

Heat Metering update for the Housing Scrutiny Commission

Report to be considered by: Housing Scrutiny Commission

Date to be considered: 19th September 2023

Lead Member: Cllr Elly Cutkelvin

Lead Director: Chris Burgin

Useful information

- Ward(s) affected: Wycliffe, Saffron, Western, North Evington and Belgrave
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1. Summary

This report is to update members of the Housing Scrutiny Commission on progress with the heat metering and billing project that the housing division are delivering.

Since the Full Council Decision on the 23 February 2023 where it was confirmed that we would start a project to fit meters to the homes of residents in order to enable tenants and leaseholders to have control of the heat and hot water they use and pay for, the procurement exercise to appoint a contractor has concluded. The Council has entered into a contract with Vital Energi to fit 1581 meters to tenants' homes & 936 leaseholder private homes at a total scheme cost of £5.23m (HRA £3.1m / GF £2.13m). This is an increase of £1.45m on the current budget and a decision was made through the capital outturn report to approve the budget increase (£563k on the HRA and £887k in the General Fund)

The Council has also entered into a 3-year metering and billing agreement with Vital Energi.

We have completed seven pilot properties so that the full extent of works can be established, and any operational difficulties identified. It is anticipated that the programme will start in the summer and conclude at the end of December 2023. Properties that do not comply with first installation arrangements may run beyond this period and possibly not be completed until early 2024.

During a previous pilot scheme that was carried out in 2014 it was established that residents may be able to save up to 30% off their heat and hot water bills, however we were not in a position to progress to a full roll out in 2014. The subsequent war in Ukraine and energy price increase has made fitting meters a viable course of action.

It is estimated that tenants and leaseholders in all size properties will save between £354 and £998 a year by having a meter fitted. This is based on an average consumption of between 8,000 and 12,000 kWh dependent on property size

Due to technical issue with the installation, the 240 properties in the Aikman Avenue flats (also called the Burns flats) will remain on the fixed weekly charges as set out in section 8 in the report below. Work has commenced to explore viable opportunities for this block around the installation of metering and wider District Heat improvements through securing resource funding from HNES (heat network energy suppliers)

2. Supporting information including options considered:

2.1 Background.

With the massive increase in wholesale Gas costs during 2022 (300%) a decision was taken at Full Council on the 23 February 2023 as part of the HRA Budget setting report to install heat meters on Leicester City Council's District Heating network. This was to enable tenants and leaseholders to have full control of heat usage in their homes through the installation of controls and therefore only pay for the heat they used.

2.2 Procurement

Once the decision had been made to fit meters, officers were tasked with achieving this in the swiftest way possible and preferably in advance of the 2023/24 heating season. To ensure that we fitted as many meters in the summer it was agreed that we would make a direct award to a contractor on a Framework rather than doing a full European open tender which could take 6 to 9 months. A framework is a quicker way to market because it means that all the due diligence has been completed. Soft market testing was carried out with the suppliers on the Framework and Vital Energi were the only contractor that could fit the meter and provide the billing service and had capacity and access to the meters that we wanted to fit.

During the procurement process site surveys were carried out so that the contractor could provide accurate prices for the tender submission. There have been commercial matters to agree, such as retention amounts, liquidated damages and other legal clarifications, with these all now resolved the Council entered into a contract with Vital Energi on the 3rd. May 2023.

It became clear that the works required varied between the sites and the decision was made to average the cost to all tenants and leaseholders. Tenants will pay £1,554, however more leaseholders are situated in the areas with more complex installations and higher charge averaging the charge out across all 936 equates to a meter install cost of £2,394. (We are charging leaseholders different components of the installation, such as fees, etc which are not being passed onto tenants))

2.3 Charging

After the installation of a heat meters the intention will be to commence charging for actual usage at the heat rate of 12.3p/kWh – variable charge. Whilst this may seem higher than the rate you would pay an energy company, residents on the network are paying for heat and hot water not gas, the 12.3 p/kWh reflects the actual cost at the point it enters a house and the associated loss in heat from the energy centre to the house.

