

Item No. 21.	Classification: Open	Date: 19 January 2021	Meeting Name: Cabinet
Report title:		Response to Housing Scrutiny Commission report into District Heating	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Leo Pollak, Housing	

FOREWORD – COUNCILLOR LEO POLLAK, CABINET MEMBER FOR HOUSING

We want everyone in Southwark to have a warm home, with heating and hot water that is effective, reliable and affordable. To meet our council commitment to make Southwark Carbon neutral by 2030 we also need to ensure the heat sources that supply homes in our borough are increasingly low and zero carbon.

This report setting our response to the Housing Scrutiny Commission’s report on District heating networks offers a chance to provide a wider update on our efforts to deliver a warm homes for all our residents with heating and hot water that is effective reliable and affordable.

We recognise the significant inconvenience and discomfort caused by heat and hot water outages and the importance of a concerted focus on how we respond to these situations as well as developing the wider heat investment and decarbonisation plan for the 17,000 homes (nearly a third) that are currently connected to heat networks.

While a full heat investment plan will be coming to cabinet in March this year, including full details on our approach to individual heat metering as the new regulations are finalised, in this report we are able to update on continued feasibility work to extend the South-East London Heat and Power (SELCHP) network to many more estates across Bermondsey and further south towards Peckham.

We also update on the council’s preferred approach to in-house provision over ESCos, as well as a number of improved coordination and communications procedures for when heating systems fail, including making out-bound calls to vulnerable residents and making data on vulnerable residents available to call centre staff and repairs engineers, who can provide additional support including provision of emergency fan heaters.

We are also able to describe progress in developing a new and greatly simplified compensation policy for residents experiencing outages, with a more

direct automated and live system based on a flat rate £3/day being piloted ahead of a full roll out in April.

I'm grateful for the work of the Housing scrutiny commission and officers in developing the borough's heat investment plan. Many of our older networks have seen substantial problems in recent months and years causing significant discomfort to many of our residents, and now is the time to lay the foundations for a concerted period of investment in our heat networks, to achieve the reliable affordable and sustainable heat our residents deserve.

RECOMMENDATIONS

That the Cabinet:

1. Notes the responses provided within the report to each of the Housing Scrutiny Commissions recommendations.

BACKGROUND INFORMATION

2. The Housing Scrutiny Commission (HSC) presented a report in October 2020 that investigated the state of the Council's district heating systems and service. The report, available [here](#), made 13 recommendations within three broad areas:
 - Strategic expansion of and investment in the heat network (#1 - #4)
 - Repairs and response to outages (#5 - #9)
 - Metering and heat market regulation (#10 - #13)

KEY ISSUES FOR CONSIDERATION

3. This section of the report runs through each HSC recommendation in turn and provides a response. The text describing the HSC recommendations is largely quoted from the HSC report but some contextualisation and simplification is undertaken. A summary of the HSC recommendation and the Council's response is provided in the table below, with fuller responses outlined in the paragraphs following.

HSC recommendation number	Summary of recommendation	Summary of response
1	Encourage the use of SELCHP (a low carbon option) through the planning process for example by investigating the use of "Local Development Orders"	Agreed, though investigation into LDOs is ongoing amid changing heat market regulation. The Council is actively encouraging expansion and connection to the SELCHP heat network and an LDO may be a way of speeding up delivery of

HSC recommendation number	Summary of recommendation	Summary of response
		works.
2	Ensure internal investment options are exhausted before partnering with the private sector	Agreed. The Council is focussing efforts on maximising in-house resources and existing partner relationships while not excluding the possibility of new private sector delivery
3	Investigate the feasibility of developing a 'sinking fund' to avoid large leaseholder charges	Agreed, investigation ongoing. An initial review of the potential has taken place and identified a number of possible difficulties. Other models that could achieve the same overall objective are now being looked at.
4	Spread best practice from research project across to other heat networks	Agreed. A draft report from the consultant has now been received and is being reviewed but HSC is right that lessons from this project should be applied as widely as possible.
5a-c	Improve communication... by employing the text message notification service more widely	Agreed. The Council continues to work hard encouraging residents to sign up for text message notification but has not run a stand-alone campaign.
5d	Improve communication... by investigating the use of social media to report outages	Several methods of outage reporting are already used including online though not currently social media. Some estates have their own social media networks for this. The Council has no current plans to use social media in this way but it is an ongoing discussion, especially in relation to the MySouthwark platform.
5e	Improve communication... by providing pro-active support to the vulnerable	Vulnerable resident data has improved through the Covid-19 pandemic and the most up to date information is

