

# Report for Housing Scrutiny

2<sup>nd</sup> November 2015

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## **Heating and Tenant and Leaseholder Charges**

Lead Assistant Mayor: Cllr Connelly

Lead director: Ann Branson

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**City Mayor**

### **Useful information**

■ Ward(s) affected: Abbey, Latimer, Spinney Hills, Castle, Stoneygate, New Parks and Coleman

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■ Report version number: V.6

### **1. Summary**

- 1.1 Since 2009 the annual charge to tenants has been calculated by charging the contracted gas price multiplied by an average of the previous three years consumption. They have been reviewed annually and charges were unchanged.
- 1.2 This report proposes to decrease the heating and hot water charges made to tenants and leaseholder connected to the district heating scheme by 10%. The proposed reduction in charges is due to a combination of the wholesale cost of gas falling by 4.8% and that the gas equivalent consumption (based on the 3 year rolling average) decreasing by 3.0%.
- 1.3 It also proposes to increase the charge for the service element to leaseholders to ensure that they contribute towards the full cost of delivering heat and hot water, the HRA is currently subsidising leaseholders. (tenants pay for this through their rent) They will benefit from decreased heating and hot water charges.

### **2. Recommendations**

- 2.1 That the Tenant and Leaseholder Forum and Tenants and Resident Associations with District Heating, are consulted on a proposal to :
- 2.2 Decrease charges for heat and hot water to tenants and leaseholders by 10% from 1<sup>st</sup>. November 2015 and review this every 12 months based on a 3 year rolling average of consumption.
- 2.3 Change the annual service charge to leaseholders who are on district heating so that it covers the actual cost of delivering the service.
- 2.4 Report the outcome of the consultation with the Assistant Mayor for Housing
- 2.5 To invite the views of Housing Scrutiny on the proposals.

### **3. Supporting information including options considered:**

- 3.1 2606 tenants and leaseholders are on district heating and 418 tenants live in sheltered accommodation. The Leicester District Energy Company (LDEC) took over the supply of district heating via a phased handover between October and December 2012 and is responsible for operating and maintaining the new district heating network. The Housing Department continue to be responsible for billing and collecting payments from tenants and leaseholders and remains the first point of contact.

LDEC charges the council for heat consumed. The charges covers:

The cost of gas used to produce heat

The capital and revenue cost of running and maintain the plant. (boiler houses)

### 3.2 Calculating charges for Housing tenants and leaseholder on district heating.

- 3.2.1 The current policy for setting charges to tenants and leaseholders is that income raised should cover the cost of purchasing the gas used. The HRA covers the remaining operating and infrastructure costs of the network paid for from rental income.
- 3.2.2 Since 2009 the annual charge to tenants has been calculated by charging the contracted gas price multiplied by an average of the previous three years consumption. They have been reviewed annually but the charges have remained unchanged. Setting the charges in this way is beneficial because:
- It smooth's out the impact of peaks in consumption, such as the 20% rise in consumption following the prolonged severe winter in 2012;
  - It allows tenants to benefit from LDEC's ability to buy gas in bulk (the domestic gas price from the cheapest of the 6 main energy suppliers is currently around 30% higher than LDEC has to pay).
- 3.2.3 Charges to leaseholders are calculated in the same way as for tenants, although leaseholders also pay an additional service charge for maintaining the internal pipework which is based on the outcome of regular dilapidation surveys.
- 3.2.4 The proposed reduction in charges is due to a combination of the wholesale cost of gas falling by 4.8% and that the gas equivalent consumption (based on the 3 year rolling average) decreasing by 3.0%.
- 3.2.5 The impact of a 10% decrease on weekly heating hot water charges is illustrated in the table below.

**Table 1: Proposed weekly charge**

Property size	Current Charge	Weekly decrease	New weekly charge
		10.00%	
<b>1 Bed</b>	£12.66	£1.27	£11.39
<b>2 Bed</b>	£15.90	£1.59	£14.31
<b>3 Bed</b>	£18.93	£1.89	£17.04
<b>4 Bed</b>	£22.05	£2.20	£19.85

## Implementing the service charge increase

3.2.6 It is proposed to decrease heating charges to tenants effective from 1 September 2015. This will allow for a 6-8 week lead in time for Rent Accounts to implement the decrease following consultation with Members and tenants and leaseholders.

### 3.3 Calculating maintenance charges for Leaseholders.

3.3.1 Heating charges for residential leaseholders are calculated in the same way as for tenants.

3.3.2 Leaseholders also pay a maintenance charge for the district heating scheme as a part of their leaseholder service charge. This is for repairs to heating equipment, ie pipes and radiators within their homes and communal areas but does not include boiler houses and substations.

