



Leicester
City Council

**WARDS AFFECTED
ALL WARDS**

**FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
CABINET**

1ST OCTOBER, 2008

REVIEW OF HOUSING REVENUE ACCOUNT DISTRICT HEATING CHARGES

REPORT OF THE CORPORATE DIRECTOR OF ADULTS AND HOUSING

1. Purpose of Report

- 1.1 This report informs Members of the very large increase, effective from 1st October, 2008, in the cost of gas used by the district heating service, which supplies heating and hot water to some 3,000 Housing Revenue Account (HRA) tenants.
- 1.2 A range of options are provided to assist Members in deciding the extent to which the increased gas costs should be reflected in the district heating charges paid by tenants.

2. Recommendations

- 2.1 **Cabinet is recommended to** consider the report, and to decide on the level of district heating charges to be applied for the latter part of 2008/09 and for the 2009/10 financial year.

3. Report

3.1 Background

- 3.1.1 The HRA currently has a stock of some 22,500 dwellings, of which 3,000 are supplied with heating and hot water by the district heating scheme. Gas charges are a very large part of the costs of the district heating function and have been extremely volatile in recent years.
- 3.1.2 Members will recall that the Council's gas costs increased by around 100% from 1st June, 2006. Despite this substantial increase in costs, charges to tenants were 'only' increased by 10% for 2006/07 with those 3,000 tenants using the district heating service receiving a subsidy of £0.6m from the HRA.
- 3.1.3 District Heating charges to tenants were increased by a further 15% for 2007/08, which meant, had gas prices remained at the level that applied from 1st June 2006, that tenants on the district heating would receive a further subsidy of about £0.5m from the HRA. Fortunately, on renewal of the Council's district heating gas contracts from 1st June, 2007, the markets had stabilised and contracts were renewed until the end of

September 2008 at prices close to those that applied prior to the very large increases in June 2006. Therefore, rather than the HRA again subsidizing tenants on district heating in 2007/08, a surplus of £0.6m was achieved, which effectively 'reimbursed' the HRA for the subsidy received in 2006/07.

3.2 The position for 2008/09 and 2009/10

- 3.2.1 Since the City Council entered into its previous gas supply contract for the district heating service (which ran for sixteen months up to the end of September 2008 and for which, as noted above, a very low price was obtained), great volatility and generally much higher prices have returned to global energy markets. The City Council uses the Eastern Shires Purchasing Organisation (ESPO) – a procurement consortium utilising the combined purchasing power of four County Councils and two City Councils – to negotiate and advise on its energy contracts. Based on a price negotiated by ESPO and their advice that the current very high gas prices will continue upwards in the future, the Council has entered into a 12 month contract (1st October 2008 to 30th September 2009), for its district heating gas supply at a price equivalent to an increase of 157% over the previous price.
- 3.2.2 To give Members an indication of the impact of the price increase on the gas costs of the district heating function, based on the actual level of gas usage in 2007/08, the full year cost at the previous price would be £1.2m, compared to £3.1m at the new price.
- 3.2.3 In setting the 2008/09 HRA budget, Members decided that charges to tenants for district heating would not be increased from April 2008, but would be reviewed during the year once the price of gas from the contract renewal on 1st October 2008 was known. The expenditure budget for the district heating function for 2008/09 is equal to the expected income from charges to tenants, and includes an allowance of £528,000 for increases in gas costs from 1st October 2008, equivalent to a price increase of 66%.
- 3.2.4 However, as detailed earlier, the Council has now entered into a 12 month gas contract for the district heating sites at a price which equates to an increase of 157%. This means that, if charges to tenants stay at current levels, the HRA will be subsidising the district heating function by £625,000 in 2008/09 and £1.220m in 2009/10 (assuming the gas price stays at the same level on renewal of the contract from 1st October 2009).
- 3.2.5 Appendix A shows current district heating weekly charges for each type of property, and the corresponding new charges for a number of percentage increase options.
- 3.2.6 Appendix B considers having only one increase in charges to cover the remainder of 2008/09 and all of 2009/10, and shows the subsidy required from the HRA (and the 'break-even' increase taking both years together) for the following:-
- (a) 'Option 1' – charges are increased from 10th November 2008, and the new level of charges then applies until the end of 2009/10. A 76% increase in charges would achieve 'break-even' over the two financial years.
 - (b) 'Option 2' – charges are increased from 5th January 2009, and the new level of charges then applies until the end of 2009/10. An 84% increase in charges would achieve 'break-even' over the two financial years.

