

STROUD DISTRICT COUNCIL

HOUSING COMMITTEE

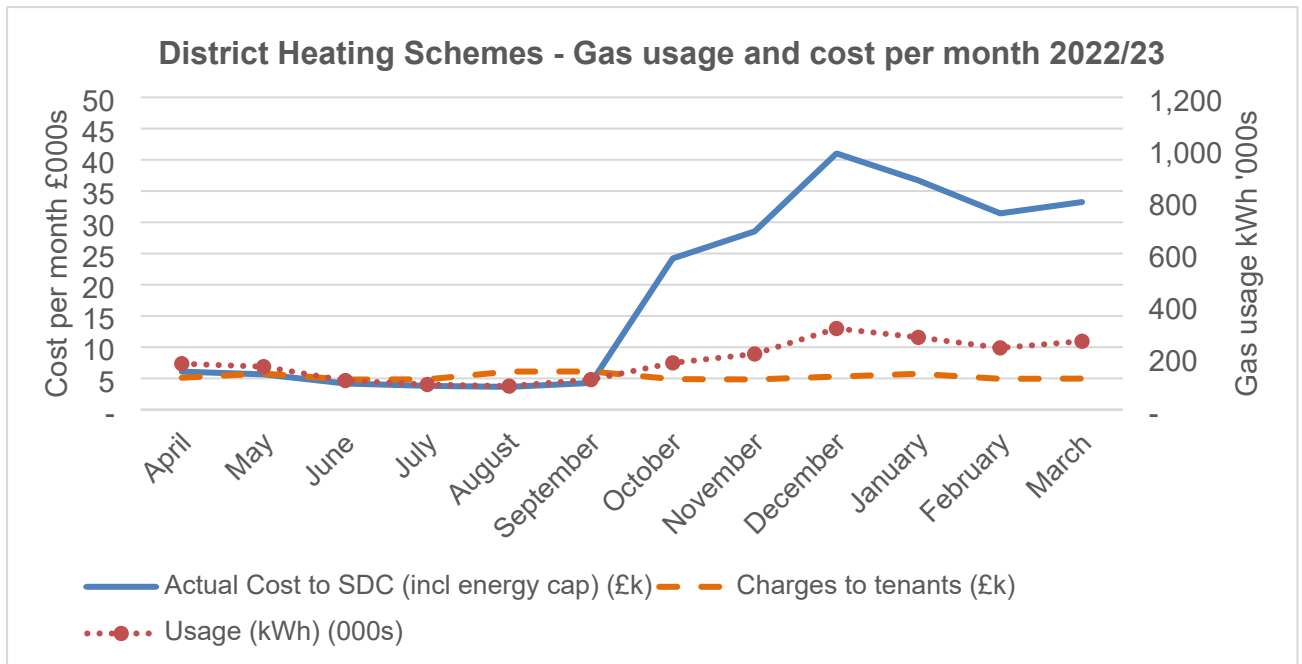
TUESDAY, 27 JUNE 2023

Report Title	District Heating Service Charges			
Purpose of Report	To update members on the service charges for Independent Living Scheme tenants with district heating systems			
Decision(s)	The Committee RESOLVES to reduce service charges for district heating systems by 21% from 7 August 2023, from an average of £23.41 per week to £18.49 per week.			
Consultation and Feedback	None			
Report Author	Lucy Clothier, Accountancy Manager Tel: 01453 754343 Email: lucy.clothier@stroud.gov.uk			
Options	Members could choose to not change heating charges, or to increase or decrease the charges by an alternative figure.			
Background Papers	None			
Appendices	None			
Implications (further details at the end of the report)	Financial	Legal	Equality	Environmental
	Yes	Yes	No	No

1. BACKGROUND

- 1.1 Stroud District Council has five Independent Living schemes which have district heating systems, where a central boiler provides heat and hot water for all the residential units and the communal area within the schemes. In this instance SDC pays for the gas and recharges the cost to the tenants.
- 1.2 The Independent Living schemes with district heating systems are:
- Dryleaze House (not including Dryleaze Court), Wotton-under-Edge
 - Grange View, Uplands, Stroud
 - Hazelwood, Stonehouse
 - St Nicholas Court, Hardwicke
 - Walter Preston Court, Cashes Green, Stroud
- 1.3 As members will be aware, the cost of gas has risen significantly over recent years, and subsequently the charges to tenants were increased from April 2023 (as approved by Council in February 2023).

1.4 For context, the below graph shows the cost of gas for the five communal boilers for the last financial year (April 2022 – March 2023).