In addition, there will be a fixed charge (in much the same way as other utility services levy a fixed amount) of £75.00 per annum for the metering and billing service provided.

All users of the District Heat network are also charged a fixed, annual, amount to cover the non-gas costs of running the system, this is currently set at a rate of £280.00 per household. It should be noted that this is not a new charge, residents have always paid it as part of the old, fixed charge but we are now separating it out to give residents more clarity on their bills and what they are paying for.

Tenants will pay the £280.00 though the monthly fixed charge. However, for collection reason, leaseholders will continue to be invoiced for the non-gas charges as a separate invoice by Leicester City Council.

It should be noted that officers are challenging the charges the council pay to the company Equans for the running of the District Heating networks. Whilst we are challenging the contract and we are still sustaining contract charges of over £3m that we are NOT passing onto the end user.

3. Metering Programme

Following the signing of the contract with Vital Energi, metering installation preparation works commenced immediately.

Vital Energi, recruited 5 Resident Liaison Officers in July 2023 who work closely with Housing staff and residents to ensure on the ground coordination to ensure that arrangements go smoothly. The role of the RLO is to communicate directly with residents and to arrange survey and installation dates. Following installation, the RLO will also be responsible for teaching the resident about the system, and how to use the on-line portal and app provided by Vital

The full programme is set out in the table below. All primary installation across all units is programmed to complete by December 2023.

Subject to tenants and leaseholders not being in for their installation dates, the programme factors in 3 possible attempts to complete the install by the company. After this the access policy set out below will apply.

It is important to note that legally the Council are required to install heat meters. The Heat Network (Metering and Billing) Regulations 2014 which was amended in 2020 to require owners of Heat Networks to install heat meters. The Energy Security Bill reinforces this requirement (due to be introduced in 2024). Unfortunately, the legislation is silent on the situation where a tenant or leaseholder refuses a meter.

Advice was sought from BEIS on this matter (the organisation responsible for the drafting of the legislation). Their feedback on this specific matter was

'This is a question that has recently come up and we are discussing with our legal team regarding this. The Regulations provide very little on this topic. The only mention is that costs, including legal costs, can be added to the Cost effectiveness tool.'

'Our current position is that meters need to be installed without exception, but the reality is this is still an ongoing situation without an immediate answer for the time being.'

While there is a risk of not installing a heat meter in a property where it has been refused there is a greater-known risk of enforcing installation by court order and breaking into a property to achieve this. On this basis it is being proposed to give leaseholders and tenants the opportunity to opt out of meter install with the option to pay the full cost recovery charge set out in section 8 table 2 below.

Where tenants refuse access (as per the access policy set out in section 4 below) it is also proposed not to enforce installation and revert the tenant to full cost recovery charges.

Should a request then come in for a meter to be installed by either a leaseholder or tenant at a later date then this request would be facilitated.

High level programme by estate

Estate	Completion date
St Peters tower blocks, Gordon, Framland, Maxfield and Clipstone House	29 th . September 2023
St Andrewes	29 th . September 2023
St Matthews – phase 1	11 th . December 2023
St Matthew – phase 2	tbc
St Peters low rise	1 st . December 2023
St Marks	January 24
Beatty Ave	1 st . December 2023
Return to previous cancellations	1 st . April 2024

4. Access Policy

The contract allows for 3 attempts to be made on separate dates to install a properties heat meter. If a tenant or leaseholder fails to allow access for the installation, then an access policy has been created to deal with such eventualities setting out clear roles and responsibilities for LCC and also for Vital Energi.

The Council and Vital will endeavour to do all we can to ensure communications are clear, dates are sent well in advance and Resident Liaison officers are utilised to work with tenants and leaseholders on the group.

When the situation of 3 failed installation attempts, it is proposed to move a tenant or leaseholder to full cost recovery (as set out in Section 8 of this report). No further attempts will be made to revisit the properties.

For tenants, a formal notification of rent increase will need to be sent setting out the new charges and when they will be effective from (28 days after the notice is issued). This is a legal requirement.

