



Leicester
City Council

District Heating Service Charges

For consideration by:
Housing Scrutiny Commission

Date: 22 September 2022
Lead Director: Chris Burgin

Useful information

- Ward(s) affected: All
- Report authors: Chris Burgin, Director of Housing

1. Purpose

- 1.1 The purpose of this report is to present to Housing Scrutiny Commission a draft copy of a report that is due to be considered by Full Council on 29th September. The full details are included as an appendix to this covering note.

2. Recommendations

- 2.1 Housing Scrutiny Commission is recommended to:
- i) Note and comment on the proposal to recover the full cost of the fuel incurred for domestic properties on the District Heating network from tenants and leaseholders on the scheme from the end of October 2022.

3. Financial, legal and other implications

All implications are included in the draft report to Council.

4. Summary of appendices:

Appendix A – Draft Report to Council

5. Is this a private report (if so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No



District Heating Service Charges

Full Council: 29th September 2022

Assistant Mayor for Housing: Cllr. Elly Cutkelvin

Lead director: Chris Burgin

Useful information

- Ward(s) affected: All
- Report authors: Chris Burgin, Director of Housing

1. Purpose

1.1 Energy prices have been rising at unprecedented rates since August 2021, with households across the country facing gas and electricity bills that have more than doubled in the last 12 months. The purpose of this report is to present Full Council with an overview of the charging arrangements for tenants and leaseholders in receipt of heating and hot water through the District Heating network, and recommends an in-year increase to service charges.

2. Summary

2.1 On average, the charges paid by tenants and leaseholders on Leicester's district heating network are **35%** cheaper than open market prices. Lower prices, along with the way in which the Council charges for heat, has allowed tenants and leaseholders to be protected from rising prices.

2.2 Despite being 35% cheaper than the open market, the unit price of the gas which feeds the network is **86%** higher in 2022/23 than in 2021/22. Current estimates are that this will rise in 2023/24 by up to a further 200%.

2.3 The escalation in gas prices means that the current service charges to tenants and leaseholders on the district heating scheme are significantly lower than the cost of providing the service. This will result in a budget shortfall to the Housing Revenue Account of **£1.7m** in 2022/23 and almost £8m in 2023/24 unless charges to tenants and leaseholders are increased.

2.4 The current average charge for heating and hot water is £14.65 per week. This report proposes an in-year increase of **£10.31** per week from around 31 October 2022 (01 November 2022 for leaseholders) for the remainder of the 2022/23 financial year. This is a weekly increase of **70%** compared to the current charges. Since the charge would be introduced part-way through the year, this represents an annual increase of **29%**.

2.5 The average annual increase for households attached to the network is £194, which would be offset by the nationally available energy rebates being provided in 2022.

2.6 Since the proposed change to service charges would take place from the end of October, the shortfall to the Housing Revenue Account from April to October 2022 would not be borne by tenants or leaseholders. The HRA is also bearing increased fixed costs, which are linked to inflation and pay rates.

3. Recommendations

3.1 Full Council is recommended to:

- ii) Note the increasing fuel prices being incurred for the District Heating network;
- iii) Approve a 70% increase in weekly charges to tenants and leaseholders.

4. Report

4.1 Background

The Leicester District Energy scheme provides low carbon heat for c.2,500 housing tenants and leaseholders, Council administrative offices, De Montfort Hall, the University of Leicester and several other buildings, including schools. In addition to the city centre, it incorporates the St Matthews, St Marks, St Andrews, St Peters, Aikman Avenue and Beatty Avenue estates.

Due to the mechanism for recharging costs, non-domestic properties will already be paying higher rates for their utilisation of the district heating network. This report is focused solely on the proportion of costs that are attributable to domestic properties attached to the network. The proposal to increase charges to tenants and leaseholders would not result in any subsidy for non-domestic properties.

With the district heating network improved and extended by LDEC in 2011/12, the heat provided through the network is reliable, with carbon emissions being reduced by more than 73,000 tonnes in the 10-year period.

4.2 Heat Charges Mechanism

LDEC purchases its gas from a number of different sources as a way of balancing risk exposure to price changes, and the Council pays LDEC monthly for the heat consumed (a combination of LDEC's fixed costs and variable fuel charges).

