

Cabinet Member Report

Decision maker:	Councillor Rachael Robathan, Cabinet Member for Housing
Date:	17 November 2017
Classification:	General Release (<i>save that in accordance with paragraph 4 of Schedule 12A to the Local Government Act 1972, Appendix A of this report be exempt from publication in that it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings</i>)
Title:	Westminster City Council: New Charging Model
Wards affected:	Pilot: Churchill, Vincent Square and West End Roll-out: Warwick, Tachbrook, Westbourne, Regents Park and Little Venice
Policy context:	Alignment of fair and consistent heating and hot water charging model for all Westminster City Council residents, to comply with Heat Networks (Metering & Billing) Regulations.
Summary:	This report seeks Cabinet Member approval to change the Westminster City Council heating and hot water charging model, to become compliant with the <i>Heat Networks (Metering & Billing) Regulations 2014</i> , commencing with a pilot and 'proof of concept' in 2017/2018.
Financial summary:	A total spend (forecast) of £375k will be funded from CityWest Homes' Energy Budget (on behalf of Westminster City Council), in order to deliver the scheme.

1. Background

- 1.1 The *Heat Networks (Metering & Billing) Regulations*, introduced in 2014, require providers of communal heating and hot water systems to introduce metering and billing. As a result, CityWest Homes (CWH) has drawn-up a programme to pilot and then introduce this, in phases, during 2017 and 2018.
- 1.2 Around 7,801 CWH properties are supplied with heating and hot water and billed on a flat rate basis (based on estimated annual costs, using a rolling average of the previous three years).
- 1.3 In order to understand impacts, mitigate impact on the most vulnerable and provide education and support to residents, three types of metering system are being piloted: **communal heating schemes** (individual meters), **Cyclo-Control¹ electric heating schemes** (individual meters) and the Pimlico District Heating Undertaking, or **PDHU scheme** (block based metering).
- 1.4 As CityWest Homes has delegated authority to calculate and apply the charges on behalf of Westminster City Council (WCC), one of the aims of the pilot is to develop fair and transparent charging methodologies for the different types of schemes and metering systems.
- 1.5 For all schemes, a variable rate (per kilowatt-hour) will be charged for Heating & Hot Water / Cyclo-Control Electricity energy consumption, plus a fixed charge for all other relevant costs.
- 1.6 The daily 'Standing Charge' for all schemes will be apportioned according to 'habitable room' numbers (with a weighted increment).
- 1.7 This charge will cover fixed costs, management, billing, administration and related costs, network and/or block heat loss (where appropriate) and, for PDHU Leaseholders only, a contribution to an existing capital project.
- 1.8 The 'Variable Charge' applies to all schemes and will cover the variable costs of supplying utility (per kilowatt hour).
- 1.9 VAT (at 5%) will be charged on all individually metered properties.
- 1.10 The setting of fixed and variable charges will, in combination, be set at a level which ensures that the Council breaks even in the medium and long-term.

¹ Cyclo-Control refers to a remote switching system used to control the heating in the high rise blocks

- 1.11 The new tariffs have been modelled to ensure that income covers estimated costs. While introducing metered charging at the same time as some users continue to receive flat rate charging, CWH has sought to ensure that the two groups of customers have charges that are fair and justifiable and offer equal value for money.
- 1.12 In assessing the implications for residents, detailed benchmarking has been undertaken to ensure the tariff for each scheme offers value for money when compared to the market. Whilst there is a broad range of average bills across the schemes, each scheme offers tariffs that are below the market benchmark.
- 1.13 Minimum and maximum expected bills have been analysed and the latter used to deliver proactive engagement and advice to those residents with particular needs.
- 1.14 CWH has endeavoured to ensure that the implementation of a new metering and billing regime, alongside a restructured charging methodology, ensures legal compliance with the Regulations, takes into account existing leasehold terms and complies with VAT and related legislation.
- 1.15 Total costs for the pilots through to April 2018 should not exceed £375k. Further budgets will be drawn-up for future phases, as approved.