HSC recommendation number	Summary of recommendation	Summary of response
		always used to provide proactive support including out-bound calls.
5f	Consider the risk of vulnerable residents carrying hot water around their homes during an outage	The Council seeks to minimise this risk through timing and advance warning for any planned shut downs. For unplanned outages, we seek to keep residents updated as frequently as possible. Resident Services Officers contact vulnerable residents during outages and are best placed to assess risk and determine whether additional support is likely to be needed.
6	Simplify the heating outage compensation process	Agreed. A draft policy is now in place and is being tested. Full roll-out is expected from April 2021.
7	Promptly complete the compensation policy review	Agreed. A draft policy is now in place and the processes behind the policy are being tested. Full application of the policy expected from April 2021.
8	Ensure residents can use other local facilities during outages e.g. leisure centre showers	Agreed. This arrangement is in place already but will be refreshed with Council colleagues and our leisure contractor to ensure it is fully applied.
9	Investigate and resolve reports of noise caused by certain district heating systems	Agreed. Isolated incidents have been thoroughly investigated and some issues resolved. Sadly some issues are proving difficult to resolve fully and are ongoing.
10-13	With regard to individual heat metering: <ul style="list-style-type: none"> • Pursue a tariff with balances energy efficiency and fuel poverty 	Where heat meters are installed, balancing energy efficiency with fuel poverty would indeed important, as would suitable education and training to ease the

HSC recommendation number	Summary of recommendation	Summary of response
	<ul style="list-style-type: none"> • Develop a discretionary aid scheme • Provide suitable education and training • Report back to HSC with further detailed proposals as they are developed 	<p>transition to a new billing system. The concept of a discretionary aid scheme may be appropriate but would need careful consideration at the appropriate time.</p> <p>The heat metering regulations have recently been updated and these are being assessed currently. It is difficult to provide complete clarity at this time, though work on this front is progressing quickly.</p>

HSC Recommendation #1 – Encourage the use of SELCHP (a low carbon option) through the planning process for example by investigating the use of “Local Development Orders”

4. The Council agrees with this recommendation and has worked constructively with planning colleagues, consultants and Veolia to develop plans for widening its use of low carbon heat from SELCHP. SELCHP has significant additional capacity to provide low carbon heat to both council buildings and private developments. The primary means of encouraging private developers to connect to an extended low carbon heat network served by SELCHP is via planning policy including the London Plan, the New Southwark Plan, Section 106 agreements and also the energy and carbon requirements of the Building Regulations. Local Development Orders are a further planning tool which have been used in some areas to mandate connection of new buildings to a district heat network by default, unless it can be proved unviable. Details of how Local Development Orders have been implemented in other Local Authority areas have been examined by planning colleagues and consideration given to whether it is deemed necessary / advantageous in Southwark.
5. For securing connections onto privately owned land we don't think an LDO is necessary because we are securing connections through S106 agreements on individual planning applications. S106 agreements are legally binding and fully enforceable meaning that an LDO for this purpose would be surplus to requirement. Most of the largest sites are already secured through the “conventional” planning process, so an LDO doesn't add value, such as speeding up process or adding certainty. The larger developers already know what the Council wants and the revised AAP name checks the S106 process in AAP 3.

6. However, one benefit of an LDO may be where the network extension route is not precisely known, or is subject to change. Since we hope to connect a large number of council housing estates and private developments, some of which will come forward over a period of years, the final route may be subject to regular minor changes. Rather than preparing and submitting a planning application each time there is a change, we could use an LDO to give Veoila similar rights to a statutory undertaker, albeit conditional upon submission of construction management plans, contamination remediation strategies, arboricultural assessments etc. This could speed up the roll-out of any expansion works. A further consideration to this is that the upcoming Heat Market Regulations are set to change the way heat network operators are treated, permitting them similar rights for laying pipes as other utilities have currently. This may mean that the use of an LDO for this purpose loses its relevance. The consideration of LDOs is ongoing.

