



Cabinet
20 July 2020

Report from the Director of Finance

Heat Billing and Metering Methodology

Wards Affected:	All
Key or Non-Key Decision	Key
Open or Part/Fully Exempt	Open
No. of Appendices:	None
Background Papers	None
Contact Officer(s):	Olga Bennet, Head of Finance olga.bennet@brent.gov.uk ; Tel: 020 8937 3337 Catherine Arotsky, Senior Energy & Sustainability Manager catherine.arotsky@brent.gov.uk ; 020 8937 2942 Francesca Campagnoli, District Heating Manager, francesca.campagnoli@brent.gov.uk , Tel: 0777 666 5837

1.0 Purpose of the Report

- 1.1 The report presents the methodology for billing residents for heating and hot water at residential properties which are metered for heat (i.e. a communal heating system rather than individual heating systems) to meet Council objectives and ensure compliance with the Heat Networks (Metering and Billing) Regulations 2014.
- 1.2 This methodology applies to the new units at Gloucester & Durham in the first instance

2.0 Recommendations

That Cabinet:

- 2.1 Approve the option and implementation of credit billing for heating and hot water in residential communal systems and incorporate a heat meter as set out in this paper.

- 2.2 Approve the in house management of the billing for heating and hot water residential properties at Gloucester & Durham as set out in this paper;
- 2.3 Approve the setting of tariffs in accordance with the guidance set out by the Heat Trust (in the absence of any current regulation on heat prices)¹
- 2.4 Delegate authority to the Director of Finance, in consultation with the Strategic Director of Community Wellbeing and the Deputy Leader of the Council and Lead Member for Resources to agree a metering and billing policy in line with the recommended option set out in paragraphs 5.2 – 5.5 and thereafter implement and operate the policy subject to such modifications as he considers necessary.

3.0 Summary

- 3.1 As part of the Council's commitment to build 1,000 new Council homes over five years, Brent Council have purchased 235 new flats being built on the land formally occupied by Gloucester House and Durham Court (site referred to as Gloucester & Durham throughout this report). The first new flats were due to be occupied in June 2020, however first occupation is currently delayed due to Covid-19 and the site having to pause work. Hand over is now scheduled for the end of August/beginning of September and a process for billing tenants for tenants of these units will need to be in place by then.
- 3.2 Telford Homes (who are building the new homes at Gloucester & Durham) have incorporated heat meters in accordance with the Heat Networks (Metering and Billing) Regulations 2014.
- 3.3 The Heat Networks (Metering and Billing) Regulations 2014 require that any system which provides heat to more than one final customer (for example a communal heating system), each customer should be billed for their heat based on usage. This is subject to technical and financial viability. As Gloucester & Durham are new build properties part of the specification allowed for meters to be installed, therefore there are no technical barriers to metering. Billing for heat is a well-established industry and it should, therefore, be economic to bill for heat. Further information in the Heat Networks (Metering and Billing) Regulations 2014 is outlined in the Legal Implications section.
- 3.4 As the building will be managed by Brent Council, the Council must therefore decide how we will bill the residents.
- 3.5 This paper sets out the recommendation that the Council should utilise Credit Billing for this block and that this should be managed in-house.
- 3.6 This paper also outlines the importance of regularly reviewing tenants' usage. This is in order to inform tenants if they are using more heat than would be expected and also alert the Council to potential fuel poverty issues, where a tenant might not be heating their property as necessary due to concerns about cost.

¹ There is a consultation on how the heat market can be regulated which is likely to include guidance on setting the price of heat.

3.7 The proposal is to start with the 83 units at Gloucester & Durham in South Kilburn and extend this methodology across all the units in Gloucester & Durham once complete.

4.0 Background

4.1 In communal heating systems, the heating and hot water is supplied centrally by the landlord or its agent. Resident would have no option to change supplier for heating and hot water. This is standard for all homes connected to communal or district heating schemes.

4.2 In line with regulations, the resident has the opportunity to choose their electricity supplier.

4.3 Communal and district heating systems offer opportunities to meet the Council's climate emergency objectives and are an appropriate strategy for large new build or refurbished blocks flats, as they are designed to have very low demands for heat, as opposed to the alternative inefficient system of each flat having its own boiler. Also, gas systems can present a fire risk in large blocks of flats, whilst electric based systems would require additional space for a hot water cylinder and are often expensive to run.