The heat charge to households is set by Housing at a rate to recover only the cost of the fuel (gas) used by the network; fixed costs are assumed to be a standard housing cost covered by a tenant's rent (in the same manner as a boiler cost would be for someone not on the heating network). These service charges are set with the intention of recovering the variable costs on a rolling 3-year basis and serve to protect the tenants and leaseholders as much as possible from sudden gas price rises. This is unlike other community heat networks recently in the news, where all costs are passed on to consumers.

4.3 Fuel Prices

With fuel prices increasing at unprecedented rates since August 2021, residents across the City have seen significant rises in their energy bills – with the impact being greater on gas bills. According to BEIS, gas prices increased nationally by 95% between April 2021 and April 2022, with the average gas bill in the East Midlands standing at around £550¹ at the start of 2021 and doubling over a 12-month period to £1,103².

The energy price cap, set by Ofgem increased by 54% in April 2022, and will increase by a further 80% from October 2022, with further increases to the price cap being anticipated in January 2023. According to the House of Commons Library Research Briefing on Domestic Energy Prices (9 August 2022), CPI Index data, and Cornwall Insight's recent forecasts suggest that energy prices in 2022-23 could be just over 200% higher than in 2020-21.

¹ Based on a usage of 13,600kWh of gas per annum

² Tariff increase to 0.81 pence per kWh (assumes a dual fuel direct debit customer – residents that do not pay by direct debit will be paying more)

On 8th September central government announced a 'price guarantee' which caps the price per unit of energy such that the average energy bill would not exceed £2,500 per year. This is based on an average consumption of gas and electricity. In addition, there will be a fund to support people who do not pay energy companies directly, which will presumably include those on district heating networks, although details of the fund were not available at the time this report was written.

Increasing fuel prices have also affected the LDEC district heating network with gas prices rising by 86% for the year April 2022 to March 2023.

It should be noted however that, unlike other residents contracted with a private gas supplier, the service charges for tenants and leaseholders on district heating were unaffected between April 2021 and March 2022. Prices remained fixed throughout the 12-month period, at an average annual charge of £683³ (a weekly charge for 50 weeks of £13.65).

Had tenants and leaseholders been buying gas from a utility company, charges (for the same usage) would have been a typical £17.35 per week (£867 per year) in April 2021, rising throughout the year to reach £34.79 per week (£1,740 per annum) by April 2022.

4.4 Setting Heating Charges for 2022/23

When the HRA budget was prepared for 2022/23 in autumn 2021 market pricing forecasts anticipated that LDEC's cost of gas would rise by 20%. Rather than apply a full 20% increase to the service charge for 2022/23, an approach was adopted to set the rate based on average costs over a 3-year period. This had the effect of reducing the increase to 7.29% for 2022/23, with the HRA being expected to recoup the deficit in future years.

Unprecedented market conditions, including the war in Ukraine, have however continued to put pressure on the gas supply market and pushed prices significantly higher. This includes the price of fuel (gas) for district heating, with LDEC heat charges (the variable fuel element) having increased by 86% for the year from April 2022 to March 2023.

Whilst this approach to setting charges lessens the impact of sudden fuel price rises it is not viable when fuel prices and heat charges are rising at significant levels at regular intervals over a number of years.

4.5 Recommended Heat / Service Charges to Tenants and Leaseholders

Based on historic consumption levels, it is projected that the impact of the 86% price rise this year will be an annual increase in the gas element of residential district heating bills totalling just over £1.7 million. This would be the cost to the HRA if the gas charges are not passed on to tenants and leaseholders.

It is therefore recommended that an in-year increase in district heating service charges is introduced to recoup the full cost of the gas (with the fixed costs continuing to be covered by core rent). This would represent a 70% increase on current weekly charges.

³ Average annual usage of 21,450kWh of gas per annum (58% higher than the figure used by BEIS).

The table below details the district heating charge for last year (2021/22) and the current charge to tenants and leaseholders for this year (2022/23), showing how this would change as a result of a 70% increase in the weekly charge.