- (c) 'Option 3' – charges are not increased for 2008/09 but are increased from the start of 2009/10 (6th April 2009). A 105% increase in charges would achieve 'break-even' over the two financial years.

3.2.7 Appendix C considers having a 'staged' increase, whereby half of the increase is applied for the remainder of 2008/09 and the full increase is applied for 2009/10 (ie, from 6th April 2009). The subsidy required from the HRA, and the 'break-even' increase taking both years together, are shown for the following:-

- (a) 'Option 4' – half of the increase in charges is applied from 10th November 2008, and the balance of the increase from 6th April 2009. An 89% increase in charges (initially 44.5%) would achieve 'break-even' over the two financial years.
- (b) 'Option 5' – half of the increase in charges is applied from 5th January 2009, and the balance of the increase from 6th April 2009. A 93% increase in charges (initially 46.5%) would achieve 'break-even' over the two financial years.

3.3 Current Financial Position of the HRA

3.3.1 Recent budget monitoring has shown favourable variances on the HRA for 2008/09, particularly additional rental income of £500,000 due to the slow down in 'Right to Buy' sales in the last year, and savings in capital financing costs of £330,000 due to the use of prudential borrowing in recent years being lower than allowed for in the budget.

3.3.2 Therefore, the HRA is able to subsidise district heating charges for 2008/09, if so decided by Members; however, this would restrict the opportunity to use these resources to support the Housing Capital Programme, which is also under severe pressure because of the turndown in RTB sales and the sale of other assets. The financial position for 2009/10 will not be known until later in the year (after receipt of the 2009/10 subsidy settlement in November or December 2008), therefore the capacity of the HRA to subsidise district heating beyond 2008/09 is less clear.

3.4 Support for Tenants Experiencing Financial Difficulties

3.4.1 Debt reduction advice workers will target tenants likely to suffer budgetary pressure as a result of the increase in charges. In particular:-

- (a) a marketing leaflet will be targeted to those tenants on the district heating scheme, offering a financial assessment to ensure they are maximising their income and benefit;
- (b) a help-line will be available two afternoons a week, providing general financial advice from the Debt Advice Workers.
- (c) evaluation and assistance, if appropriate, will be given to submit a Discretionary Housing Benefit application;
- (d) evaluation and assistance will be given to apply to any available suitable charities where a tenant may qualify for financial assistance if struggling;

- (e) the Income Management Team will provide assistance to complete an Income and Expenditure evaluation and discuss priority debts.

3.5 Tenant Consultation

- 3.5.1 Tenants representatives have been consulted, and the outcome of the consultation will be reported at the Cabinet meeting.

4. Financial, Legal and Other Implications

Financial Implications (Graham Troup ext. 29 7425)

- 4.1 The 2008/09 HRA budget for district heating is equal to the income from current charges, and includes an allowance of £528,000 (equating to a price increase of 66%) for increased gas costs resulting from the new gas supply contract from 1st October 2008. However, the actual price increase has been 157%, meaning that tenants on the district heating scheme will receive a subsidy from the HRA of £625,000 in 2008/09 and £1.220m in 2009/10 if charges are not increased. The impact on the subsidy of a range of increases in charges is shown in Appendices B and C.

Legal Implications

- 4.2 There are no legal implications associated with this report.

5. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	YES	6.1
Policy	NO	
Sustainable and Environmental	NO	
Crime and Disorder	NO	
Human Rights Act	NO	
Elderly/People on Low Income	YES	6.1

6. Equal Opportunities Implications

- 6.1 The report concerns energy charges to Council tenants served by the district heating scheme, many of whom are elderly and/or come from disadvantaged groups.

7. Background Papers – Local Government Act 1972

- 7.1 a) Budget Book 2008/09
- b) Report of the Corporate Director of Adults and Housing and Chief Finance Officer on 'Housing Revenue Account – Budget 2008/09' to Housing Management Board 10.01.08, Cabinet 21/01/08 and Council 24/01/08.

8. Consultations

- 8.1 No other Departments have been consulted in the preparation of this report.

9. Aims and Objectives

- 9.1 The overall Quality of Life Aim for the Housing Services is that “a decent home is within the reach of every citizen of Leicester”.