3.3.3 The total cost to maintain the district heating network is made up of LDEC non fuel charges and Housing maintenance charges. The total cost of operating and maintain the district heating network for 14/15 was £1,270,568 this means that it costs £452.40 per property. There are 3086 properties on the district heating scheme, 299 are leaseholders.

3.3.4 This means that the proportion of operating and maintenance cost that can be attributed to leaseholders is £135,267.60 Per annum for the 299 leaseholders.

3.3.5 In order to establish the new amount that each leaseholder will pay we have used a sample of leases including one, two and three bedroomed properties to devise a banding rate that will be charged in addition to their existing service charge. See Table 2.

3.3.6 The new district heating charge will mean that the cost of operating and maintaining the district heating system and network that is associated with leaseholders is actually paid for by the leaseholders.

3.3.7 Leaseholders will continue to benefit from the low gas prices charged to residents.

3.3.8 The Housing Department will be able to recover the full cast of the operating and maintenance cost associated with providing district heating to leaseholders.

Table 2: Proposed Leaseholder annual increase

No. Bedrooms	Proposed Tapered Increase in Annual Service Charge
1	£106.43
2	£133.04
3	£159.65
TOTAL across 299 Leasehold Properties	

## 4. Details of Scrutiny

- 4.1 This report went to the Tenants and Leaseholder Forum on the 29<sup>th</sup>. September 2015 and the proposals were outlined at the meeting. The forum was in support of reducing the charges for heating and hot water. The forum was also supportive of charging leaseholders for the actual cost of delivering the service.
- 4.2 An issue was raised about the 'designated reserve fund' which is separate from the proposed service charge increase. This is being looked at separately by the Right to Buy Section.

## 5. Financial, legal and other implications

### 5.1 Financial implications

- 5.1.1 Services charges to tenants and leaseholders for heating and hot water have not increased since 2009. During this period the cost of gas has increased but service charges to tenants and leaseholders has remained the same.
- 5.1.2 Tenants and leaseholders pay the same service charge for gas. The cost of gas has now fallen such that services charges can reduce by 10% and still cover the cost of gas. This is as a result of a fall in wholesale gas prices and greater purchasing power achieved by LDEC. Service charges are based on current gas prices and the average annual consumption for the previous 3 years.
- 5.1.3 Leaseholders pay an additional service charge which currently covers the cost of maintaining the pipework internal to the property. This charge needs to increase so the cost of providing district heating to leaseholders is not cross subsidised from rents paid by tenants

Peter Coles

### 5.2 Legal implications

- 5.2.1. The Landlord and Tenant Act 1985 sets out the basic ground rules for service charges, defining what is considered a service charge, setting out requirements for reasonableness and for prior consultation of leaseholders. Section 18 (1) of the Act defines a service charge as 'an amount payable by a tenant of a dwelling as part of or in addition to the rent (1) which is payable, directly or indirectly, for services, repairs, maintenance, improvements or insurance or the landlord's costs of management; and (2) the whole or part of which varies or may vary according to the relevant costs.'
- 5.2.2. Charges which the Council make to its tenants and leaseholders must be in accordance with the Housing Act 1985 as amended by the Housing and Planning Act 1986, the Leasehold Reform, Housing and Urban Development Act 1993 and the Housing Act 2004. There is a statutory requirement to give leaseholders the relevant amount of notice of any variation in their service

charges for the provision of services as that for works under s.20 of the 1985 Act. Legal Services will continue to provide advice and assistance as necessary as this matter progresses.

John McIvor, Legal Services, ext.37-1409

### 5.3 Climate Change and Carbon Reduction implications

5.3.1 Leicester City Council can ensure that its council housing tenants have access to affordable warmth through reducing the charges for heating and hot water, and additionally by providing thorough energy efficiency advice in order to minimise any increases in energy consumption that may result from lowering energy bills.

*Louise Buckley, Senior Environmental Consultant (Climate Change), 372 293.*

### 5.4 Equalities Implications

5.4.1 The 10% reduction to heating and hot water charges made to leaseholders connected to the district heating scheme will have a positive impact across all protected characteristics.

5.4.2 However the proposal to change the service element to leaseholders to ensure that they contribute towards the full cost of delivering heat and hot water, could benefit smaller households (single or couple), based on the information/data in table 2, whereby people with a 1 bedroom property will have an average increase of 38% for their annual service charge, compared to 43% for 2 and 3 bedroom properties. Also if we assume a pensioner couple live in 1 bedroom accommodation and households with children would live in 2 or 3 bedroom accommodation, then the proposal would disproportionately benefit pensioners.

5.4.3 As part of the consultation the proposed increases in table 2 should be discussed and agreed with the Leaseholders.

Suki Biring, Equalities Officer, Ext4175

### 5.5 Other Implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

N/A

**7. Is this a private report (If so, please indicated the reasons and state why it is not in the public interest to be dealt with publicly)?**

No

**8.Is this a “key decision”?**

No