

Questions issues raised by the Environment and Regeneration Scrutiny

How are heating costs calculated for tenants and leaseholders?

Tenants and leaseholders both pay for the cost of gas needed to provide communal heating. The council has a different approach to calculating charges to tenants and leaseholders for communal heating. This is because there is a different legal framework for these two groups. Other service charges, such as caretaking, are also calculated differently.

We calculate tenants' service charges on a pooled basis because we consider this to be the fairest and simplest way as all tenants in properties of the same size pay the same charge regardless of which estate they live on.

Legally (1985 Housing Act) the council cannot 'pool' leaseholders' charges so leaseholders' heating charges are calculated by taking the yearly fuel costs of the boiler house that services each leasehold property and dividing this by the number of properties that receive heating from that boiler.

In practice this means that this is almost always a difference between tenant and leaseholder charges for heating. On some estates tenants pay more than leaseholders, on other estates leaseholders pay more than tenants.

There is also a timing difference between the times when tenant and leaseholder charges are set for the coming year. Tenant charges are based on gas usage in the previous year plus an estimate of the change in the cost of gas. Leaseholder charges are based on the actual cost of gas from two years ago plus an estimate of the increase in the cost of gas for the coming year. In the financial year 2014/15 these timing differences mean that tenants with an average charge of £604, are paying more than leaseholders, with an average charge of £520.

In addition, it has cost us less than we thought it would to provide communal heating in 2014/15, and so if at the end of the year there is a significant surplus in the communal heating account we will use this to provide a rebate to tenants. If, as is currently likely, we provide a rebate of around £100 at the end of the year to tenants with communal heating this would bring the average tenant charge to approximately £500.

Even without the rebate, differences between tenant and leaseholder charges would even out in the following years because the tenant heating account is ring-fenced. Whilst leaseholders' charges would be adjusted to reflect any actual increase in the cost of gas in future, tenants' charges would not increase because they paid more in the 2014/15 financial year that would dampen future increases

Why don't we calculate tenants' charges on a block basis like leaseholders?

The council calculates all tenant services charges on a pooled basis. This includes communal heating but also communal electricity and caretaking. The Council considers this to be the fairest and simplest way to calculate charges as all tenants in properties of the same size pay the same charge regardless of which estate they live on.

For communal heating which is much like other service charges, the pooled system means that on some estates tenants pay more than leaseholders for the services they receive but on other estates leaseholders may pay more than tenants. It is not recommended that the council offers tenants the option of de-pooling their heating charge. This goes against the principle of all tenants sharing equally in the cost of services. If tenants' charges were calculated on a block by block basis there would be significant variances in the tenants'

charges with charges on some estates going down and charges on other estates going up. It is likely that estates with lower than average per unit costs of heating would opt to come out of the pool – pushing the price up for those tenants still part of the pool.

Also, to bring tenants and leasehold charges into line would require a total re-working of the way tenants' and leaseholders' service charges are calculated. The administrative cost in calculating tenants' service charges on the same basis as leaseholder charges would be significant because costs would have to be adjusted on a block by block basis for all residents not just 25 percent of properties. Also, leaseholders are currently billed annually for their heating (and other service charges) at the start of the year and many choose to pay monthly by direct debit. We know through previous consultation that tenants prefer to pay their heating costs on a weekly basis.

Why don't we change tenants' heating charges during the year to reflect changes in the cost of gas?

Significant administrative and programming costs would be incurred if tenants' heating charges were adjusted throughout the year. On a quarterly basis we would need to write to all tenants advising them of the changes, programme the income control database, work with the energy team to forecast future energy prices and adjust charges. The estimated cost of this in officer time and mail-outs is £30k - £50k per year, or £10 – £15 per tenant. This would eat into any rebate or reduction in charges. Further, less than 20 percent of tenants pay by direct debit. Other tenants would need to manually adjust any standing orders or other payments which could be an annoyance for what would often be a small change in charges.

Why can't tenants and leaseholders pay for the heating they use?

Giving the option of residents paying for the amount of heating they individually use would require the installation of heat meters.

Installation of heat meters is not a simple process like the installation of an electricity Smart meter. In many cases it would require the significant modification of heating pipework.

In the social housing sector the view of individual heat metering differs between providers. Some other large heat network operators such as Sheffield Council, Nottingham Council and Peabody Housing Association have recently decided to move to individual metering in all properties. Others, such as Aberdeen, are currently committed to maintaining a flat rate charge.

