

Item No.	Classification: Open	Date: 25 June 2014	Decision Taker: Cabinet Member for Housing
Report title:		Heating energy efficiency measures	
Ward(s) or groups affected:		All	
From:		Strategic Director of Housing and Community Services	

RECOMMENDATION

1. The Cabinet Member for Housing approves the reallocation of surplus funding of £1.74m on heating schemes as detailed in section 19, table 1 of this report.

BACKGROUND INFORMATION

2. Southwark Council has, for many years, installed and operated district provision of Heating and Hot Water. There are many advantages to using this method of heat distribution: lower carbon emissions, cheaper fuel and more cost effective over the life of the system.
3. There are approximately 17,000 properties in Southwark that rely on the district systems for their heating and hot water with 130 boiler houses and 70 sub-plant rooms located throughout the borough.
4. The Housing Committee on 14 November 1994 agreed to establish a 'notional' heating account within the HRA with effect from 1 April 1995. The purpose was to ring-fence the costs and income associated with the provision of district heating in a separate account, comprising gas, electricity, oil & energy management, etc., offset by income from tenants & home owners, and recharges to other departments for non-HRA buildings linked to the district heating system.
5. Surpluses or deficits are retained within the heating account for future years - the intention being threefold. Firstly, to ensure that fluctuations in demand for heating due to the severity of the weather or other circumstances, could be smoothed out between years. Secondly, that cost savings arising from contract negotiations or price variations could not be used to cross-subsidise mainstream HRA activities; and thirdly, that surpluses could be used to fund energy efficiency measures to the district heating system which would in turn generate further savings over the long-term.
6. The account is maintained on a trading account basis with surpluses/ deficits either contributing to the reserve or being met from it. The reserve balance is taken into account in the calculation of charge rates in subsequent years through the annual HRA budget setting process. Historically, resources have been allocated for energy efficiency measures to communal heating systems, but not in the recent past as reserves were not considered at a sufficient level to do so without risk to charge payers in the event that adverse price movements or higher consumption were to put the account in deficit and warrant a call on reserves.

7. For reference, the cost of repairing and maintaining the district heating system remains outside the scope of the heating account and is met from tenants rents and home owner service charges.
8. This reports sets out improvements that, if agreed, will increase the reliability of district heating and hot water systems, lower energy consumption and reduce carbon emissions.
9. The council currently spends approximately £10.6m per year on gas supplies for district heating systems. The cost of gas is expected to rise significantly over the next five years. LASER, our gas consortium provider, estimate that by 2015/16, gas costs will have risen by 31%.
10. In May 2013, following extensive consultation with all Area Housing Forums, Cabinet approved £4.712m allocation for energy efficiency measures across the communal heating stock. The heating account provided £4m and an additional £712k was made available from surpluses from completed communal heating major works. The heating account is a fuel only account and any works funded from this source needs to contribute to energy efficiency and reducing fuel costs.
11. Accordingly, the works covered three specific areas of energy efficiencies: main boiler burner renewals, installation of remote Building Energy Management Systems (B.E.M.S) and installation of dirt separation units. The full programme is attached as Appendix 1.
12. The works were tendered through the existing heating contract as the works are quite specialised and dealt with the risk of two different contractors being responsible for the same system during the defects period. The returned prices were benchmarked against previous external tender's prices to ensure best value.
13. TBrown were significantly cheaper than O.C.O Ltd on the B.E.M.S and burner renewals. The dirt separation prices were comparable. After Section 20 consultation, TBrown were allocated the B.E.M.S and burner renewals programme borough wide and OCO were allocated dirt separation for their part of the borough. Consultation was completed on 6 December 2013. Delivery of the programme is progressing well and will be completed in line with the timetable.

KEY ISSUES FOR CONSIDERATION

14. Overall, the costs of the three elements of work at £2.9m are significantly less than the original estimate. Both contractors having been able to use their purchasing power to drive down prices from their supply chains and achieve extremely competitive costs. This has resulted in an unallocated surplus of £1.8m.
15. This surplus provides further opportunities to improve the council's communal heating stock three options for have been considered for use of these resources. It is worth noting that all communal systems that can be retrofitted with B.E.M.S, Burners and Dirt separation are covered in the existing programme.

- i. Invest in individual plant items within the boiler rooms, i.e. new pumps, controls etc across the borough, above and beyond the existing programme.
 - ii. Return surplus to heating account.
 - iii. Energy efficiency works to smaller/priority installations with known historical problems. See table 1 below for current priority schemes.
16. In respect of option I, there has already been an appreciable level of investment within boiler rooms and the planned programme to 2015 will add to this. While further investment would contribute to improving performance of systems, many of these components can be renewed under the current heating repairs contract as the need arises. A separate additional programme is not considered best use of resources at this stage. For these reasons option I is not recommended.
17. Option II is not recommended as full consultation has been carried out and Cabinet has approved the allocation and there are other sites that would benefit from the resources. For these reasons, option II is not recommended.
18. Option III involves targeting priority sites which are known to be problematic and where the level of investment will provide a comprehensive and long term solution to the problems. The primary focus on sheltered housing also ties in with the sheltered housing major works programme. The proposed investment on the North Peckham mains will address one of the most problematic sites in the borough. For these reason option III is recommended.
19. Table 1

Project	Location	Costs £
Energy Efficiency Works	Locksfield SHU	122,000.00
Energy Efficiency Works	Hughes House SHU	118,000.00
Energy Efficiency Works	King Charles Court SHU	144,000.00
Energy Efficiency Works	Various Sites	423,566.52
Energy Efficiency Works	North Peckham	600,000.00
Energy Efficiency Works	Albert Barnes	333,700.00
		1,741,266.52*

*10% contingency built into the figures.