4.4 The existing blocks in South Kilburn incorporate a number of different types of heating systems each with their advantages and disadvantages. The main types are:

4.4.1 Existing communal heating systems which offer minimal control to the resident. The heating in these systems is often switched off from May to September irrelevant of the weather. The residents find that their flats may be warm, although often too hot, particularly if the weather is hot but the heating is still on. If they cannot control their heating, then there is a lot of wasted energy which impacts our climate and increases the cost of running these systems.

4.4.2 Electric storage heaters and dual immersion hot water cylinders connected to an Economy 7 tariff. The residents complained that by the evening their properties were cold and that they often ran out of hot water particularly those with large families. They also noted that it was expensive.

4.5 As a large landlord, Brent have a duty of care to offer a competitive price for heat for residents connected to these schemes as well as ensuring that they comply with legislation.

4.6 There are a few things which need to be considered:

4.6.1 whether to use credit billing or pay as you go

4.6.2 whether to have the billing function in house or use a third party

4.6.3 How the tariff would be set – how much would be a fixed standing charge and how much would be variable

- 4.7 As a large landlord, Brent bill the residents for different things, such as caretaking. However, there is nothing, currently, which is billed specifically on how much the occupant uses.

Consultation

- 4.8 Residents in South Kilburn were invited to three consultation events:
- 4.8.1 Specific consultation events discussing the provision of heat were held at Craik Court, 13th January 2020 and 22nd January 2020
- 4.8.2 A presentation was made at the Tenant Steering Group on 15th January 2020 where residents discussed the proposals.
- 4.9 The overarching response to the proposals for new communal heating systems was that residents preferred to have control of their heating and liked that they would have unlimited hot water. They understood that this would have to be charged for. They were reassured that charging would be in accordance with guidance (the Heat Trust) and that this would give them a mechanism to appeal if they felt the charges were too high.

5.0 Detail

- 5.1 The Heat Networks (Metering and Billing) Regulations 2014 include the requirement that heat and hot water supplied in communal systems must be billed based on usage where technically and financially viable. Therefore all new build or newly supplied communal heating systems must incorporate metering.

Pay As You Go (PAYG) or Credit Billing

- 5.2 Many residents on existing communal heating systems are not billed based on their usage. The cost of their heat is included in their standing charge but they also don't have a lot of control of their heat. If it is not possible to control your heat in terms of when you want heat and what temperature you want the room to be at, it would be unreasonable to bill based on usage.
- 5.3 Many communal heating systems which have meters use Pay as you Go meters, similar to electricity and gas pre-payment meters. This gives the resident complete control of their system and helps the resident understand how much they are using.
- 5.4 This system also ensures that residents do not accumulate debt as they have to top up their meter to get hot water and heating.
- 5.5 As outlined in the Financial Appraisal, Pay as you Go systems are more expensive for the resident as a third party is usually required to manage the system. There need to be ways for people to top up. This would usually require a shop or other facility residents can go to, but this can also be managed by telephone and online. This would necessitate a call centre and a website (or an app).