There are a number of potential positives and negatives of individual heat metering, as set out in the table below. The key positive is that some residents would save money because they would use less heating. However, there would be increased costs (installation, billing management, meter repair) which would offset these savings. Based on an annual fixed cost of £135¹ tenants in a two bedroom property would have to reduce their heating usage by more than 20% to see a financial benefit from heat metering. DECC guidance estimates that residents reduce their usage by 20% following installation of heat meters which would mean that, on average, households would not see a saving. Heating costs for certain groups of more vulnerable residents, such as older people and families with small children at home, may increase as a result of heat metering, because usage would not go down but costs

¹ This is made up of £450 for meter installation and a ten year meter lifespan (as advised by DECC), £80 for billing and payment management (as advised by DECC) and £10 for meter servicing. Experience from Sheffield is that installation costs are £550 per unit and experience from Nottingham is that servicing costs are £50 per property per year.

would go up². Fixed costs would increase significantly if meters and controls were installed as a standalone project rather than as part of a system upgrade. In these cases annual fixed costs are estimated at £290 which would mean residents' usage would need to reduce by more than 40% to see a financial saving.

Potential positive	Potential negative
Gives residents more choice over when to have their heating on.	Residents at risk of fuel poverty choose to under-heat their homes causing issues such as ill health and increased risk of condensation in the property.
Some residents' heating costs would reduce because they would only pay for the heating they use, and most people would choose to have their heating on for less than the current 18 hours per day. Estimated reduction in usage is 15 - 30% following metering. (DECC assume 20%).	The annual cost of installing, managing payment and maintaining for individual meters would be approximately £135 per property per year (£45 for installation (1/10 th of the total cost), £80 for managing payment and £10 for maintenance). The assumption is that this would be included in the heat charge –cancelling out the savings from using less heat.
If residents used less heating CO2 emissions would also reduce. Also it may free up capacity in our existing boiler houses – potentially allowing new buildings to be added to existing networks.	The capital cost of installing heat meters is estimated to be £450 per unit, and meters are assumed to have a ten year lifespan. Costs would increase if modifications to controls/pipework were required. The total cost across all unmetered communally-heated properties is estimated to be a minimum of £2m.
	Ongoing maintenance of individual heat meters would be required. Access to carry out this maintenance has proved difficult on the council's two estates with individual heat meters.
	The cost of installing individual heat meters would be rechargeable to leaseholders
	Heating costs for some of the most vulnerable residents, for example the elderly or those with small children at home, may increase as a result of heat metering.

Has the system of estimating future gas prices when setting tenants charges meant that tenants paid more than the actual cost in previous years?

The position has fluctuated over the last ten years. The net position over the last ten years is that tenants receiving communal heating have paid approximately £400k less than the actual cost of the service.

What is the energy efficiency of our communally-heated blocks?

² DECC have carried out research into the heating habits of different groups which estimates hours of heating for different groups, for example people out during the day use their heating for an average of 7 hours whilst those in during the day average at 10 or 16 hours. This does not correlate with our own consultation when the preferred option was for 18 hours of heating even where reduced heating hours would reduce cost.

The average SAP ratings of properties in communally-heated estates are shown in the document attached. However, it should be noted that the average SAP scores are skewed by factors other than the thermal efficiency of the building materials. This is why estates such as Spa Green and King Square are showing a relatively high average SAP even though we know some walls are poorly insulated. Estates like King Square and Spa Green are both comprised of bigger blocks so the majority of flats do not have many external walls; this has a bigger impact on the average SAP for the estate than the actual thermal efficiency of the walls.

So, we do not think that average SAP is a very helpful measure for which estates may need more insulation or increased hours of heating. The council's Energy Team is working to produce an alternative prioritisation list for communally-heated estates that may need special attention.

What are potential improvements/ policy options moving forward?

A. Improving the energy efficiency of communally-heated estates to help tenants feel warmer and reduce gas usage and hence costs.

The council has invested over £100m in improving the energy efficiency of its stock over the past ten years. All cavity walls have now been filled, all F and G-rated boilers have been replaced, some solar panels have been installed, thousands of lofts and flat roofs have been insulated, solid wall insulation has been installed in some street properties are four estates and double glazing has been installed in the majority of our homes.

The council is currently developing an Energy Efficiency Investment Strategy that will prioritise £5m of additional investment in energy efficiency over the next seven years. Examples of this could include more double glazing, external wall insulation and improved heating controls. The evidence base informing this strategy is in development but the principle will be that investment is directed to where it is needed most and where it can have the biggest impact. Scrutiny's suggestions for works to be prioritised under this fund would be welcomed.