For leaseholders, the annual charge will need to be recalculated, and a revised invoice sent out. For leaseholders with direct debits in place, this will need to be altered, and the minimum time period for changes is 14 days.

Should the tenants/leaseholders make contact after this to arrange installation then best endeavours will be made to arrange a suitable time for installation however it should be

noted that each time installation takes place there is a need to undertake a localised drain down of the District Heating system which may affect other tenants in the block. This also adds additional cost in terms of LCC resources

5. Billing and how that will work

Under current arrangements, properties are charged a fixed weekly amount which is collected alongside their rent and any other service charges which may be due. The current charge is fixed based on property size (number of bedrooms) and is not directly linked to the heat consumption of the property.

When meters are installed, tenants and leaseholders will be charged based on their actual heat consumption, and this will be collected by Vital Energi. Monthly heat meter readings will be taken and transferred to Vital Energi. At the end of each calendar month the total heat consumed by a property will be converted into a monetary amount that then becomes due. This will be made up of (1) a fixed charge and (2) a variable charge (consumption of heat and hot water) (3) a cost to pay the metering installation cost (as set out in section 3 above)

- 1) The fixed charge will cover non-fuel costs, including operational management costs and the cost of billing (i.e. the charge from Vital Energi for their work in managing the billing arrangements).
- 2) The variable charge will be a simple multiplication of the heat consumed during the month (kWh) and the unit price of gas required to generate 1kWh of heat.
- 3) Total metering installation costs divided across 10 years and then split equally over 12 months.

There will be some variation in the amounts charged to leaseholders and tenants, Vital Energi are able to carry out this function. For tenants, the monthly charge will include use, Vital's standing charge, fixed standing charge (non-gas) and installation fees. For leaseholders, only the standing charge and the use will be invoiced by Vital. The non-gas charge and installation fees will be recovered directly by LCC along with all other services charges .

Vital Energi will invoice the tenant/leaseholder at the end of each calendar month (i.e. in arrears) based on the calculation above, and will have in place arrangements for collecting that debt which will mirror the existing payment methods available to tenants. If payment is not received by Vital Energi within 21 days, then reminder letters will be issued. If payment is still not received by day 56, then the debt will transfer across to the Council for recovery. This will sit in a sub account and treated as a separate debt to any rent arrears and recovered the same way we would recover any non-rent related debt.

This recovery work will be undertaken by the Income Management team and will incorporate all the skill and expertise already in use in the collection of rent arrears, including support and assistance for those struggling with payments.

For leaseholders It is anticipated the debt will be passed to the exchequer team and pursued through the corporate debt process. Discussions are ongoing about which recovery process will be taken if the debt remains outstanding, at the present time, the consideration is to apply for a County Court Judgment.

6. District Heating Cost Comparison with open Market

Current costs of gas and District Heating charges are now known for 2023/24 as are fixed operational costs. With the recent announcement of a new pricing cap for the market we wanted to share the comparable costs of District Heating to the open market expected costs.

7. Charging Comparison

Comparison of Fixed Charge. The energy price cap sets the maximum daily standing charge of 53p for electricity and 29p for gas. For comparison, our agreed standing charge (excluding the recovery for the cost of meter installation) is 98p. Whilst this seems high it is down to economies of scale, there are circa 2000 residents that will have meters fitted unlike a national energy company that could have millions of metered customers. (eg/ Octopus 5.3 million customers)

Comparison of Variable charge. The cost per kWh for gas has reduced to 8.1p/kWh equivalent to the new current market cap announced in May 2023. When converted to heat price which factors in heat loss on the system the expected charge per kWh is currently 12.3p. This is due to the loss of efficiency incurred from the gas entering the boiler house to the heat and hot water entering a resident's home. We have to allow for operational efficiencies. This happens with a domestic boiler, the amount of heat and hot water you get out doesn't relate directly 100% to the gas you put in. For example, a domestic gas boiler may be 90% efficient, there is a 10% loss due to inefficiency, the district heating system is exactly the same and the 12.3p reflects this.