10. Report Author

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Prakash Patel, Team Leader, Energy Management ext. 39 5142

Key Decision	Yes
Reason	Significant in its effects on communities in one or more wards
Appeared in Forward Plan	Yes
Executive or Council Decision	Executive (Cabinet)

Review of District Heating and Hot Water Weekly Charges 2008/9 & 2009/10

Appendix A

		Current														
		Charge	10%	20%	30%	40%	50%	60%	70%	76%	80%	84%	89%	93%	100%	105%
		£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
1 Bedroom Dwelling	Heating	6.54	7.19	7.85	8.50	9.16	9.81	10.46	11.12	11.51	11.77	12.03	12.36	12.62	13.08	13.41
	Hot Water	<u>3.27</u>	<u>3.60</u>	<u>3.92</u>	<u>4.25</u>	<u>4.58</u>	<u>4.91</u>	<u>5.23</u>	<u>5.56</u>	<u>5.76</u>	<u>5.89</u>	<u>6.02</u>	<u>6.18</u>	<u>6.31</u>	<u>6.54</u>	<u>6.70</u>
	Total	9.81	10.79	11.77	12.75	13.74	14.72	15.69	16.68	17.27	17.66	18.05	18.54	18.93	19.62	21.11
2 Bedroom Dwelling	Heating	8.22	9.04	9.86	10.69	11.51	12.33	13.15	13.97	14.47	14.80	15.12	15.54	15.86	16.44	16.85
	Hot Water	<u>4.11</u>	<u>4.52</u>	<u>4.93</u>	<u>5.34</u>	<u>5.75</u>	<u>6.17</u>	<u>6.58</u>	<u>6.99</u>	<u>7.23</u>	<u>7.40</u>	<u>7.56</u>	<u>7.77</u>	<u>7.93</u>	<u>8.22</u>	<u>8.43</u>
	Total	12.33	13.56	14.79	16.03	17.26	18.50	19.73	20.96	21.70	22.20	22.68	23.31	23.79	24.66	25.28
3 Bedroom Dwelling	Heating	9.78	10.76	11.74	12.71	13.69	14.67	15.65	16.63	17.21	17.60	18.00	18.48	18.88	19.56	20.05
	Hot Water	<u>4.89</u>	<u>5.38</u>	<u>5.87</u>	<u>6.36</u>	<u>6.85</u>	<u>7.34</u>	<u>7.82</u>	<u>8.31</u>	<u>8.61</u>	<u>8.80</u>	<u>9.00</u>	<u>9.24</u>	<u>9.44</u>	<u>9.78</u>	<u>10.02</u>
	Total	14.67	16.14	17.61	19.07	20.54	22.01	23.47	24.94	25.82	26.40	27.00	27.72	28.32	29.34	30.07
4 Person Dwelling	Heating	11.40	12.54	13.68	14.82	15.96	17.10	18.24	19.38	20.06	20.52	20.98	21.55	22.00	22.80	23.37
	Hot Water	<u>5.70</u>	<u>6.27</u>	<u>6.84</u>	<u>7.41</u>	<u>7.98</u>	<u>8.55</u>	<u>9.12</u>	<u>9.69</u>	<u>10.03</u>	<u>10.26</u>	<u>10.49</u>	<u>10.77</u>	<u>11.00</u>	<u>11.40</u>	<u>11.69</u>
	Total	17.10	18.81	20.52	22.23	23.94	25.65	27.36	29.07	30.09	30.78	31.47	32.32	33.00	34.20	35.06