B. Giving certain estates extended heating hours and not charging tenants extra for this service

The council is always looking for new ways to make communal heating fairer. We are examining the energy efficiency of our communally-heated blocks and whether, because of poor thermal efficiency, some blocks should receive additional hours of heating at no additional cost. This is moving to a more outcome-based measure of adequate heating – in terms of how warm residents are inside their homes instead of how much heating goes into their properties. Again, we are developing the evidence base for this at the moment but it could mean that moving forward estates, such as Spa Green, will receive additional heating hours and not have to pay more for this service. The fact that we pool tenants' heating charges allows us to consider this as an option, though of course it will not affect leaseholders.

C. Consulting on extending the heating season

Some residents have told us that they feel cold in cooler weather in the summer months and that they would like the heating season to be extended. Following a pilot in 2014, in April '15 we will be consulting residents (with boiler houses with the technical capability to respond to outside temperature), whether they would like to pay more for heating during June and September when the temperature drops.

D. Improving communication with residents on communally-heated estates about responsible use of communal heating systems.

This will include information about how to use heating controls to ensure residents aren't over-heating their homes and aren't opening windows instead of turning heating down. Making the case for this involves educating residents that if everyone used less heating costs would go down for everyone.

E. Reviewing the assumptions around heating and hot water usage and around the 'bedroom weightings' for heating and hot water charges

At the moment tenants just receiving heating from hot water systems are charged 60% of what other tenants receiving heating and hot water pay. This is a historical best estimate based on information at the time. This assumption will be reviewed to a more evidence-based position.

The heating charges for tenants are based on technical estimates of the amount of energy used by each property size in Islington. We have compared this to national averages provided by DECC. Applying these national averages would increase charges for larger properties and reduce charges for smaller properties. This is not recommended because costs would increase for larger households who already may be struggling to make ends meet.

Heating charges for leaseholders are based on the average for a two-bed property, to which 10% percent is added or deducted for each room that the property has above or below this. This will be reviewed to assess whether leaseholder heating charges should be apportioned in the same way as tenants across different property sizes.

F. Getting a better understanding of how tenants may respond to heat metering

There is a lack of robust data predicting how tenants will respond to the installation of heat meters in terms of reducing hours of heating and potentially under-heating their homes. It is recommended that qualitative research is carried out over the summer to ask different groups of residents, such as those in work and those at home during the day, how they would use their heating following the introduction of heat metering.

G. Continually reviewing the benefits of heat metering on a scheme by scheme basis

The benefits of heat metering vary significantly in different situations, for example residents in well insulated blocks are likely to see bigger savings, and savings would go up as the cost of fuel increased because the differential between fixed costs and variable costs would grow. Costs of heat meters may also reduce over time as their use becomes more common, whereas metering would not be recommended in blocks with a construction type that is prone to condensation. It is recommended that the option of

installing heat meters is reviewed on a scheme by scheme basis as new communal heating systems are installed, and that residents are involved in the decision through the major works consultation process. The decision about whether to install meters would be based on the availability of funding, cost of meter installation, likely cost savings for residents, like impact on vulnerable residents, and the ability to protect the building from damp and condensation following meter installation.

H. Changing the policy on compensation following loss of heating service

Compensation is currently applied automatically to tenants' rents account when there has been a loss of communal heating service for three days or more. Tenants do not have to apply for this - the payment is applied automatically. The payment is calculated based on the daily charge for communal heating (e.g. three days loss of heating would result in three days' cost being compensated). It is recommended that the policy is amended to provide compensation following a two day loss of heating and that the compensation is increased in line with the increased cost of electric heating compared to communal heating.

I. Providing more clarity about what happens if the cost of heating has been lower than the amount charged to tenants at the end of the year

The tenant communal heating account is a ring-fenced account. This means that the money that tenants pay in for their heating can only be used to pay for the cost of communal heating. The council is committed to setting heating charges that are affordable to residents and as far as possible are protected from big fluctuations in energy prices. We set charges based on our best estimate of the cost of gas for the coming year. Sometimes, as has happened in 2014/15, gas actually costs less than we thought it would at the beginning of the year and therefore there is a surplus in the communal heating account. Any surpluses at the end of any year will either be refunded to tenants or rolled forward to offset future increases in the cost of gas. In deciding between these options the council will consider whether fuel costs are likely to increase significantly in the coming years and whether the refund would be significant to warrant the administration around this. For example, now (at the end of 2014/15) we know what gas will cost in the coming year and the refund (at around £100 per tenant) is significant. Therefore, we will not look to roll any of the surplus forward into 2015/16 and will refund 100% of the surplus (from 2014/15) back to tenants.