

# Southend-on-Sea City Council

Report of the Deputy Chief Executive and Executive  
Director (Finance & Resources)

To

**Cabinet**

On

**8 November 2022**

**Agenda  
Item No.**

Report prepared by:  
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Corporate Resources

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## **Council Tenants Heating Charges Assessment 2022/23**

**Policy and Resources Scrutiny Committee**

**Cabinet Members: Councillor Ian Gilbert**

***Part 1 (Public Agenda Item)***

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### **1 Purpose of Report**

This report sets out the justification for increasing heating charges during 2022/23 in line with actual costs being incurred.

### **2 Recommendations**

**That Cabinet:**

- 2.1 **Approve an increase to Heating Charges for Housing Tenants for 2022/23 in line with the proposals contained within this report with effect from 1<sup>st</sup> January 2023.**

### **3 Background**

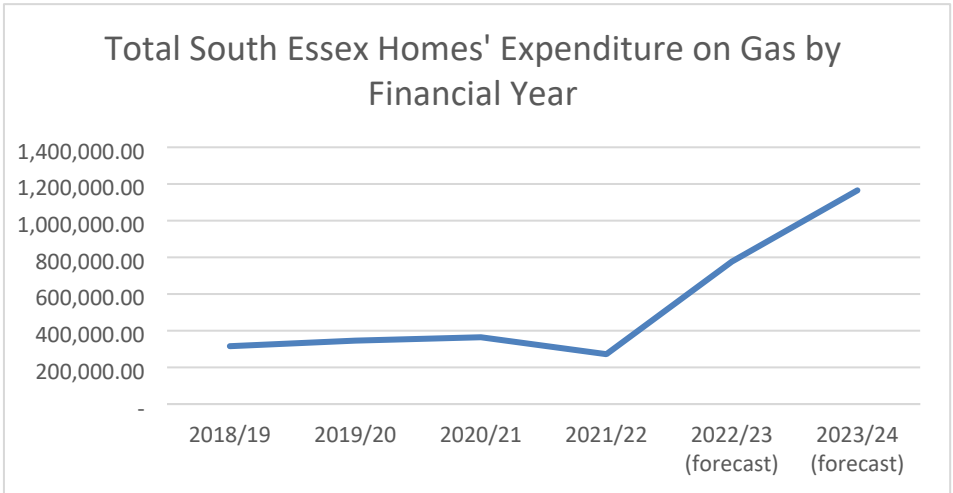
- 3.1 The unprecedented rise and volatility in energy costs is having a major impact across all aspects of everyday lives. The Government have responded with a series of initiatives to support individuals and businesses across the UK this year. It is important that the current operating environment is considered, and changes are made to the historical billing arrangements for passing on the actual level of energy consumed by our housing tenants in a more timely way. Tenants like all other residents have received some support directly from the Government to help with their energy commitments.
- 3.2 South Essex Homes levies Heating Charges to tenants that are supplied with heating and hot water from communal heating systems. These are generally systems where a communal boiler in the building supplies heating to both the communal areas of the block, as well as within the individual properties.

3.3 The Heat Network (Billing and Metering) Regulations 2014 set out the parameters and requirements of heat suppliers and the obligations for both billing the end user and registering details of any communal supply with the Office for Product Safety and Standards (OPSS). Since implementation in 2016, South Essex Homes has fully complied with this legislation ensuring regular information is provided to the OPSS and tenants have been billed for the use of energy at the scheme in arrears.

3.4 The methodology for billing tenants for the usage at their schemes has been levied to the end users by using historical costs incurred, as per the advice at the time of this legislation was enacted. Actual costs incurred by South Essex Homes can cover a period of anything between 17 months and 5 months prior to the start of the financial year before they are used as a basis for charging heating charges for the forthcoming financial year. For example, charges incurred from November 2020 to October 2021 were used as a basis for setting the heating charges at appropriate properties for the period April 2022 to March 2023.

**The Energy Market**

3.5 The last year has seen unprecedented movements in the energy market with costs now considerably higher than we have seen in recent years. For South Essex Homes we have seen the price we pay for our gas, which is effectively on behalf of our tenants, rise by 200% this year, with further increases expected over the next financial year. The below chart shows how the cost of gas for South Essex Homes has risen in 2022/23 and the anticipated rise in costs for 2023/24.