Year	Average Weekly Charge	Average Annual Charge	Year on Year Increase (%)	Average Increase (£)	Cost of Living Support
2021/22	£13.65	£683	2.00%	-	-
2022/23 (Current Year)	£14.65	£733	7.29%	£50	-
2022/23 proposed from 31 October	*£24.96	£1,248 (full year)	Weekly -70% Annual - 29%	Weekly - £10.31 Annual - £194 (as part year)	£550 (all) £1200 (based on eligibility)

The £24.96 proposed average weekly charge compares favourably to the £34.79 per week that would be paid to a utility company for the same level of usage. District heating gas unit prices would continue to be 35% lower than those charged by utility companies (although district heating tenants and leaseholders appear to use more than a typical resident paying bills directly).

The table below details the significant increases that are also projected for gas prices in 2023/24 and the impact it could have on district heating charges. It should be noted that these are only projections, with the charge for 2023/24 to be considered as part of the HRA budget setting report which will go to the Full Council meeting in February 2023.

Year	Average Weekly Charge	Average Annual Charge	% Year on Year Increase
2023/24 – Projected (as at Q2 2022)	£72.38	£3,619	190%

4.6 Rationale / Considerations

In making the recommendation to increase the charges from October 2022 the following has been taken into consideration:

- i) Historically, the way in which LDEC procures its gas means that unit charges for heat, and the service charges to tenants and leaseholders, have remained lower than the cost of gas available through utility providers for the last decade – currently **35%** lower.
- ii) The heat / service charge approach adopted by the Council – smoothing out charges over a rolling three years - has protected tenants and leaseholders from steep and sudden price increases.
- iii) Whilst the proposed service charge is **86%** higher than 2021/22 charges, since the proposed increase is being introduced part-way through the year the actual impact on tenants and leaseholders will be an annual increase in charges of **29%** compared to the current annual charge, and an increase of **39%** compared to 2021/22.
- iv) Tenants and leaseholders will receive a **£400** energy rebate from government through their electricity supplier to help offset energy price increases, in addition to the **£150** council tax energy rebate they should have already received. Low-income

households will also be eligible for a **£650** payment to assist in the general rise in the cost of living – applicable to 34% of households on district heating. These payments will offset the increase of **£194** (average) for the remainder of the 2022/23 financial year.

- v) The Government may introduce further support measures following the announcement in August of a further rise to the price cap from October. Delaying the increase in service charges could therefore make it more difficult for tenants and leaseholders to afford the charges in the future.
- vi) Fixed charges mean that tenants and leaseholders do not need to consider switching off their heating and hot water in order to save money. However, further consideration should be given to installing heat meters to allow tenants and leaseholders to control how much they pay for heat.
- vii) If the intention was to recoup the full **£1.7** million shortfall in this financial year, service charges to leaseholders and tenants would need to increase to around £30 per week at the end of October 2022. This represents an increase of just over 100% compared to the current charge, and 120% compared to the 2021/22 charges.
- viii) Whilst the fuel (gas) costs of district heating customers could be absorbed by the HRA more widely, with tenants' rent being used to effectively subsidise the energy costs of people on the heating network, there is no real justification for other tenants to lose out on other services which could have been provided using that money. The HRA is facing a range of unbudgeted cost pressures. Those other tenants will of course be experiencing much higher energy bills themselves for both electricity and gas. In addition, it would not be acceptable for tenants to subsidise leaseholders.
- ix) A further significant increase is likely to be required from April 2023, if gas supply prices continue to rise in line with current projections, although tenants and leaseholders on district heating are far better protected than tenants and leaseholders buying gas from utility companies, with open-market gas prices continuing to rise much faster and higher than district heating charges.

5. Financial, legal and other implications

5.1 Financial implications

As detailed within the report, the Housing Revenue Account is forecasting a shortfall in income of £1.7m as a result of the cost of gas exceeding the charges being made to households on the district heating network. The proposal to increase charges from the end of October would reduce this shortfall by £0.7m.

Stuart McAvoy – Acting Head of Finance

5.2 Legal implications

Council Tenancies:

The conditions of tenancy allow the council to change the rent by giving a 28-day notice to tenants. However, given the likely impact of the decision it would be prudent to consult with the existing Tenant and Leaseholder forum.

The council as a Housing Authority must comply with the Rent Standard set by the Regulator of Social Housing and comply with the Policy statement on rents for Social Housing issued by the DLUHC.

Leaseholders:

The council currently issues a service charge demand to its 1,631 leaseholders in March of each year. Of these, 889 are connected to the district heating network.