1.5 The red (dotted) line shows the gas usage, which reduces over summer and increases over the winter months.

1.6 The blue (complete) line shows the cost to the Housing Revenue Account (HRA) for gas for these schemes during the year. The council had a three year fixed rate for gas up until September 2022. This rate was much lower than the market rate at this time. From October 2022, following the end of this deal, the cost of gas increased significantly, despite a government funded Energy Bill Relief Scheme which capped energy bills for businesses. It should be noted that the energy supply for these boilers is classified as business rather than residential.

1.7 The orange (dashed) line shows the costs recovered from tenants through service charges.

1.8 This graph shows that from October the costs incurred by the council for the heating and hot water for the five independent living schemes was significantly increased. Tenants, however, were fully protected from these higher costs for this period and service charges remained the same, which required subsidy from the wider HRA. There is no intention to recover any of this past additional cost from tenants.

1.9 This level of subsidy is not sustainable in the HRA, and service charges were increased from April 2023 to reflect the increased cost.

1.10 The charges implemented were based on the announced residential energy price caps, and an expectation that costs would reduce over summer. It was also assumed that usage would reduce by 10% from previous years.

1.11 Charges for each scheme are apportioned to tenants based on the floor area of each dwelling. Ways of metering the actual usage per dwelling are being investigated and it is hoped that a solution can be found for the future.

1.12 A commitment was made to members and tenants that these charges would be reviewed throughout the year, and where appropriate, charges would be amended to reflect changes in gas prices, and gas usage.

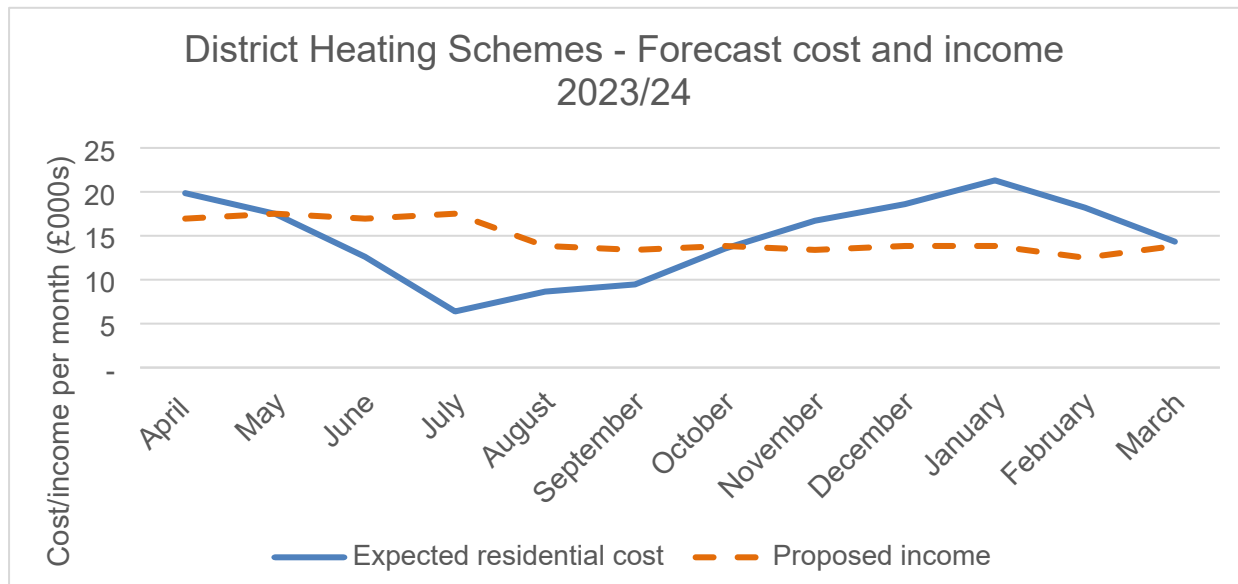
2. REVIEW OF DISTRICT HEATING COSTS AND CHARGES

