

Report to: Executive
Date: 5th February 2008
Report of: Executive Member for Housing
Subject: Review of District Heating Charges
Wards: All

1.0 Purpose of the Report

1.1 This report is intended to seek Executive Members' approval of proposals by East Durham Homes (EDH) to increase the service charge paid by the residents of residential properties connected to Council District Heating schemes.

2.0 Consultation

2.1 In preparing this report I have consulted with the EDH Senior Management Team and the Council's Head of Finance, Audit Manager and Supported Housing Manager, Management Team and the Audit Commission external auditor.

2.2 East Durham Homes have completed a consultation exercise with the existing residents of the affected homes as well as a cross-section of 76 tenants not directly affected by the proposed increases. The results of this consultation is covered in section 4 of this report.

3.0 Background

3.1 The District Council owns six Sheltered Housing Units (SHUs) and two Day Centres/Communal Halls for which EDH provide the Housing Management and Maintenance service as part of their duties under the ALMO Management Agreement. The Communal Halls are areas for older/vulnerable people to meet and socialise and do not include living accommodation, but do have what was formerly a single unit of Warden accommodation attached. The properties are:

- Jubilee House, South Hetton (SHU)
- Jubilee Centre, Seaham (SHU)
- Patton House, Wheatley Hill (Communal Hall)
- Dormand Villas, Station Town (SHU)
- Primrose Court, Blackhall (SHU)
- Alcote House, Shotton (Communal Hall)
- Robinson House, Horden (SHU)
- Donnini House, Easington (SHU)

3.2 The heating and hot water for these properties are provided by a central boiler and distribution system, known as a District Heating scheme. The boilers in these schemes were originally solid fuel fired, but these have been replaced by gas fired boilers in all but Dormand Villas, Station Town. In all but Jubilee House and Jubilee Centre, the District Heating scheme

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also provides heating to homes adjacent to the SHU/Halls. There are a total of 332 residential properties served by the schemes.

- 3.3 Residents living in the residential property served by the District Heating schemes pay a weekly service charge in addition their rent. The 'formula' for calculating this service charge paid by each resident was agreed by Council in the late 1980s, and relates in part to the floor space of each property. The service charges were originally established to recover the cost of the fuel used by the schemes, however they have not been reviewed over recent years despite increases in fuel prices.
- 3.4 EDH is responsible for managing, maintaining and operating the District Heating schemes, incurring the costs of maintenance, repairs and fuel and collecting the weekly service charges from the residents.
- 3.5 On 30 August 2007 the EDH Board received a report from the EDH Director of Corporate Services outlining the current situation with the District Heating schemes and what is currently an estimated £60,000 shortfall between fuel costs and service charge income in the 2007/8 financial year due to increasing fuel prices. The Board agreed the recommendation that District Heating service charges be reviewed in light of increases in fuel prices, and that tenants and residents be consulted on the options for implementing any subsequent increases.

4.0 Proposals to increase service charges

- 4.1 EDH have used the Council's original 'formula' for calculating service charges to produce a revised 'true cost' charge for each property. This formula apportions the fuel equally between two elements: a 'flat rate' and an apportionment according to floor space. EDH have also re-measured the floor area of communal and residential accommodation to ensure an accurate apportionment of costs.
- 4.2 By applying this calculation to every property EDH have established that the difference between the 'true cost' and the current service charge varies from a 73p per week reduction to a £5.87 per week increase for tenanted properties, and between £2.71 and £16.98 per week increase for properties sold under the 'Right To Buy' which remain connected to the District Heating scheme. The average overall increase is £3.74 per week.
- 4.3 The EDH Board requested that tenants and residents be consulted on options to recover this position from April 2008 or to spread the recovery to a 'full cost' charge over 2 or 3 years (ie to April 2009 or April 2010).
- 4.4 There were a total of 227 responses from a total of 282 residents affected by the proposed increases, representing a return rate of over 80%. Of these respondents:
- 122 (56%) of tenants opted for recovery over a 3 year period.
 - 19 (9%) of tenants opted for recovery over a 2 year period
 - 78 (36%) of tenants opted for full recovery from April 2008

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- 8 (100%) of the owner occupiers opted for recovery over a 3 year period.

There were significant variations in the results from the different SHUs, with those tenants with the lowest increases tending to opt for directly applying the new charges from April 2008.

4.5 After considering the detailed feedback from the consultation exercise and the options and implications presented by EDH Officers, the EDH Board agreed to the recommendation of implementing the full increases from 1 April 2008 for those SHUs with average increases of less than £1 per week (currently projected as Jubilee House, South Hetton, Alcote House, Shotton and Patton House, Wheatley Hill) and implement the increases for the remainder of the SHUs tenants and residents over three years.

4.6 It is proposed that any new tenancies commencing from 1st April 2008 in all properties served by a District Heating scheme will be charged the full revised service charge from the tenancy commencement date.

5. Implications of rent capping limits

5.1 As part of the national social housing rent restructuring initiative, Government has published guidance on the limits to the annual increase applied to rent and service charges by Local Authorities. In simple terms, the guidance suggests that the overall annual increase to rent and service charges should not normally exceed RPI + £2 + 0.5%. The guidance makes specific reference to an exception in the case of heating charges where annual fuel price inflation exceeds this guidance limit; in this case the note encourages the increase of charges in line with fuel price increases.