2. Recommendations

- 2.1 That in accordance with paragraph 4 of Schedule 12A to the Local Government Act 1972, Appendix A of this report be exempt from publication in that it includes information in respect of which a claim to legal professional privilege could be maintained in legal proceedings.
- 2.2 The Cabinet Member is asked to note that:
 - 2.2.1 There is a need to roll out individual meters, or similar measurement devices to all residents where it is economically and technically feasible to do so. The principles for the *Heat Networks (Metering & Billing) Project* pilot will form the basis of the wider roll-out during 2017 and 2018.
 - 2.2.2 CityWest Homes has an approach that has been agreed with the department of Business, Energy and Industrial Strategy - Regulatory Delivery (BEIS - RD) to become compliant with the *Heat Networks (Metering & Billing) Regulations 2014*, commencing with a pilot during the summer and autumn of 2017.
 - 2.2.3 The introduction of a new charging methodology is designed to support the roll-out of the new Metered Billing regime, whilst simultaneously providing a consistent, transparent and fair cost model for existing residents.
 - 2.2.4 A sub-group of the CWH *Residents Council* has been set up to provide resident involvement across all types of heating and hot water schemes.

Resident engagement activities are focussed on education and support to residents, so that they can manage their heating and hot water costs.

- 2.3 The Cabinet Member is asked to approve the change in the 'Charging Model' from a flat-rate, pooled historical cost to an individual metered (or block-metered) methodology, based on a daily 'Standing Charge' plus a variable charge (the actual cost of the energy required to supply the heating and hot water) and delegate *authority* to the Chief Executive of CityWest Homes all decisions regarding the timing and application of this policy change in respect of individual dwellings and buildings so as to comply with the *Heat Networks (Metering and Billing) Regulations 2014* and all associated or subsequent legislation connected with these Regulations.

3 Financial Implications

- 3.1 The new tariffs have been modelled to ensure that income covers estimated costs.
- 3.2 The methodology for introducing metered charging, whilst some users continue to receive flat rate charging, has sought to ensure that the two groups of customers have charges that offer equal value for money.
- 3.3 Variable and blended charges have been calculated using the same cost assumptions and are based on recent consumption information across all blocks.

4 Resident Implications

- 4.1 As part of assessing the resident implications, detailed benchmarking has been undertaken to ensure the tariff for each scheme offers value for money, when compared to the market.
- 4.2 Minimum and maximum expected bills have been analysed and the latter used to deliver proactive engagement and advice to those residents with particular needs.

5 Legal Implications

- 5.1 The metering and billing pilot is part of a programme aiming to achieve full compliance with the *Heat Networks (Metering & Billing) Regulations 2014*.
- 5.2 Legal Advice sought on compliance with the HN (M&B) Legislation, Cyclo-Control electricity and VAT legislation has been provided by the Tri-Borough Legal department - and is shown in Appendix A.

6 Outstanding Issues

6.1 There are no outstanding issues that need to be settled.

7 Appendices

7.1 Appendix A - Legal Advice

If you have any queries about this report or wish to inspect any of the background papers, please contact CRichardson@cwh.org.uk

For completion by the Cabinet Member for Housing

Declaration of Interest

I have <no interest to declare / to declare an interest> in respect of this report

Signed: _____ Date: _____

NAME: Councillor Rachael Robathan, Cabinet Member for Housing

State nature of interest if any

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(N.B: If you have an interest you should seek advice as to whether it is appropriate to make a decision in relation to this matter)

For the reasons set out above, I agree the recommendations in the report entitled **Westminster City Council - New Charging Model** and reject any alternative options which are referred to but not recommended.

Signed

Councillor Rachael Robathan, Cabinet Member for Housing

Date

If you have any additional comment which you would want actioned in connection with your decision you should discuss this with the report author and then set out your comment below before the report and this pro-forma is returned to the Secretariat for processing.

Additional comment:

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If you do not wish to approve the recommendations, or wish to make an alternative decision, it is important that you consult the report author, the Director of Law, the City Treasurer and, if there are resources implications, the Director of People Services (or their representatives) so that (1) you can be made aware of any further relevant considerations that you should take into account before making the decision

and (2) your reasons for the decision can be properly identified and recorded, as required by law.

Note to Cabinet Member: Your decision will now be published and copied to the Members of the relevant Policy & Scrutiny Committee. If the decision falls within the criteria for call-in, it will not be implemented until five working days have elapsed from publication to allow the Policy and Scrutiny Committee to decide whether it wishes to call the matter in.