**Current Financial Position**

3.6 It has now become clear that the mechanism currently employed by South Essex Homes to recover Heating Charges is not sufficient to ensure full recovery of costs in a timely manner, or indeed fair and appropriate for our housing tenants. Gas costs in 2022/23 are forecast to be around £776,000, with recovery of individual heating costs through Heating Charges forecast to be around £241,000 and recovery of communal heating costs through Service Charges forecast to be £132,000. This leaves a total under recovery of gas costs in year of £403,000. This current situation cannot continue, whilst

tenants at the same time will be receiving direct support from the Government to help towards their increased energy costs in this year.

- 3.7 Continuing with the current methodology for calculating heating charges exacerbates the financial challenge into 2023/24 where South Essex Homes are currently forecasting a shortfall in recovery of gas costs (through both Heating and Service Charges) of £461,000.
- 3.8 This position is not sustainable for South Essex Homes, these losses, added to further losses due to increased costs of electricity, pay and contracts, mean that the continued financial viability of South Essex Homes will be put at jeopardy if we do not act to alter the way that these charges are levied.

### **Updated Guidance and Mid-year Assessment of Heating Charges**

- 3.9 In recent months dialogue with the Office for Product Safety and Standards has confirmed that, while not notified to us at the time, guidance on implementation of the regulations was updated in 2020. The updated guidance gave advice that the charges should be fair to both the end user (i.e., tenants) and the heat supplier (i.e., South Essex Homes). Therefore, we are in a position where we can, and should, alter the way that Heating Charges are levied to our tenants to ensure that the charges are fair and reasonable for both the tenants and for South Essex Homes.
- 3.10 In order to phase these increases in for our tenants and start to recover costs in year we are recommending that a mid-year assessment is carried out and Heating Charges to our tenants are adjusted on the 1<sup>st</sup> January 2023 to a level more in line with the actual costs being incurred. This will ensure that losses do not keep accumulating in this area for South Essex Homes and will ensure that our tenants are paying the true cost of gas used within their schemes for heating and hot water, whilst they are receiving additional support from Government for this purpose.
- 3.11 The phasing of the increase will, for our tenants, ensure that the government assistance, currently being rolled out in response to the energy crisis, can be used to offset the higher energy costs currently being incurred within their properties. For our residents in sheltered schemes and those in Hostels we are recommending an average increase in heating charges of £7.87 per week. This recommended charge represents the actual cost of providing the supply of heating and hot water into these properties. Further, this mid-year adjustment reduces the estimated losses for South Essex Homes for gas costs in year from £403,000 to £302,000. Over the course of the whole year this would represent an average increase of around £400, for the period 1<sup>st</sup> January 2023 to 31<sup>st</sup> March 2023 this additional charge would increase our tenants' costs by around £100.
- 3.12 Adjusting the charge in this way is fair on the residents that receive the service as it does represent the cost of the current provision, in the same way as all households across the country have seen their utility bills increase in the last year. Further, making the in-year adjustment will assist tenants to maximise the financial assistance currently being provided by the government as well as to phase in, what will need to be, a further increase in the next financial year.