20. All works involve making the systems more energy efficient and reliable and will contribute to a reduction in fuel costs. The works variously involve the renewal of old and obsolete heating systems and targeting major components that inhibit optimal energy efficiency and reliability. In the case of sheltered housing units, these works will be programmed with the current SHU major works programme to minimise any potential disruption to vulnerable residents.
21. Works will be price tested and delivered through the existing term contracts, or where appropriate to do so, will be subject to full tender. Completion is expected by March 2015.

Policy implications

22. In conjunction with their commitment under the Kyoto Protocol (mandatory reduction of carbon emission), Central Government has set certain targets. The targets are to reduce the countries carbon emissions by 50% come 2050. The Government views the promotion of community heating as playing a key role in achieving these targets.
23. Local authorities are required to demonstrate, via their Home Energy Conservation Act (HECA) returns, that they are actively striving towards and achieving reductions in carbon emissions. This demonstration will be greatly assisted via Southwark Council's commitment to sustain and improve its heating installations. The promotion of efficient heating will play a key role in:
 - Tackling climate change.
 - Tackling fuel poverty.
 - Reducing carbon emissions.

Community impact statement

24. The proposals once implemented will have a positive impact on the lives of residents contributing to making the borough more safe and secure and contributing to the Warm Dry Safe programme.

Resource implications (FIN0811 – JP)

25. One-off funding for district heating efficiency measures came from the ring-fenced heating account reserve and residual funds from the major works communal heating programme. The original works have proven to be significantly cheaper than anticipated allowing for a further phase of works to be carried out, providing they meet the criteria of improving energy efficiency and reducing fuel costs. The total cost of this second phase must be contained within the existing approval and any remaining funds will be returned to the heating account.

Consultation

26. All 12 Area Housing Forums were consulted between 26 February and 19 March 2013. Tenants Council met on 25 March 2013 and considered the responses from Area Housing Forum and was broadly in agreement with them.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Head of Specialist Housing Services

26. Home owner service charges for heating are constructed from actual costs incurred (including fuel supply), so none of the surplus in the heating account is due to service charge payments. Therefore the costs of the proposed work to the North Peckham estate and Albert Barnes House would be service chargeable to home owners under the terms of their leases and transfer agreements.
27. The budget estimates provided indicate that the cost of both schemes will result in service charges of more than £250 per leaseholder, and therefore statutory consultation under section 20 of the landlord and tenant act 1985 (as amended)

will be required. If the term contracts are used to carry out these works then the consultation will be a single stage process under schedule 3 of the regulations, but the council would need to ensure that it could prove that this option provided best value over a market tender for the schemes. If the schemes are tendered then statutory consultation under schedule 4 of the regulations will be required, and this will be a two stage process, with a notice pre-tender and a notice post tender. In either case Home Ownership Services will need to be provided with a detailed breakdown of the work and prices, with full justification of the need for the work.

28. The Head of Specialist Housing Services is responsible for sheltered accommodation. Where work is proposed to sheltered housing units then the contract managers will need to liaise with the Supported Housing Manager when inspections, testing or repairs are required.
29. It is essential that the contractor shows an understanding of the needs of vulnerable groups, particularly elderly tenants living in sheltered housing. The Head of Specialist Housing Services recommends that where possible the planned energy efficiency improvement works are undertaken in line with the current programme of fire safety upgrades currently taken place across all the sheltered housing units, allowing for all planned works to be properly co-ordinated and minimise disruption to the residents. The Head of Specialist Housing Services recommends that the Contract Manager for the proposed energy efficiency improvement works liaises closely with officers from the Supported Housing Service to ensure that this co-ordination takes place.

Strategic Director of Finance and Corporate Services

31. The finance implications are contained at paragraph 25.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
District heating energy efficiency measures	Engineering services, 160 Tooley St, SE1 2TZ	Ian Craig, 0207 525 7780
HRA Consultation on Programmes	Engineering services, 160 Tooley St, SE1 2TZ	Ian Craig 0207 525 7780

APPENDICES

No.	Title
None	

AUDIT TRAIL

Lead Officer	David Lewis, Head of Maintenance and Compliance	
Report Author	Chris Baxter, Engineering and Compliance Manager	
Version	Final	
Dated	25 June 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments Included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	Yes	Yes
Head of Specialist Housing Services	Yes	Yes
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	25 June 2014	