When the price of gas goes down this will be passed on to the residents, but it may not be instant because the gas is bought wholesale and any reduction will only be passed on at the point, we purchase gas at a lower rate. The reverse of this is that when gas prices go up, we will only increase them when we pay more for gas and not straight ways like a traditional energy supplier. Over the last year as prices have increased this has protected tenants and leaseholders from ballooning prices.

The Council has now formally entered into a legal dispute over Leicester District Energy Company (LDEC) charging due to LDEC refusing to move forward with a review of contract prices. Subject to a successful outcome it is possible that standing and variable charges will be positively impacted.

Average Domestic Gas Costs (based on new price cap from May 2023)

Low (flat or one-bedroom house)



Approx annual cost*: £1,500

Gas: 8,000 kWh
Electricity: 1,800 kWh
1-2 people

Medium (three-bedroom house)



Approx annual cost*: £2,100

Gas: 12,000 kWh
Electricity: 2,900 kWh
2-3 people

High (five-bedroom house)



Approx annual cost*: £2,900

Gas: 17,000 kWh
Electricity: 4,300 kWh
4-5 people

8. Fixed Cost District Heating (post installation)

In the situation where tenants or leaseholders choose to opt out of the installation of a Heat Meter or tenants fail to comply with the installation of a meter in their tenancy it was agreed as part of the HRA Budget report approval that full cost recovery would be implemented. At the time of the budget full cost recovery was set out in the following table;

Full Charge Approved At Council (Based on 10.5p/kWh)	Gas Cost	Non-Gas Variable Cost	Total Annual Charge
1 bed	£2,477	£280	£2,757
2 bed	£3,114	£280	£3,394
3 bed	£3,707	£280	£3,987
4 bed	£4,321	£280	£4,601
Other	£1,701	£280	£1,981
Avge	£2,855	£280	£3,135

With movement in the wholesale cost of gas, the cost per gas kilowatt hour has reduced to 8.1per kWh which has meant that full cost recovery charges will be lower. These are set out in the table below;

Revised Full Charge (Based on 8.1p/kWh)	Gas Cost	Non-Gas Variable Cost	Total Annual Charge
1 bed	£1,911	£280	£2,191
2 bed	£2,403	£280	£2,682
3 bed	£2,860	£280	£3,139
4 bed	£3,333	£280	£3,613
Other	£1,313	£280	£1,592
Avge	£2,203	£280	£2,482

Subject to the Heat Metering & Billing Regulations, it is highly likely that the cost per unit will again reduce but it is not currently known to what value. This information is likely to be known during Summer 2023.

When comparing full cost coverage at the 8.1p kWh table, it is clear that even with the additional costs of paying for fixed costs and meter install costs tenants and leaseholders **will benefit and save money from the installation of heat meters**. The table set out in section 2.3 and again below shows that that tenants in a 1 bed flat will if using the standard 8,000 kWh **save £538 a year a total of 25% cheaper than the lower fixed cost district heating**.

	Tenants Charge (per week)	Leaseholders (per week)
Variable Charge (average of 8,000 kWh pa used @ 12.3p per kWh)	£18.92	£18.92
Fixed Standing Charge (@0.98p a day)	£7.21	£7.21
Meter installation charge (average)	£5.97	£9.20 *based on full cost average option
Total Charge	£32.10 (£1,669 pa)	£35.33 (£1,837pa)

Estimated Savings compared to Standard weekly charge Full Cost recovery based on Size of property

Property Size	Tenants - Saving	Leaseholder - Saving
1 bed (assumes 8,000 kWh)	£522	£354
3 bed – assumes 12,000 kWh	£998	£847

This table clearly demonstrates that meter installation will save tenants and leaseholders financially paying less than the standard weekly charge, assuming usage is 'average'.

9. Budget:

A total of £2.5m was allocated in the HRA budget for the fitting of heat meters for tenants and £1.25m allocated in the general fund budget for leaseholders.