- 5.6 Pay as you Go systems can also accumulate the standing charge while a resident is on holiday or away from their flat for other reasons. This means that on their return, they may not have hot water or heating until they have topped up their heat meter.
- 5.7 With Pay as you Go systems, if a resident is unable to top up their meter, for example if they are struggling to pay their bills (e.g. in fuel poverty), then the supply of heating and hot water would be stopped to their property until they top up their meter.
- 5.8 The alternative approach is Credit Billing. This system ensures a regular cost throughout the year. It is recommended that this is billed weekly with the weekly rent bill.
- 5.9 The cost for each flat will be set based on calculations of what each flat is likely to use. This will then be reviewed, at least quarterly, but ideally monthly, to ensure that residents aren't using too much or too little heat. It's important to understand why a resident may use too little heat, as we don't want anyone to be cold because they are worried about the cost.
- 5.10 Credit billing offers advantages to the residents and the Council in that there is a regular payment which can be monitored.
- 5.11 The disadvantage is where residents accumulate debt. The Council already have policies on debt management.
- 5.12 Credit Billing will require, in particular initially, a high level of administration, however, reports from other Boroughs, including Camden who use Credit Billing extensively, is that this can be managed.
- 5.13 This credit billing will be calculated annually. At the end of the year, a reconciliation will be carried out. If a customer has used less heat than expected, then there will be the option of them applying for a rebate or it will appear as a credit on their bill. Their payments the following year would be reviewed depending on the level of overpayment. If customers have used more heat than expected, the instalments will be increased for the following year.
- 5.14 For Gloucester & Durham, Telford Homes have installed meters using the GURU protocol. GURU is a metering system which allows a company to purchase the data from GURU Systems for the purposes of billing, either Pay as you Go or Credit Billing.
- 5.15 With both billing systems, residents can be notified if they are using significantly more or significantly less than expected. Data is provided monthly by GURU systems and officers will communicate this information to residents in a format agreed with Housing officers to ensure appropriate and effective communication.
- 5.16 The Heat Supply Agreement would be with the named tenant or leaseholder on the landlord's contract. We recommend that this is included in a revised tenancy and leaseholder agreement. This is in line with other London Boroughs (eg Camden) and has been shown to be simple to administer.

Third party or in-house credit billing?

- 5.17 Many communal heating systems use third parties to manage their billing. These companies have a lot of experience in the sector and already have many of the processes in place.
- 5.18 The Financial Appraisal outlines that using a third party is likely to be more expensive than managing this system in-house.
- 5.19 The Council would need to create the resource to manage Credit Billing in-house.
- 5.20 Other Local Authorities, such as Camden, already manage Credit Billing effectively in-house. It is cost effective for the residents and gives the Council control of the tariffs.
- 5.21 It was agreed that it would be preferable if we were able to manage the billing in-house. In particular it would mean that residents only receive their bills from Brent Council and not from a third party.
- 5.22 There are also other advantages highlighted including:
- 5.22.1 Brent Council would need to access the usage data as the landlord to ensure the scheme is operating efficiently anyway.
- 5.22.2 It is estimated that managing the billing in-house will be cheaper in total once a larger number of properties are billed.
- 5.22.3 The data would also be used to engage with customers falling into arrears, enabling us to tackle financial inclusion and offer support.
- 5.22.4 By starting with a small number of properties, the Council will gain experience which they can build-on as more properties are added to the scheme.
- 5.23 The recommendation is therefore to undertake Credit Billing in-house subject to an annual review.

Tariff Setting

- 5.24 This Paper recommends that the tariff is comprised of two elements: a standing charge and a variable element.
- 5.25 The standing charge will be a fixed daily amount regardless of how much energy is used. Initially, it will cover the fixed costs associated with the communal heating system such as the data licence and broadband for metering and billing, internal staff costs directly associated with the scheme, insurance, and business rates. This could be adjusted in the future to achieve other Council objectives.
- 5.26 The standing charge will be calculated based on the actual cost of operating the communal heating system at Gloucester & Durham. In the first year, it will be based on informed forecasts, then adjusted in subsequent years to reflect

actual cost incurred in the previous year. So the price could increase (or decrease) each year.

5.27 The variable element would be a charge per unit of heat. So customers who use more heat pay more in total. This covers the cost of gas and/or electricity used to generate heat. It is recommended that the charge per unit of heat is the same for all times of day and no matter how much energy is used.

5.28 There are a number of alternatives to this:

5.28.1 It is possible to charge simply a 'rate per unit heat' i.e. not to have a standing charge at all. This means that there will be more incentives for customers to reduce their energy usage and would therefore fit better with Brent's Climate Emergency declaration. This is because customers who use small amounts of heat will pay less than the recommended option (para 5.2 to 5.6). Clients that use a lot of heat will pay more than the recommended option. This creates a greater incentive for customers to reduce their heat usage. However, it is possible that there would be vulnerable customers who may end up paying more if their heat usage is high.

5.28.2 It is possible to have a tiered rate. For example, this could mean that the cost is Xp per kWh of heat for first 1,000kWh, but then it's less than Xp/kWh for the next 1,000kWh and so on. This would be more difficult to explain to customers but could also create some incentive to reduce heat use to this threshold.

