

REPORT TITLE: District Heating Update

Meeting	Corporate Governance, Audit Committee
Date	7th March 2025
Cabinet Member (if applicable)	Cllr Moses Crook Deputy Leader and Transport and Housing
Key Decision Eligible for Call In	No Yes/No – If no give reason
Purpose of Report To provide an update on the District Heating Programme and Lessons Learnt: Actions from the Internal audit report, Switch2 metering and billing contract.	
Recommendations <ul style="list-style-type: none"> Note the report and to agree the contents are shared with key stakeholders. 	
Reasons for Recommendations <ul style="list-style-type: none"> To ensure key stakeholders are aware of current position and progress regarding the District Heating Programme and delivery. 	
Resource Implications The requirement for a dedicated Officer to manage the Heat Networks for Homes and Neighbourhoods is essential.	
Date signed off by <u>Executive Director</u> & name Is it also signed off by the Service Director for Finance? Is it also signed off by the Service Director for Legal Governance and Commissioning (Monitoring Officer)?	Give name and date for Cabinet / Scrutiny reports David Shepherd 27 th Feb 2025 Give name and date for Cabinet reports Kevin Mulvaney 27 th Feb 2025 Give name and date for Cabinet reports Samantha Lawton 27 th Feb 2025

Electoral wards affected: All

Ward councillors consulted: N/A

Public or private: Public

Has GDPR been considered? Yes

1. Executive Summary

The findings of the internal audit into the district heating schemes published in June 2024, has accelerated the work we are doing to resolve the historic issues relating to our district heating schemes and has highlighted some important priority areas that we are addressing with urgency.

We have responded proactively to the audit findings by forming an internal project group, creating an action plan to address each area of concern, and maintaining oversight at a senior level of the progress being made

Background

District heating, also known as a heat network, is a system that uses a singular central heat source to distribute hot water through a network of insulated pipes to multiple individual dwellings. The structure is usually used to fulfil heating and hot water requirements in apartment complexes.

The contract with the current provider is for the end-to-end heat management service. This contract expired in January 2023. An exemption to continue to use the current provider until 31st December 2024 was granted by the Strategic Director of Homes and Neighbourhoods and the Head of Procurement. A new contract for a period of 12 months was signed by the Director of Homes and Neighbourhood with the current provider Switch2. (expires 31 December 25)

Kirklees has 25 individual district heat networks that supply heat to 1,042 homes. Approximately of which 10% are leasehold. The properties span a wide geography across the Kirklees footprint, within the following wards:

Electoral Ward	Property count
Almondbury	28
Ashbrow	44
Batley West	10
Birstall/Birkenshaw	40
Crosland Moor/Netherton	48
Dewsbury East	246
Dewsbury South	30
Dewsbury West	210
Greenhead	99
Lindley	45
Liversedge and Gomersal	65
Newsome	177

Property breakdown:

District Heating Properties – 1042

Sold/Leasehold – 193

Bungalows & Houses – 75

Flats (Deemed as high risk) – 772

Converted (no longer in use) – 2

The drop from 773 to 772 is because 57 Trinity St is now Sold.

2. Information required to take a decision

N/A No decision required

3. Implications for the Council

Loss of revenue and reputational risk

3.1 Council Plan

Working group in place to address all issues raised in the internal audit report

3.2 Financial Implications

Charges increased from 4.6p per kwh plus a daily admin charge of 14.5p to a maximum of 13.7p per kwh plus a daily admin charge of 24.3p. Meters were amended from 2nd January 2025 to reflect these increases.

The aim is to achieve a full cost recovery of heating charges in 2025/26. The forecast shortfall at Q2 2024/25 was £573k and the forecast shortfall at Q3 2024/25 was £553k

3.3 Legal Implications

3.4 Climate Change and Air Quality

Decarbonisation strategy to be implemented and will include specific plans for Kirklees heat networks.

3.5 Other (eg Risk, Integrated Impact Assessment or Human Resources)

Risk	Mitigation	RAG
Regulatory compliance: Failure to comply with the new heat regulations could result in legal or financial penalties	Requires a dedicated officer in place to have regular reviews and update policies and procedures accordingly. Currently looking at resourcing this role as part of the establishment review.	Medium
Contract Management: Evolving contract management with Kirklees and Switch 2 could affect collaboration and programme outcomes, leading to failure to track contract renewal dates, poor decision-making missed deadlines and miss payments.	Implement a robust contract management system to track renewal dates, deadlines, and payments. Schedule regular meetings with Kirklees and Switch2 to maintain open communication, documenting all interactions and decisions to ensure transparency and accountability.	Medium
Inaccurate Data: The absence of a central storing place of the data makes it difficult to keep track of the latest versions and ensure data accuracy in one central place.	Implement a centralised data management system accessible to all relevant stakeholders. Conduct regularly audit data to ensure accuracy and consistency. IT backup systems in place to aid with the loss of data.	Medium