The council's standard Right to Buy lease requires leaseholders to pay on demand 'a fair proportion of the costs (reasonable or estimated) of any services incurred or to be incurred by the lessor in observing and performing...' the services provided under the lease.

The council is required to consult with leaseholders when entering into qualifying long-term agreements. The provision of heat for the purposes of residential district heating is subject to a 25-year contract with LDEC. Legal Services have been assured that the necessary consultation was undertaken at the time of entering the contract.

As with tenants, it would be advisable to consult the Tenant and Leaseholder Forum.

Kevin Carter
Head of Law - Commercial, Property & Planning

5.3 Climate Change and Carbon Reduction implications

The council's consumption of gas, electricity and district heating is responsible for around three quarters of its measured annual carbon footprint. The 2021/22 consumption outlined in this report (including district heating) equates to a footprint of 24,012tCO₂e from gas use and 4,451tCO₂e from electricity use. Following the council's declaration of a climate emergency in 2019 and its ambition for the city and the council to become carbon neutral by 2030, tackling emissions from our own energy consumption is essential to achieving that.

Both the council's Climate Emergency Strategy and the Carbon Neutral Roadmap highlight the importance of demand reduction in the council's approach to decarbonisation – by eliminating emissions from fossil fuel use and minimising the residual emissions from electricity use. As such, our approach to price risk mitigation therefore needs to begin with demand reduction. This potentially includes:

- improving the thermal performance of the building fabric through insulation, replacement of single glazed windows and improving air-tightness
- introducing improved controls on heating, cooling and hot water systems
- strengthening behavioural/procedural measures to reduce energy wastage including, for example, by switching off equipment promptly when not in use and ensuring that temperatures and timings for heating and cooling systems are set appropriately
- installing more renewable energy generation (principally PVs but could include solar thermal) along with battery storage.

Investment in demand reduction will achieve year-on-year increasing mitigation of price rise impacts/risks, although in the short term it won't prevent the need for budgetary provision also to be made to cover possible price increases.

Demand reduction is also an important enabling action in making buildings ready for heat pump installation – which is another key element of our Climate Emergency Strategy and Carbon Neutral Roadmap. The energy demand of our buildings needs to be reduced sufficiently before heat pumps are installed, to counteract the impact of higher per kWh prices of electricity compared to gas, as well as to ensure that the low temperature systems typically required to get the full efficiency benefit of heat pumps can cope during the coldest winter weather.

5.4 Equality Implications

When making decisions, the Council must comply with the public sector equality duty (PSED) (Equality Act 2010) by paying due regard, when carrying out their functions, to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people who share a 'protected characteristic' and those who do not.

We need to be clear about any equalities implications of the course of action proposed. In doing so, we must consider the likely impact on those likely to be affected by the options in the report and, in particular, the proposed option; their protected characteristics; and (where negative impacts are anticipated) mitigating actions that can be taken to reduce or remove that negative impact.

Protected characteristics under the public sector equality duty are age, disability, gender re-assignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex and sexual orientation.

Increasing fuel prices have affected the LDEC district heating charges, the report sets out a proposal for an in-year increase in district heating / service charges to tenants and leaseholders. Those affected by changes arising from the implementation of the increase should it be agreed, would be current tenants and leaseholders who will be from across a range of protected characteristics. Residents on low and/or fixed income will be affected by the changes.

In 2020, 19% of Leicester households were in fuel poverty – this is higher than the national average in England of 13% of households and the highest rate of all upper tier local authorities in the East Midlands. This does not take into account the impacts of recent energy price increases, but if this follows national estimates we could see 40% of Leicester households being in fuel poverty by October 2022.

It is important to ensure that information about the proposed increase is conveyed to all affected residents as a matter of urgency. This should include an unambiguous rationale of why the increase is necessary and information about where advice and support may be obtained.

In order to fully understand the impacts of the proposal, an Equality Impact Assessment is being undertaken to identify any potential disproportionate negative impacts on a particular protected characteristic. The Equality Impact Assessment, should influence decision making from an early stage and throughout the decision making process. The findings from any consultation should be used to further inform the Equality Impact Assessment and in identifying any mitigating actions that are required to lessen or remove any disproportionate negative impact.

Equalities Officer, Surinder Singh

6. Background information and other papers:

None

7. Summary of appendices:

8. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?

No

9. Is this a “key decision”?

n/a

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