5.2 The guidance does not, however, cover situations where increases are sought to recover previous years' increases. Guidance from internal and external audit suggest that the increases proposed in section 4, most of which will be beyond the RPI + £2 + 0.5% guidance limit even with the 3 year recovery option, are not in breach of rent capping limits but should involve a specific resolution to this effect.

6. Future years' annual review of District Heating Charges

6.1 It is proposed that District Heating charges will be subject to an annual review from 2008/9 onwards. This review will consider the actual fuel price inflation for the forthcoming year and fuel usage over the preceding year and establish an appropriate level of increase or decrease (in the event of fuel prices falling) to the service charges.

6.2 The Council currently purchases fuel under the North East Purchasers Organisation (NEPO) framework contract. NEPO 'bulk buy' gas by volume, currently on a 2-yearly cycle, and notifies the Council in December of the unit cost of gas for the next financial year. This will allow for accurate forecasting of the future year's charges albeit with a variation due to fluctuations in fuel usage. It is anticipated that this review process will be

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able to be run in parallel with the annual rent increase review, allowing tenants to be notified of future years' rent and service charge increases in January each year.

7. Private Owners

7.1 Of the 332 properties attached to District Heating schemes, 25 have been sold under the Right to Buy process. The service charge for sold properties served by a District Heating scheme is calculated as per the formula outlined in Appendix 1, but with an additional element relating to the repair, maintenance & depreciation of the scheme.

7.2 As with the rented properties, the current owners of the 25 sold properties are currently paying an amount below the 'true cost' of the service as outlined in para 4.2 above.

7.3 It is proposed that the same principles outlined in paras. 4.5 & 4.6 above are applied to the 25 owned properties and to properties sold after 1st April 2008.

8. Implications

8.1 Financial

If approved, the recommendations within this report will put the District Heating service charges back onto a 'true cost' basis, albeit with some protection of the impact of the increases for existing residents. The 'protection' would come from HRA reserves in the case of tenanted properties, and General Fund reserves in the case of owned properties. The estimated cost of implementing the option outlined in para 4.5 above is £37,000 in 2008/9, and £18,000 in 2009/10. These figures are subject to changing fuel prices over this period.

The Council's Head of Housing has completed an analysis of fuel costs and service charge income from a 2000/01 baseline, and has concluded that the cumulative net difference between income and expenditure became negative during the 2006/7 financial year and is projected to reach a maximum net variance of around £100,000 by the end of the current financial year.

8.2 Legal

The proposed annual increases are in line with Government guidance on the treatment of District Heating charges. The increases related to the recovery to a 'true cost' charge may be outside the guidance rent cap limit for some households, but this is not a statutory limit. The charges payable by owners of properties serviced by the District Heating schemes are

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required to pay a service charge under covenant in the deeds of sale of the property.

8.3 Policy

The proposed process for an annual review of service charges will be included in the Council's rent increase policy.

8.4 Risk

A risk assessment of the proposal to increase District Heating charges has been carried out and the necessary actions put in place.

8.5 Communications

EDH held a series of meetings and home visits with the residents affected by these changes in early December 2007. The events were used to explain the current situation as outlined in this report, and to advise on the options for recovering the current shortfall amount. The Resident Wardens in the affected SHUs have been briefed and were involved in the meetings with residents. Once the new Service Charges for 2008/9 have been calculated EDH will undertake a further communication exercise with the residents affected.

From 2008/9 it is proposed that the annual review of District Heating charges will be conducted alongside the annual rent review, and residents notified of any changes at the same time as their annual rent notification.

9. Corporate Implications

9.1 Corporate Plan and Priorities

The maintenance of a clear, equitable and auditable service charging policy is required for East Durham Homes to achieve efficient use of resources and as such will contribute to the delivery of the Council's objective of 'Decent Homes for All'.

9.2 Equality and Diversity

There are no direct Equality & Diversity issues

9.3 E-Government

There are no direct E-Government implications

9.4 Procurement

There are no direct Procurement issues.

9.5 Performance Management and Scrutiny

There are no direct performance management and scrutiny issues.

9.6 Sustainability

There are no direct Sustainability implications.

- 9.7 'Well Being Powers'
There are no direct 'well being' implications
- 9.8 Human Resource Implications
There are no direct Human Resource issues.
- 9.9 Crime and Disorder
There are no direct Crime and Disorder implications.
- 9.10 Human Rights
There are no direct Human Rights implications
- 9.11 Social Inclusion
There are no direct Social Inclusion implications.

10.0 Recommendation

It is recommended that Executive Members agree the following recommendations:

- increase District Heating service charges from April 2008 to reflect the 'true cost' of providing the service, and note that this may be above the RPI + £2 + 0.5% guidance limit
- Implement the new charges from 1st April 2008 for all new tenants & owners and existing residents of those District Heating Schemes with an average increase under £1 per week
- Implement the new charges for existing tenants & owners served by the remaining District Heating schemes (those with an increase of £1 or more per week) over a three year period commencing 2008/9 and completing 2010/11
- To meet transitional costs from HRA and General Fund Reserves
- The Council to introduce a process of annual service charge reviews to ensure that future fuel price inflation or deflation is factored into the service charge in line with the annual rent review

8.0 Background Papers/Documents used in preparation of this report:

Reports to East Durham Homes Board – 30 August 2007, 29 November 2007 & 13 December 2007

Report to Working Executive & Labour Group December 2007

Working Papers held by Head of Housing Strategy

1 Residential area defined as actual 'private' residential space + other space for the exclusive use of residents eg laundry

2 Residential area defined as actual 'private' residential space + other space for the exclusive use of

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residents eg laundry