6.0 Financial Implications

Tariff

6.1 The tariff to customers will be calculated using the methodology set out in para 5.24-5.27 prior to residents moving in to Gloucester & Durham. This will include a standing charge and variable element which will be adjusted based on individual actual usage.

6.2 The proposal in this paper relates to the element of the standing charge in relation to the administration of meter data and billing.

Administrative costs

6.3 In-sourcing administrative cost: It is estimated that the administrative cost of billing would be circa £72 per property (once all 235 homes are completed) if the function is delivered in-house.

6.4 Outsourcing administrative cost: If a third party is appointed, the administrative cost would be around £129 per annum per property once all 235 units are completed. This includes £99 charge from the third party, £12 plus some internal resource to use the data to monitor the effectiveness of the system as a whole.

6.5 These administrative costs will be recovered through the heat charges to tenants.

- 6.6 Some of the initial administrative and set-up cost will be covered by the HRA as part of the build until all 235 units are completed, so that tenants experience the same administrative cost before and after Phase 2 is completed.
- 6.7 An additional licence from Guru Systems could give Brent access to a data metering and a diagnostic feature which costs £25 per property per annum. This feature can be used for monitoring the heating system performance in communal areas and the building as a whole. This feature would be useful from an Asset Management perspective as it would allow feedback to ensure the system is operating efficiently thereby reducing energy use (and the subsequent reductions in cost and carbon). This is likely to be included within the service charge.

7.0 Legal Implications

- 7.1 Under Section 11 of the Local Government (Miscellaneous Provisions) Act 1976 (as amended by the Electricity Act 1989), local authorities may generate and sell heat and electricity, and may also purchase and supply heat.
- 7.2 The Heat Network (Metering and Billing) Regulations 2014 (the “Regulations”) apply to new and existing district heat networks or communal heating systems. The Regulations place three key obligations on heat suppliers, namely:
- 7.2.1 Notify - notify the Secretary of State on or before the first day of operation new district heat networks or communal heating systems;
- 7.2.2 Install meters - install a building level meter in multi-occupancy building at the heat exchanger or entry point; install final customer meters for new buildings or major renovations²; ensure all meters accurately measure, record and display heat consumption; and where meters have been installed, install temperature control devices; and
- 7.2.3 Bill - provide billing information at least twice per year. If a final customer requests e-billing, which must be available, billing information must be at least quarterly; ensure bills and billing information is accurate and based on actual consumption; and not profit from the billing process.
- 7.3 Should the Council decide to proceed with the recommendations made by Officers in this report, relevant technical, commercial and legal support will continue to be required in respect of appropriate contractual documentations/billing documents between the Council and the customers/residents and delivery of the scheme in general.

8.0 Equality Implications

- 8.1 An Equality Impact Assessment has been completed and is being reviewed by the Equalities team.
- 8.2 The proposals in this paper are to minimise charges to residents overall.

² There are further requirements within the regulation to install meters in existing schemes where it is economic to do so. There is currently no definition of ‘economic’.

- 8.3 Spreading the cost of heating through the year (credit billing) helps low income households.
- 8.4 If a fully variable rate was chosen, residents using small amounts of heat would be likely to have reduced bills (compared to a standing charge plus variable cost) and residents using high amounts of heat would be likely to have higher bills (compared to a standing charge plus variable cost). If elderly people have on average higher heat usage, they may be disadvantaged by a purely variable rate.
- 8.5 Loss of income due to prolonged unemployment or ill health will impact on the ability to budget for bills and energy usage. The in-house billing resource together with housing will be able to address individual cases and sign post for specialist support.

9.0 Human Resources/Property Implications (if appropriate)

- 9.1 It is recommended that there is in house management of the billing for heating and hot water. This will require an internal resource of 0.5FTE . Should it be necessary to recruit to this post, all the relevant HR policies and procedures will be followed.

10.0 Proposed Consultation with Ward Members and Stakeholders

- 10.1 In January 2020, the South Kilburn DEN Project Team ran three community engagement events. These were advertised widely to all residents of buildings which are part of the South Kilburn Regeneration Programme and were attended by around 80 people. These events were interactive and formed the basis for recommending the billing, metering and tariff setting method in this Paper.
- 10.2 The key important point for residents was the predictability of billing in terms of cost and even spread over each month of the year.

Report sign off:

MINESH PATEL
Director of Finance