On further investigation the installation of meters is technically more difficult in some areas of the network, which results in additional works required. Therefore, additional funding of £887k is required to complete the General Fund element of the scheme taking the overall budget to £2.137m It is proposed to fund this by borrowing which will then be repaid with

the income from homeowners (leaseholders). Additional budget of £563k is required to complete the HRA element of the works. Approval for both of these is being sought as part of the capital outturn report.

The full cost of fitting the meters will be recovered from both tenants and leaseholders over 10-year period for tenants, and leaseholders will have the option of payment in instalments up to a maximum of 10 years. It must be noted that if a leaseholder sells the lease, or wishes to extend the lease, then all debt due to LCC must be repaid. This will be as a fixed standing charge for tenants, Leaseholders will be offered an interest free payment plan if they don't want to make the payment in full at the time of fitting.

10. Governance

To ensure that the project runs smoothly the following arrangements have been put in place.

- Appointment of a specialist project manager to oversee the delivery of the heat metering and billing workstreams. This function is being carried out by Arcadis.
- A Strategic Board that meets monthly to ensure that the project is running to programme. The cost plan is discussed. Operational issues are updated. Works planned for the next 4 weeks are agreed. The risk identified and decision made. Formal board reports are prepared, and a log of all key actions kept.
- An Operational Board that meets fortnightly to resolve day to day operational issue such as access issues, asbestos surveys, fire compartmentation surveys etc.

11. Additional funding:

Running alongside the work we are doing to fit meters we are also submitting 2 bids for HNES (heat network energy suppliers) funding.

The first bid is for £100k and this will be spent on a study to see how the whole network can be made more efficient. The second bid is for capital match funding to fit centralise heating and hot water control into flats that do not currently have them but rely on thermostatic radiator valves to control their heating

5. Financial, legal and other implications

5.1 Financial implications

5.2 Legal implications

As stated above, to implement changes to secure tenancies, the Council will be required to serve a Section 103 Notice under the Housing Act 1985 on each secure tenant affected by the works.

With regard to long leaseholders, the consultation requirements of Section 20 of the Landlord and Tenant Act 1985 must be complied with prior to any work having been carried out. The law requires that leaseholders paying variable service charges must be consulted before a landlord carries out qualifying works or enters into a long-term agreement for the provision of services. Provided section 20 is fully complied with, long leaseholders can be recharged the cost of the works. If section 20 is not complied with, the Council would only be entitled to recover a set figure (£250 for works or £100 for services) from each long leaseholder.

Leaseholders are then legally entitled to be notified of the levels of service charges to be charged each year. There are long-established procedures in place in this regard.

Zoe Iliffe, Principal Lawyer (Property, Highways & Planning) Ex 372180

5.3 Climate Change and Carbon Reduction implications

The expected reduction in heat demand following meter installation is likely to enable a reduction in gas burned in the district heating plant, leading to a reduction in carbon emissions. Any reduction in gas use may not fully mirror the reduced heat demand due to the need to maintain a certain minimum level of supply on the system, including to other buildings on the network. The impact on the district heating carbon emissions should be monitored and reported following completion of the work.

Duncan Bell

Change Manager (Climate Emergency)

5.4 Equalities Implications

A public authority must, in the exercise of its functions, have due regard to the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; this includes the need to: (i) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic; (ii) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it. Foster good relations between persons who share a relevant protected characteristic and persons who do not share it, with due regard.

The report is to update members of the Housing Scrutiny Commission on progress with the heat metering and billing project. The installation of metering devices and billing based on consumption has the potential to decrease the use of energy and reduce consumer bills. Metering heat networks gives consumers more control over their usage and allows for billing based on usage. The project will indirectly affect all customers on heat networks, and these will be from across many protected characteristics. It is important that metering also supports fair and transparent billing for customers on heat

networks and that the council adopts the same fair and consistent approach considering equality and proportionality when taking any recovery actions for potential for non-payment. It is important to consider the needs of customers and take into account any reasonable adjustments that may need to be made to support the most vulnerable and adapt communication styles as appropriate where required. Information may need to be provided in a suitable format for people so as to not place them at a significant disadvantage without a specific piece of information particularly, around legal processes.

Equalities Officer, Surinder Singh, Ext 37 4148"