HSC Recommendation #2 – Investigate whether some aspects of the district heating service could delivered through the expanded in-house resource, and ensure internal investment options are exhausted before partnering with the private sector.

7. The HSC is right to say that internal delivery options should be examined carefully before deciding to pursue a private option. There are a number of ways in which the Council contracts with private companies in the delivery of the district heating service – energy supply, internet connections, control systems software, planned and reactive maintenance, compliance, and installation of capital works. All of these contracts have been procured with the relevant level of competition. Many involve further layers of sub-contracting for specialist elements.
8. Our heating works in the main require specialist skills and technology knowledge which in turn require intensive recruitment and ongoing training. Utilising private sector resources in this field allows us access to specialist skills with a much lower overhead cost base. Our ongoing costs have been kept down by competitive procurement.
9. Regarding the utilisation of some now in-house SBS resource to replace some of the private sector capacity to carry out district heating repairs, this will not be a consideration until we have concluded the Repairs Improvement Plan but HSC should be assured that we are focussed on internal delivery wherever possible.
10. One of the main ways that partnership with the private sector has been investigated is the joining together of capital works, operational and maintenance services, and overarching responsibility for heat supply into a so-called ESCo (Energy Services Contract). The Council agrees with the sentiments of the HSC recommendation that in the past, strategic partnerships with the private sector have been costly to set up and run. It

is right to explore all options, include with the private sector, but with a sense of caution that sometimes set up costs are higher than expected, and of course private sector entities only want to run contracts if they can do so profitably. There would, therefore, need to be significant scope for efficiency savings in a private sector delivery model if it were to outweigh an in-house model.

HSC Recommendation #3 – Investigate the feasibility of developing a ‘sinking fund’ from tenants and leaseholders for maintenance, repair and replacement of district heating systems to avoid large leaseholder charges.

11. In line with this HSC recommendation, officers have begun investigating the feasibility of developing a “sinking fund” for district heating. Initial conversations with internal parties uncovered a number of difficulties with the traditional sinking fund approach such as:
 - Most leases don’t mention sinking funds and therefore payment into a sinking fund wouldn’t be enforceable without a change in the lease agreements. This would make it a voluntary scheme which some would take up and others wouldn’t, and this in turn would make it very complex to manage.
 - If tenanted properties also contributed to the sinking fund, this would have to come from the HRA which would mean HRA funds couldn’t be used for capital projects in the short term.
 - If capital works needed delivering out of the sinking fund in the near term not enough money would have accumulated and leaseholders would need to pay a further bill.

12. In light of these initial difficulties, alternative ways of achieving the same broad goal (avoiding excessive bills to leaseholders) were discussed. One idea that is being explored further currently is the possibilities of ring-fencing certain capital investments within a wholly owned company which could take a loan to pay for the works. The company would then charge the council annually for the use of the capital project assets and the cost of these payments by the Council to its subsidiary would be recouped through charges to leaseholders. This approach would effectively spread the cost to the Council and its leaseholders over a period of time e.g. 10 years and avoid large one off bills. Another advantage of this approach is that the contribution by leaseholders would more closely mirror the period of time that they own the property. However, this idea would need very careful legal and financial consideration to see if it is viable. The Council is currently seeking external legal opinion.

HSC Recommendation #4 – Spread best practice from DBEIS funded investigation into ways of improving heat networks.

13. HSC is quite right to recommend the spreading of best practice from the research project funded by the Department for Business Energy and Industrial Strategy. Unfortunately, the project has been slightly reduced in

scope by DBEIS so it now only covers three of the five projects previously identified – Brandon, Newington and Sylvan Grove. A draft report has recently been received from the consultants on this project which is being reviewed by officers at both the Council and DBEIS. It is hoped that once finalised the recommendations can be implemented at the three named sites to prove the concepts, but then rolled out more widely.