Goscote House

Small Bedsit	Heating	4.90	5.39	5.88	6.37	6.86	7.35	7.84	8.33	8.62	8.82	9.02	9.26	9.46	9.80	10.05
	Hot Water	<u>2.45</u>	<u>2.70</u>	<u>2.94</u>	<u>3.19</u>	<u>3.43</u>	<u>3.68</u>	<u>3.92</u>	<u>4.17</u>	<u>4.31</u>	<u>4.41</u>	<u>4.51</u>	<u>4.63</u>	<u>4.73</u>	<u>4.90</u>	<u>5.02</u>
	Total	7.35	8.09	8.82	9.56	10.29	11.03	11.76	12.50	12.93	13.23	13.53	13.89	14.19	14.70	15.07
1 Bedroom Flat	Heating	5.72	6.29	6.86	7.44	8.01	8.58	9.15	9.72	10.07	10.30	10.52	10.81	11.04	11.44	11.73
	Hot Water	<u>2.86</u>	<u>3.15</u>	<u>3.43</u>	<u>3.72</u>	<u>4.00</u>	<u>4.29</u>	<u>4.58</u>	<u>4.86</u>	<u>5.03</u>	<u>5.15</u>	<u>5.26</u>	<u>5.41</u>	<u>5.52</u>	<u>5.72</u>	<u>5.86</u>
	Total	8.58	9.44	10.29	11.16	12.01	12.87	13.73	14.58	15.10	15.45	15.78	16.22	16.56	17.16	17.59
2 Person Flat	Heating	6.54	7.19	7.85	8.50	9.16	9.81	10.46	11.12	11.51	11.77	12.03	12.36	12.62	13.08	13.41
	Hot Water	<u>3.27</u>	<u>3.60</u>	<u>3.92</u>	<u>4.25</u>	<u>4.58</u>	<u>4.91</u>	<u>5.23</u>	<u>5.56</u>	<u>5.76</u>	<u>5.89</u>	<u>6.02</u>	<u>6.18</u>	<u>6.31</u>	<u>6.54</u>	<u>6.70</u>
	Total	9.81	10.79	11.77	12.75	13.74	14.72	15.69	16.68	17.27	17.66	18.05	18.54	18.93	19.62	20.11

All figures shown above based on a 50 week collection year.

**DISTRICT HEATING - INCREASED CHARGES OPTIONS WHERE THERE IS ONLY ONE
INCREASE IN CHARGES FOR 2008/09 AND 2009/10**

	INCREASE													
	Current Charge	10%	20%	30%	40%	50%	60%	70%	76%	80%	84%	90%	100%	105%
LEVEL OF REQUIRED SUBSIDY:-	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
* Option 1														
2008/09	625	588	492	425	359	292	226	159	116	93	66	26	(40)	(73)
2009/10	1,220	1,045	870	695	520	344	169	(6)	(116)	(181)	(247)	(356)	(531)	(625)
Both Years	1,845	1,603	1,362	1,120	879	636	395	153	-	(88)	(181)	(330)	(571)	(698)
** Option 2														
2008/09	625	579	534	488	443	397	352	306	279	261	247	215	170	147
2009/10	1,220	1,045	870	695	520	344	169	(6)	(116)	(181)	(247)	(356)	(531)	(625)
Both Years	1,845	1,624	1,404	1,183	963	741	521	300	168	80	-	(141)	(361)	(478)
*** Option 3														
2008/09	625	625	625	625	625	625	625	625	625	625	625	625	625	625
2009/10	1,220	1,045	870	695	520	344	169	(6)	(116)	(181)	(247)	(356)	(531)	(625)
Both Years	1,845	1,670	1,495	1,320	1,145	969	794	619	509	444	378	269	94	-

* **Option 1** assumes the increase in charges is from 10th November 2008, and the new charges then apply for all of 2009/10.

** **Option 2** assumes the increase in charges is from 5th January 2009, and the new charges then apply for all of 2009/10.

*** **Option 3** assumes that there is no increase in charges in 2008/09. Charges are increased from 6th April 2009 and then apply for all of 2009/10.

DISTRICT HEATING - INCREASED CHARGES OPTIONS WHERE THE INITIAL INCREASE IN CHARGES IS HALF OF THE INCREASE APPLYING FOR 2009/10

APPENDIX C

INCREASE							
Current Charge	20%	40%	60%	80%	89%	93%	100%

LEVEL OF REQUIRED SUBSIDY:-

	£000	£000	£000	£000	£000	£000	£000	£000
* Option 4								
2008/09	625	558	492	425	359	334	316	292
2009/10	1,220	870	520	169	(181)	(334)	(410)	(531)
Both Years	1,845	1,428	1,012	594	178	-	(94)	(239)
** Option 5								
2008/09	625	579	534	488	443	423	410	397
2009/10	1,220	870	520	169	(181)	(334)	(410)	(531)
Both Years	1,845	1,449	1,054	657	262	89	-	(134)

*** Option 4** assumes that only half of the increase in charges is applied from 10th November 2008, and the balance of the increase is applied from 6th April 2009 [e.g. for a 20% increase (as shown in the above table), a 10% increase applies from 10th November 2008 and the full 20% increase applies from 6th April 2009]

**** Option 5** assumes that only half of the increase in charges is applied from 5th January 2009, and the balance of the increase is applied from 6th April 2009 [e.g. for a 20% increase (as shown in the above table), a 10% increase applies from 5th January 2009 and the full 20% increase applies from 6th April 2009].