptions are detailed in the appendix. These charges can be compared to the proposed charges for 2022/23, shown in the table earlier in the report.*

The Council must also decide upon how it will choose to bill users in terms of whether a prepayment meter is used or whether charges will be applied retrospectively.

Heat Meters may have the ability to cut off the provision of heat if bills are not paid in a timely fashion. The Council will need to decide whether it would implement such measures, or allow heat provision to continue irrespective of whether bills are paid. The Council would look to recover unpaid bills in line with standard industry protocols, whilst providing assistance in terms of money management and advice, hopefully avoiding the need to disconnect and/or pursue court action.

Additionally it will be necessary to notify tenants of the changes, including a potential revision to their respective Tenancy Agreements, relating to individual charges, as a move away from fixed charges to meet Regulatory requirements.

If the Council decides to install heat meters to all Communal heating installations (rather than those identified as being viable), or later when systems are at the end of their operational life, it will also be necessary to also notify any affected leaseholders of such changes. The Council will need to decide its approach to charging leaseholders based upon the contents of the respective leases.

## **Summary**

The Council must, following professional assessment, install a heat metering system at Nuncar Court, and any other subsequently identified as being deemed 'viable' to do so under the regulations. In addition, the installation of heat meters will also have to be introduced as communal heating systems are replaced or renewed over time.

The current system of 'pooled' heating charges is seen as fair to all tenants who fall under the communal heating systems, with little complaint and it is simple to administer. The charging regime both allows those who want or need heat to consume it to their preference at a fixed fee. Equally the Council has certainty over the recovery of its utilities without the need to enter into the prospect of 'cutting off' tenants for non-payment of bills.

Conversely the Council can make the decision to accelerate the introduction of heat meters across its communal stock, which would be expected to reduce the Council's energy demand and carbon output as residents take responsibility for their own consumption, and equally individual residents have greater individual control as to how much heat they consume and how much they inevitably pay. Anecdotally, the reduction in energy demand is in the region of 30% and upwards. An accelerated programme will add additional cost to the Council's operation, which will inevitably be recouped from residents over time.

The recommendations therefore give Cabinet the option to follow mandatory legislation for Nuncar Court and any other Court subsequently identified as being deemed 'viable' and await the renewal programme to transfer other facilities over a period of time, or opt of an accelerate programme (which will be devised following the Cabinet's decision).

## **Implications**

### **Corporate Plan:**

Cleaner and Greener – to reduce the Council's carbon footprint and reduce energy costs.

## Legal (LE 22/12/21):

The relevant legislation is set out in the body of the report.

Legal Services will assist as required in relation to agreements, tenancies, leases and be part of the project team for the whole project.

Contract Procedure Rules enable the Council to use Framework Agreements.

## Finance (BB 23/12/2021):

As with the current heat charges the principle of the new charging mechanism for heat meters is to recover all the associated costs of providing heat. This includes the revenue costs including tenants, communal area and heat loss usage, the metering and billing costs, the repairs and maintenance costs and the capital costs of the meter installation.

Any residual surplus or deficit on the costs charged to tenants compared to the actual costs incurred, will be adjusted for in the following year when the annual review of the charges is completed.

Budget Area	Implication
General Fund – Revenue Budget	N/A
General Fund – Capital Programme	N/A
Housing Revenue Account – Revenue Budget	<i>The revenue costs will be recovered within the heating charges to tenants. If it is decided for any of the costs are not to be recovered (potentially constrained by Regulations) they will be funded by the HRA.</i>
Housing Revenue Account – Capital Programme	<i>The costs of meter installations will require inclusion within the forthcoming Capital Programme refresh. The addition to the Capital Programme will be funded through HRA balances and will be recovered within the heating charges to tenants. If it is decided any of the installation costs are not to be recovered, the cost will remain as a cost to the HRA balances. The indicative information is that installation costs of meters across all Courts would be circa £300k.</i>

## Risk:

Risk	Mitigation
Implementing the requirements of the Regulations in time.	<i>To seek assistance from relevant departments relating to their respective specialisms e.g. Finance, Legal; to use an existing framework for delivery of such works to engage specialists with the appropriate expertise and to reduce procurement timeframes.</i>

## **Human Resources (KB 20/12/21):**

There are no perceived HR implications.

## **Environmental/Sustainability**

The works covered by this exercise will encourage reduction in energy demand where payment is directly related to energy used, which in turn will contribute towards the overall reduction in the District's CO2e emissions.

## **Equalities:**

There are no perceived Equalities implications.

## **Other Implications:**

Not applicable

## **Reason(s) for Urgency**

Not applicable

## **Reason(s) for Exemption**

Not applicable

## **Background Papers**

Not applicable

## **Report Author and Contact Officer**

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