HSC Recommendation #5 – Improve communications during outages

14. The Council agrees with the HSC that good communication during heating outages is vitally important. A lot of work has already gone into developing communication plans including a robust text message service as well as newsletters and pro-active communication with vulnerable residents, but we agree that more must be done.
15. HSC recommendation #5 included a number of elements. Points a) to c) were about sourcing more resident mobile phone numbers so that the text message notification service can be employed more widely. District heating newsletters sent out last winter and those sent out this winter, all include a section explaining the text message service and how residents can sign up for it. Calls via the contact centre are the main way that the text message service is enrolled and details kept up to date - as part of the data protection checks, call centre ask callers to confirm their contact number and then ask callers if they would like to receive text message updates. A wider and bespoke campaign to increase the reach of text message notifications, including using other groups and channels to promote it, has not been developed as yet.
16. There are a number of different ways that residents can report outages including via the call centre, via email or via their MySouthwark account. They can receive updates on current outages via the text message service, the live repairs webpage (updated every two hours) and recorded message played when phoning the call centre (also updated every two hours).
17. Point d) in the HSC recommendation #5 was regarding the investigation of whether social media tools could be used to report outages. The Council's is constantly looking at ways to develop its digital communication channels, including MySouthwark as this is a key opportunity to shape specific information that is available to residents relevant to their particular property and estate. These discussions are ongoing internally. Wider social media tools have not been investigated, but it is worth noting that many groups of residents at the estates already use social media for quick communication, include on matters such as heating outages.
18. Point e) in HSC recommendation #5 advises using improved vulnerability data gathered through the Covid-19 response to offer pro-active support during outages. This is already happening as standard. Resident data is

stored centrally on the Council's housing management database which gives Resident Services colleagues appropriate access to information as they provide ongoing and pro-active support to all residents, including those who are vulnerable. The Council's heating contractors are also notified of resident vulnerability. Throughout the Covid-19 pandemic, Resident Services Officers have made out-bound phone calls to thousands of vulnerable residents on weekly, fortnightly and monthly basis, depending on the residents' situation. RSOs also make pro-active phone calls to vulnerable residents when there are heating outages, especially where these prove to be more significant in duration.

19. Point f) in HSC recommendation #5 asks the Council to consider the risk to vulnerable residents of needing to move hot or boiling water around their homes due to heating outages. The HSC report is right to raise this as an issue. A loss of hot water service to properties could well lead to residents, including those with vulnerability, boiling a kettle or pan of water and carry it to a bathroom. The Council seeks to minimise this risk, and the overall impact of loss of hot water, by always commencing planned outages after 9am whenever possible and giving residents two weeks of prior warning. This allows most residents time to wash before the hot water service goes off, or to make other arrangements. The Council also seeks to keep residents aware of how long outages are likely to last. If residents know that heating and/or hot water is likely to come back on in a couple of hours, they can plan accordingly. Residents without hot water service are permitted to use alternative facilities such as leisure centre showers (see further discussion below). And finally, as above, Resident Services Officers (RSOs) do their best to contact vulnerable residents during an outage to offer support.
20. The revised procedure requires RSOs to make out-bound calls to vulnerable residents during an outage, and for engineers to offer fan heaters in cold weather if requested. RSOs are well placed to determine whether vulnerable residents might need extra support and will make referrals to Adult Social Care where appropriate so that a fuller assessment can be made of their support needs.

HSC Recommendation #6 – Simplify the heating outage compensation process.

21. The Council agreed some time ago that the compensation process needed to be improved, especially in relation to compensating leaseholders for outages to their homes. A draft policy is now in place and the Council is running a pilot scheme this financial year to test both the costing and feasibility of introducing the process on a large scale to all of our residents. We are anticipating this being in place for the new financial year and are currently in discussions with the cabinet members involved; testing the draft process we have and taking on board their comments on the process.

HSC Recommendation #7 – Promptly complete the compensation policy review.

22. The Council has been working with colleagues in customer experience to finalise the policy. We now have a draft policy in place and all that remains is to test that the processes behind the policy are robust and to finalise costing before we go live. We anticipate this all being in place for the new financial year by or before April 2021.
23. The main elements of the new compensation process is to make it as direct, automated and live as is possible, including a flat rate payment of £3 for every day that the outage goes on for.

HSC Recommendation #8 – Ensure residents can use other local facilities during outages e.g. leisure centre showers.

24. As the HSC report points out, it is already Council practice that residents affected by heating outages should be able to use other local facilities for washing, such as leisure centre showers. There is an agreement in place between Leisure and Housing that if ever resources are needed the Leisure Team are contacted on an incident by incident basis and this message is passed along to Everyone Active (EA), the Council's leisure contractor. EA are always accommodating but the HSC report identified that some residents have been turned away because leisure centre staff were not aware of the policy. Leisure centres report that there is generally a low take up of the offer and Council officers have begun to liaise with colleagues to identify how procedures can be put in place to ensure all appropriate leisure centre staff are suitable informed and if there are other ways in which the offer to residents could be improved.