## Assisting our Tenants

- 3.13 There can be no doubt that the economic situation with high inflation, rising interest rates and energy costs rising at levels well above the inflation rate, is having and will continue to have a significant impact on our tenants. South Essex Homes will continue to work with all our tenants to ensure that they maximise the assistance and financial support available to them through Housing Benefit and Universal Credit. We know that 73% of our tenants are in receipt of means tested benefits and will already be getting help towards the additional cost being incurred on energy this year, but South Essex Homes will target those households not currently in receipt of benefits to ensure that we are aware of their financial situation and that our residents are claiming all benefits and support that they may be entitled to.
- 3.14 The government has announced a series of payments that are being made to assist in meeting the additional costs being incurred by all householders. These payments by the government will ensure that our tenants gain additional support in paying for the additional costs that are being incurred due to rising energy costs. Every household will receive a payment of £400 that is deducted straight from their energy bills over 6 months, for our sheltered residents they still pay their electricity costs directly to an energy supplier so they will benefit from this government support. In addition, the government has put in place a series of support packages that are aimed at assisting those most in need. All residents in receipt of Low-Income benefits and tax credits will receive an additional £650 paid in 2 instalments, the first half of this payment was made in July with the second half being paid in November for those that still qualify. Additionally, there are 2 further cost of living payments for those that are eligible, the first is £150 for any resident in receipt of a disability benefit, paid in October. The second is a further £300 on top of the winter fuel payment, bringing this payment up to a maximum of £600. This package of help from the government means that all of our residents will receive some help with their energy bills this winter, with £400 being the minimum amount, but some that are entitled across all categories being **entitled to additional help of up to £1,800 this financial year.**
- 3.15 South Essex Homes has put in place further measures to support our tenants facing financial hardship though the energy crisis. Earlier this year a Hardship Fund was established, and money set aside to assist in cases where energy costs for households that were experiencing extreme financial hardship. Households can apply for up to £250 to assist in meeting these costs.

## Communication with our Tenants

- 3.16 It is vital that we continue to engage with our tenants over the impact of the increased costs of providing heating and hot water into their properties and the assistance available to help them meet these rising costs. South Essex Homes communications team will work alongside the communications team at Southend City Council to ensure we fully engage with our tenants to make sure they are fully aware of the increases, the reasons why the increases are necessary, provide advice and highlight any ways in which we can help to assist them as we move through the winter months.

## **4 Other Options**

- 4.1 The Council could choose not to increase Heating charges, the implications of this are twofold. Firstly, resident's costs of heating and hot water in their homes will be subsidised by the funds of South Essex Homes and the HRA. This is not a fair or appropriate use of HRA funds. Secondly, the losses being incurred by South Essex Homes on delivering these services will continue to increase putting further pressure on the reserves position and viability of South Essex Homes to continue to deliver vital services to our tenants.

## **5 Reasons for Recommendations**

- 5.1 The residents of Sheltered Schemes and Hostels are currently paying below the actual cost for Heating and Hot Water in their homes. This adjustment means that residents will start to pay the true cost of these services into their homes and better prepare them for further increases in 2023/24 in line with the energy market.

## **6 Corporate Implications**

- 6.1 Contribution to the Southend 2050 Road Map

The ability of South Essex Homes to manage its financial resources, the in-year spending and the ability to recover legitimate charges from tenants are key determinants in maintaining South Essex Homes, and as parent the Council's, reputation for strong financial probity and effective stewardship.

- 6.2 Financial Implications

As set out in the body of the report.

- 6.3 Legal Implications

The report provides information in the body of the report on the legislation relevant to the charging for Heating and Hot Water within individual dwellings.

- 6.4 People Implications

The proposals will undoubtedly have an impact on the tenants within our properties that receive Heating Charges from South Essex Homes. The report sets out the implications to tenants and the additional funding, advice and support that is available to assist those tenants in meeting these costs.

- 6.5 Property Implications

None

- 6.6 Consultation

Engagement with tenants will begin once formal approval has been obtained and every effort will be made to ensure that all affected tenants are assisted with these costs as much as possible.

#### 6.7 Equalities and Diversity Implications

Some of the actions may have equality and diversity implications and these will be considered as part of our normal equalities impact assessments.

#### 6.8 Risk Assessment

The report sets out to mitigate a key financial risk for South Essex Homes in delivering services within the envelope of funding available.

#### 6.9 Value for Money

The key objective of South Essex Homes is to ensure that Value for Money is being obtained in the delivery of all services. In this regard, all available options are being explored to ensure costs being incurred for gas within schemes is minimised and the charges to tenants are kept to a minimum. These include lowering the ambient temperature within the schemes to a comfortable level and reducing the heating within communal areas to ensure heating is not being wasted.

#### 6.10 Community Safety Implications

It is not anticipated that there will be any direct implications arising from these proposals on Community Safety but they will be kept under review.

#### 6.11 Environmental Impact

The option may have an environmental impact in that the usage of gas within schemes directly contributes to the carbon footprint. Options are being explored to reduce this as much as is feasible.

### 7 **Background Papers**

None

### 8 **Appendices**

None