- 2.1 At the time of setting the service charges for district heating systems, a government backed Energy Price Guarantee was announced at £3,000 per year (based on average usage). It had been set out that, despite the costs for gas for these schemes being at commercial rates rather than domestic rates, the costs for tenants would not exceed those of a residential customer and SDC would protect tenants if the costs were higher (which at that time they were). It was, however, assumed that costs would fall during the year, and this was reflected in the service charges.
- 2.2 Services charges for heating are based on an average rate across the year. This means that tenants will pay the same over summer, where there is less energy usage, as over winter, where energy usage is much higher. This is akin to those with their own energy supply paying a set standing order each month to the energy supplier, which allows them to 'save up' over summer to pay for the more expensive winter months. This is done to both aid budgeting for the tenant, and also to reduce administration of charges changing multiple times during the year.
- 2.3 This would mean that to reflect the expected reduction in gas costs through the year, the charges would start off lower than the actual cost of gas, but by the end of the year could be slightly higher.
- 2.4 Since Council approved the charges from 1 April, there have been announcements regarding the cost of gas.
- 2.5 Government announced that the Energy Price Guarantee would be set at £2,500 until June 2023, rather than the £3,000 that was expected to be in place. Although this does not impact on the cost incurred by SDC, the pledge to cap charges at residential prices comes into force.
- 2.6 On 25 May 2023 Ofgem, the energy regulator, announced that the energy price cap for the period 1 July to 30 September 2023 would equate to a typical annual bill of £2,074. Again, although this would not directly impact on the cost of gas on a commercial basis, it could be seen as an indicator of expected gas prices, and would act as a cap for the charges to tenants, in line with the residential price cap pledge.
- 2.7 These announcements have been used as basis for expected cost for the period 1 April to 30 September 2023. From 1 April 2023 SDC has started a new contract for the supply of gas for these schemes. The contract is at a variable rate, and so it is not yet known whether costs will be higher or lower than the residential caps.
- 2.8 For the period from 1 October 2023 to 31 March 2024, forecasts on MoneySavingExpert.com have been considered, which (based on information on the website as at 8 June 2023) show an expected reduction in cost of 4% from 1 October 2023, with a slight increase of 3% from January 2024.
- 2.9 It is not yet possible to determine if the gas usage is lower (or higher) than the estimates included in the forecast and this will be continually monitored throughout the year.

3. CONCLUSION

- 3.1 This review concludes that residential gas prices are now expected to be lower than those assumed in the charges approved by Council in February 2023. Therefore a reduction in these service charges to tenants is recommended.

- 3.2 This would be broadly in line with the expected reduction in gas prices for all tenants and residents with a direct relationship with a gas provider (with their own boiler), due to the change in the Energy Price Cap from 1 July.
- 3.3 Any changes in charges to tenants require a four week notice period. To allow this to take place it is recommended that the new charges commence on Monday 7 August 2023. Although this is later than the change in residential energy price cap, this has been factored into the calculation of the new costs ie the new costs are a little bit lower than they would have been to account for the slightly later start date. Tenants will not be adversely affected overall.
- 3.4 Using an expected start date of 7 August 2023, it is estimated that service charges could be reduced by 21% for the remainder of the financial year. This continues to assume a 10% reduction in gas usage (from previous years usage), and assumes the expected change in energy prices set out in Section 2. If the actual energy costs incurred by the council are lower than the forecast residential rates, and/or if energy usage is lowered by more than 10% it may be possible to further reduce charges to tenants later in the year.
- 3.5 This 21% reduction would reduce the average weekly cost from £23.41 per week to £18.49 per week, a reduction of £4.92 per week. Actual charges for tenants will vary, but all charges are proposed to be reduced by 21%.
- 3.6 As with previous service charges, costs are split evenly throughout the remainder of the year.
- 3.7 The following graph shows how the proposed service charges would compare to the expected cost of gas (based on residential prices) for the district heating systems. The proposed charges are set in order to only recover the forecast cost of gas (based on the assumptions set out in the report).



4. IMPLICATIONS

4.1 Financial Implications

This report sets out a proposed reduction in service charges to tenants for the provision of heating and hot water, through a communal boiler. These changes, which are based on a forecast of future costs, would reduce the income coming into the HRA. However, it is

thought that this would be offset by a reduction in the cost of gas and there should be no net cost to the HRA. Should the cost of gas not fall as expected, or increase, this could leave a shortfall in funding in the HRA.

Further cost exercises will be undertaken throughout the year to ensure that costs to tenants remain fair, without putting exceptional pressure on the financial position of the HRA. This could mean that service charges are increased or further decreased in the future.

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4.2 Legal Implications

Assuming that the units within the premises are let on either a lease or a tenancy agreement, the district heating payments would be charged to the tenant as a service charge. Stroud District Council will need to have regard to the provisions of the lease or tenancy agreement which relate to notification to the tenant of changes to the service charge and to adjustment of the service charge. One Legal will be able to provide specific advice on lease/tenancy terms if needed,

As this is a reduction in the service charge, there is no statutory requirement for tenants to be consulted.

One Legal

Email: legalservices@onelegal.org.uk

4.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

4.4 Environmental Implications

There are no significant implications within this category.