HSC Recommendation #9 – Investigate and resolve reports of noise pollution caused by the district heating systems at the Aylesbury and Brandon estates.

25. The HSC report is quite right to point out that nuisance noise has been an issue in a couple of locations, though these are very isolated cases. In these instances, the Council has taken steps to investigate the reports of noise as thoroughly as possible. Some issues have been resolved but there are also investigations ongoing. This involves a process of elimination in plant rooms, blocks and in dwellings.

HSC Recommendation #10 – If individual metering is introduced, a balance of energy efficiency and protecting vulnerable residents should be pursued through a blended tariff.

HSC Recommendation #11 – If individual metering is introduced, a discretionary aid scheme for those with special heating requirements should be implemented.

HSC Recommendation #12 – If individual metering is introduced, this should be accompanied by a programme of education and training so

that residents understand how to use meters and any new payment systems.

HSC Recommendation #13 – Further detail and proposals on metering and other changes relating to heat market regulation should be returned to HSC in the future.

26. Taking HSC recommendations 10-13 all together as they all relate to heat metering, it is worth stating that the Heat (Networks) Metering and Billing Regulations have just been updated in November 2020. Buildings are put within three broad classes – “viable” (those which must install heat meters without any form of cost-effectiveness test), “open” (those which need to carry out a cost-effectiveness test) and “exempt” (those which don’t need to install a meter to comply with the legislation). A new cost-effectiveness appraisal tool was released which is used with all buildings in the “open” class. The impact of the updated regulations is still being worked through by officers.
27. The HSC report identifies that while the primary driver behind the heat metering regulations is a desire to reduce wastage and improve efficiency but that this needs to be balanced with a need to provide sufficient heat to residents at an affordable rate, especially to those who are vulnerable or who may need more heat or hot water for medical reasons. While the actual heat metering approach and tariff setting are still under consideration, the principles outlined here will indeed guide their development.
28. Regarding the establishment of a discretionary aid scheme, this has not as yet been considered in any detail, but as above, the heat metering and tariff approach is yet to be defined. It is possible that some kind of cost capping process for high users may be appropriate, to prevent excessively high bills while also encouraging efficient use. The basis for where and when this could be applied would need to be considered.
29. Regarding the provision of adequate information and training to residents on how to use heat meters and any associated billing systems is absolutely critical. For residents that do end up moving onto a metered system this will be a big change from having heating charges collected through the rent accounts, or through leaseholder service charges. One notable change within the updated regulations is that sheltered and supported housing is deemed to fall within the “exempt” class. This means that many of the Council’s most vulnerable residents will not in most cases need to adjust to the way that they pay for heating.
30. More fulsome proposals on the roll out of individual heat meters, and the type of tariff to be applied (ref Recommendation #13) will be presented within the upcoming Heat Networks Strategy paper.

Policy implications

31. There are no direct policy implications.

Community impact statement

32. The district heating service affects all tenants and leaseholders connected to one of the Councils heat networks, which comprises of some 17,000 properties. Our commitment to providing affordable, reliable and low carbon heating is one of the Councils key priorities and also works towards our commitment to make Southwark Carbon neutral by 2030. Vulnerable residents could be more adversely affected by heating outages, though all residents have a right to expect a warm home.

Resource implications

33. There are no specific resource implications arising from this report. Issues are being addressed within the heat networks strategy.

Legal implications

34. There are no specific legal implications arising from this report.

Financial implications

35. There are no direct financial implications arising from this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Link: (please copy and paste into browser) District Heating and Heat Networks Report from Southwark Housing Scrutiny Commission September 2020	Southwark Council Housing and Modernisation Hub 3, 3rd Floor PO Box 64529 London SE1P 5LX	Housing and Community Engagement Scrutiny Commission

APPENDICES

No.	Title
None	

AUDIT TRAIL

Cabinet Member	Councillor Pollak, Housing	
Lead Officer	Michael Scorer, Strategic Director Housing & Modernisation	
Report Author	Tom Vosper, Strategic Project Manager – Heat Networks	
Version	Final	
Dated	7 January 2021	
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
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team	7 January 2021	