

Item No. 6	Classification: Open	Date: 12 October 2023	Decision Maker: Housing and Community Safety Scrutiny Commission
Report title:		Heating Compensation Review	
Ward(s) or groups affected:		All wards	
From:		Director of Asset Management	

RECOMMENDATIONS

1. The Housing and Community Safety Scrutiny Commission is asked to note the contents of this report.

BACKGROUND INFORMATION

2. The Housing Department's compensation policy was updated in May 2021 and for the first time included an automated compensation payment of £3 per day for each continuous 24 hour period of district heating outage experienced by a property.
3. The purpose of this automated compensation was to provide some compensation to residents who had to use additional electricity for alternative heating and hot water provision.
4. Since April 2021 energy costs have risen sharply which has resulted in an increased cost to residents of running alternative electric heaters in the event of an outage.
5. The Housing and Community Safety Scrutiny Commission has requested a report reviewing the Heating Outages Compensation Scheme including the compensation value and payment process back to residents. In particular the Commission has requested a report on:
 - The compensation criteria and process
 - The number of outages where the compensation threshold has been reached
 - The number of residents paid compensation
 - How much compensation has been paid
 - Whether, in light of the rise in fuel costs, the council needs to increase the compensation amount

KEY ISSUES FOR CONSIDERATION

Process and criteria

6. To tackle the criteria and process question first, the policy document states the following regarding criteria:
“For communal heating or hot water outages lasting longer than 24 hours the council will automatically pay £3 for each whole day for the duration of the outage.”
7. The policy states the following regarding process:
“These payments will automatically be made to either the rent account or service charge account, dependent on tenure, once per quarter.”
8. To expand on this process slightly:
 - The council’s maintenance term contractors compile outage reports at the end of each month and send them to the council
 - These reports include the start time, end time, duration and which blocks were affected by each outage
 - The outage reports are reviewed by the Engineering and Compliance team monthly to ensure accuracy and to calculate the contractor’s ‘availability’ KPIs
 - At the end of each quarter, any outages that lasted 24 hours or more are identified and extracted onto a separate spread sheet. This is then checked with operational colleagues to ensure accuracy before compensation is processed.
 - For tenants, the list of blocks and outage durations are uploaded into iWorld which then automatically credits the rent accounts by the appropriate amount (both compensation and an appropriate proportion of weekly heating charge refund).
 - Addresses and resident details for homeowners within the affected blocks are identified and the compensation amounts recorded against each. The list is then sent to the Homeowner Services team who process credits to the relevant service charge accounts.

Number of outages reaching the threshold

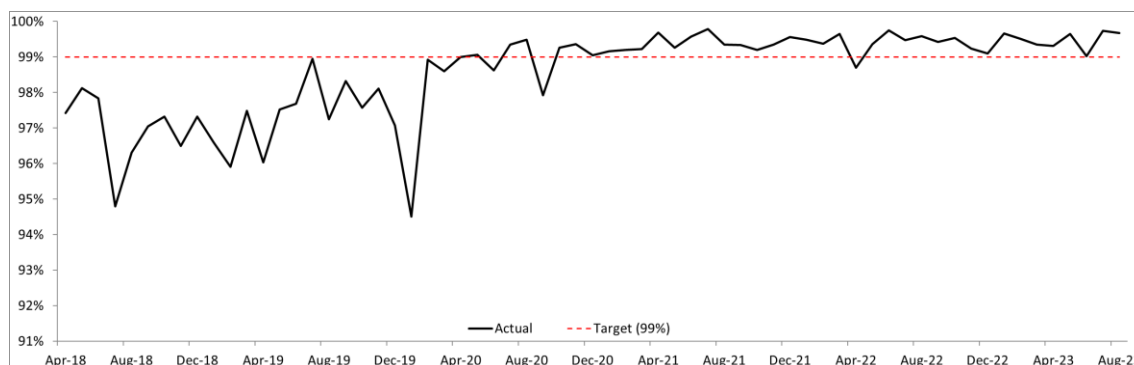
9. Turning to the second, third and fourth bullet points of paragraph 5 the table below provides a summary of available data.

Financial year	No. of qualifying outages	Properties affected		Value of compensation
		Including duplication	Excluding duplication	
2021-22	44	4,281	3,152	£45,000
2022-23	49	5,781	4,088	£38,772
2023-24 (Q1 only)	19	2,334	2,334	£13,701

10. It is important to note that the ‘No. of qualifying outages’ column represents the total number of separate events affecting at least one block for over 24 hours. The ‘Properties affected – including duplication’ column represents the sum of each property affected by each outage i.e. one property may have been affected multiple times and counted each time. The ‘excluding duplication’ column simply removes such instances to provide a number of properties affected at least once in the year by an outage of that length. The ‘Value of compensation’ column represents only the £3 per day compensation paid to all tenures – both tenants and leaseholders – and excludes the heating service charge refund portion paid back to tenants.

Tackling outages and investing in our systems

11. While the heating compensation provides some level of protection for customers who are left needing to heat their homes and hot water with electricity, the fundamental solution is obviously to tackle the causes of outages so that they are a) less frequent, and b) of shorter duration.
12. In fact, the district heating systems in the borough have become more reliable overall over the last few years, as can be seen in the following “Availability KPI” tracker from April 2018 through to the August 2023.