When Ofgem take over as the regulator in April 2025, it is expected that a limit will be put on as to how far you can go back to recover debt.	Prepare for Ofgem’s new regulations by reviewing current debt recovery practices and making necessary adjustments. Consultant in place to provide advice.	Medium
The increases in unit rates applied in January 2025, may be under recovery	Ongoing monitoring of position and reported each ¼ to Cabinet in normal Finance reports	Medium
Investigation of accounts which may yield potential debts and other issues around contractor performance, due to Inaccurate reporting by Switch2 and not having a dedicated Officer to manage the contract.	Resolution of debt needs further investigation. Establish clear processes for tracking and recovering debts. Engage with residents to negotiate manageable repayment plans for the collection of the debt.	Medium
Resource and capacity to meet the demands of the action plan	Assign a dedicated officer to manage the contract with Switch2. A project group has been formed to address the actions and take ownership.	Medium
Staff changes impacting the delivery of the action plan	Once the procedures and new contract and ways of working are in place, future handovers should be more thorough and achieve continuity of service.	Medium

4. Consultation

Tenant Led Panel approved the letter for residents, informing them of the forthcoming increase to their energy charge.

5. Engagement

Residents have received communication regarding increase tariff charges, that included key contact details.

6. Options

6.1 Options considered N/A

6.2 Reasons for recommended option N/A

7. Next steps and timelines

7.1 District Heating Audit

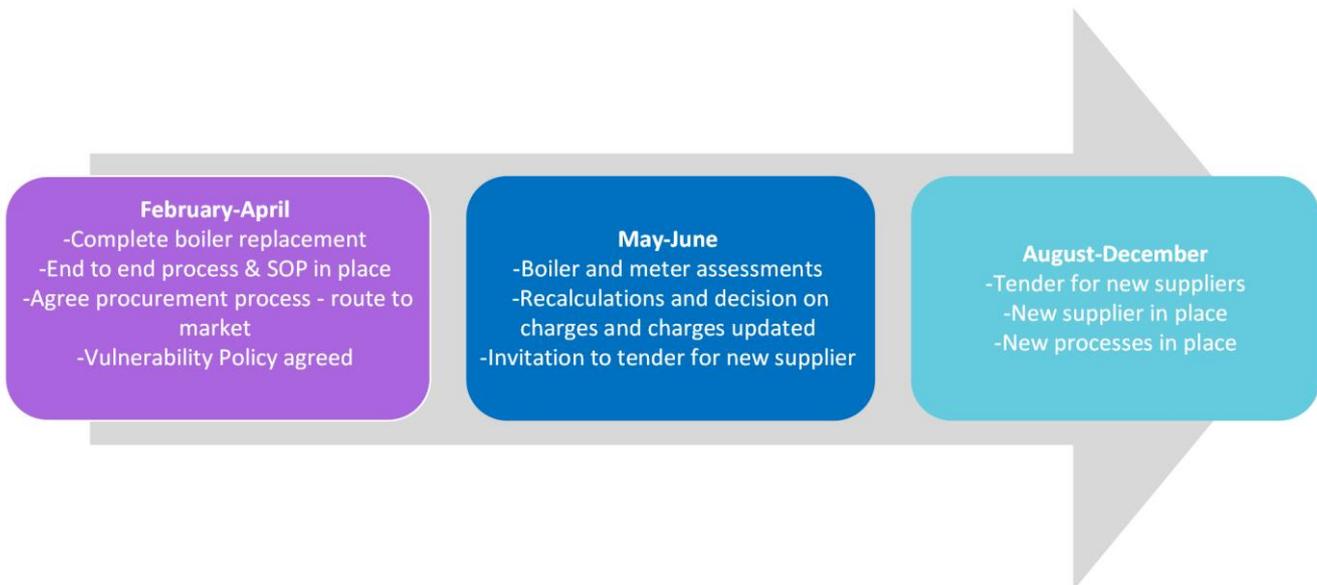
- Continue to have monthly District Heating Group meeting.
- Complete boiler replacement programme: Replacing the remaining two boilers by end of March 2025.
- Work with HR on recruitment campaign for dedicated resource to manage the decarbonisation strategy including District Heating Programme.
- Collaborate closely with the consultant to complete a full survey of heat networks, efficiency review of boilers houses and procurement of a metering

and billing provider. Incorporating their advice on new heat regulations and compiling our decarbonisation strategy.

- Agree a programme including a route to tender specification following the necessary reviews and assessments.
- Continue to monthly review meeting with Switch2 – Ensure the new tariff charges are effectively monitored for any resident's feedback or issues.

7.2 Lesson Learnt

- Work with HR on recruitment campaign for dedicated resource to manage the decarbonisation strategy including District Heating Programme: draft a JD and Job focus sheet for sign off by the Head of Assets and Building Safety
- Collaborate closely with the consultant to complete a full survey of heat networks, efficiency review of boilers houses and procurement of a metering and billing provider. Incorporating their advice on new heat regulations and compiling our decarbonisation strategy. Agree a programme including a route to tender specification following the necessary reviews and assessments.
- Work with Switch2 on the debt highlighted for the prepayment meters.



8. Contact officer

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9. Background Papers and History of Decisions

Corporate Governance & Audit Committee - September 2024

10. Appendices

Executive summary

11. Interim Service Director responsible

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