13. The significant improvement seen has been the result of numerous measures:
- Improving maintenance contractor response times
 - Ensuring maintenance contractors have sufficient spare parts kept in stock to deal with the most common outages, along with an agreement that they will work together and share parts
 - Procurement of a third maintenance contractor to add extra resource in the winter if required
 - Advanced contingency planning to ensure temporary boiler systems can be brought to site and connected more quickly.
 - Investment in the council’s Building Management Systems (BMS) to provide increased remote visibility and reporting of critical systems. This allows better analysis of operational problems and faster response times.
 - Investment in the most problematic systems e.g. the Brimington underground mains and the Aylesbury boiler house, which has

resulted in hugely improved reliability in these locations.

14. At the same time as the above, the council has also been working on some longer-term improvements such as decarbonisation through the installation of three large scale Water Source Heat Pumps (at Consort, Newington and Wyndham), a planned extension to the successful SELCHP heat network, some grant funded network efficiency improvements and the implementation of dwelling heat meters where this is viable.
15. With an aging district heating infrastructure, much more remains to be done, with significant constraints in terms of officer resource, strain on the HRA budget, and a constantly evolving regulatory environment.

Is the compensation level still correct?

16. When the heating compensation amount was set at £3/day in May 2021 the average cost of a unit of electricity was 19 p/kWh and had been relatively stable for several years. By the winter of 2022/23, both gas and electricity prices had risen so much that the government’s Energy Price Guarantee had replaced Ofgem’s Energy Price Cap and there was a £400 per household Energy Bill Support Scheme in place. The chart below shows how the unit rate of electricity available to domestic customers in London has changed over the last 5 years (the latter light blue bars represent quarters rather than years).

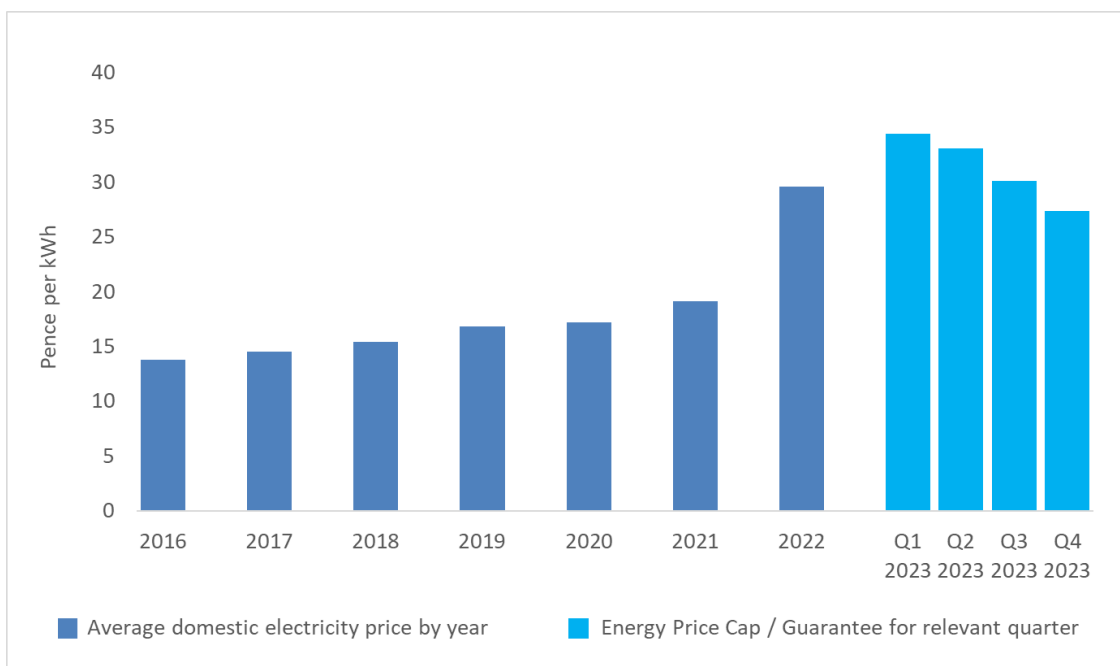


Figure 1 - Domestic electricity prices in London

17. At 19 p/kWh £3 could purchase 15.7 kWh of electricity for heating and hot water generation. At 30 p/kWh this reduced to only 10 kWh – a reduction of around one third. A 50% increase in the daily compensation paid to £4.50 would fund around the same quantity of electricity as when the

policy was brought in.

18. Certainly a case could be made for increasing the daily compensation amount on this basis.
19. Counter-arguments include the impact on the council's budgets (a 50% increase could mean £60k p.a. compensation rather £40k p.a.) and the fact that energy prices are now starting to come down again.

CONCLUSION

20. Two years on from the introduction of an automated District Heating Compensation payment, the scheme appears to be working well with both tenants and leaseholder receiving automated payments every quarter.
21. There is a case for increasing the daily compensation amount, but also counter-arguments. Councillors will need to weigh the arguments.
22. Compensation payments are not a true solution. Fundamentally, the answer is to improve the reliability of the district heating systems so that outages reduce in frequency and duration. Much progress has been made in this area already but much more remains to be done.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Compensation Policy https://www.southwark.gov.uk/assets/attach/40162/Compensation-Policy-May-2021.pdf	Online	N/A
Review of compensation policy – heating and hot water outages	Housing Department, 160 Tooley Street, SE1 2QH	Clare Johnson Clare.Johnson@southwark.gov.uk

APPENDICES

No.	Title
Appendix 1	N/A
Appendix 2	N/A

AUDIT TRAIL

This section must be included in all reports.

Lead Officer	Dave Hodgson, Director of Asset Management	
Report Author	Tom Vosper, Strategic Project Manager – Heat Networks	
Version	Final	
Dated	4 October 2023	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Law and Governance	No	No
Strategic Director of Finance and Governance	No	No
List other officers here		
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team / Scrutiny Team	4 October 2023	