

**Manchester City Council  
Report for Resolution**

**Report To:** Executive – 14 September 2011

**Subject:** Increase to Communal and District Heating Charges 2011 - 2012

**Report of:** Director of Housing and the City Treasurer

**Summary**

To seek Executive approval to implement an increase to the price of heat supplied to tenants and residents supplied through the Commercial contract with effect from October 2011.

**Recommendations**

Approve the proposed 18% increase to the weekly heating charge with effect from October 2011.

**Wards Affected:**

Charlestown, Cheetham, Crumpsall, Harpurhey, Higher Blackley, Miles Platting and Newton Heath, Moston and Ardwick

<b>Community Strategy Spine</b>	<b>Summary of the contribution to the strategy</b>
Performance of the economy of the region and sub region	N/A
Reaching full potential in education and employment	N/A
Individual and collective self esteem – mutual respect	N/A
Neighbourhoods of Choice	Every effort will be made to identify where the increased tariffs will result in hardship to tenants and to ensure that the impact of the higher charges are minimised. Reducing fuel poverty is still key objective for the Council and it continues to deliver its aims and objectives for increasing the energy efficiency of tenants homes.

**Full details are in the body of the report, along with any implications for:**

- Equal Opportunities Policy
  - Risk Management
  - Legal Considerations
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**Financial Consequences – Revenue**

A report was agreed by Executive on 16 March 2011 which set out the proposed increases to tenants heating charges for the period April 2011 – March 2012. The heating charges were calculated on the estimated increase in gas costs at that time and were set at a level that would recover direct costs. Since this report the Commercial gas contract price has now been fixed, and the costs have increased by around 50% as opposed to the 25% assumed on the basis of the best industry advice at the time of setting the heat charges.

Based on the higher increase the increased costs of the gas supply will be around £278k, unless the increase is passed onto tenants then this will be a cost to the HRA.

A number of options have been considered, and each of these has different implications in terms of costs to the HRA, but also implications for tenants. These are considered within the body of the report.

**Financial Consequences – Capital**

There are no direct capital implications as a result of this report.

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**Background documents (available for public inspection):**

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

Report by the Director of Housing on District Heating 1991/92 to Housing Committee, July 1991

Report by the Director of Housing on District Heating 1997/98 to Housing and Environmental Services, Finance and Policy and Resources Committee, 24 February 1997.

Report by the Director of Housing on District Heating Charges 2005/06 to Executive Committee, 10 February 2005.

Report by the Strategic Director of Neighbourhood Services on Heating Charges 2006/07 to Executive Committee, 13 September 2006.

Report by the Director of Housing/City Treasurer on Annual Increase in Communal District Heating System Charges to Executive, 16 March 2011.

## **1.0 Introduction**

- 1.1 The purpose of this Report is to seek Members agreement to a further increase in the weekly charge for communal domestic heating in respect of properties supplied via the Commercial gas contract.

## **2.0 Background**

- 2.1 Communal heating systems are those in which one or more heating boiler supplies heat and hot water to two or more properties. The Council is responsible for setting the weekly heating charge for tenants in a variety of situations where there is a communal heating system as follows:

- 1) Large scale district heating systems eg Grove Village; Longsight
- 2) Multi-storey blocks
- 3) Sheltered Housing Schemes (including Victoria Square)
- 4) Low-rise flats where 2 or 4 flats share one boiler (known as 2/4 blocks)

- 2.2 The Council purchases gas via two different contracts. The first three types of communal heating scheme above use gas purchased on the Council's Commercial Contract. Gas for tenants in 2/4 Blocks is purchased through the Council's Domestic Gas Contract.

- 2.3 The Council negotiates gas prices for approximately 12 months at a time, and will look to fix the price at a certain point in time to ensure the best prices are obtained.

- 2.4 When the price increase was agreed in March, we had already fixed the domestic gas prices at 20% increase, and were estimating that the Commercial gas contract would increase by around 25%.

- 2.5 The Commercial contract is used by large scale commercial sites, and is much more volatile than the domestic markets. Due to a number of worldwide events, which included Middle East Crisis, the earthquake in Japan and subsequent closing of the nuclear reactors the actual contract price increased by 50% rather than the estimated 25%.

## **3.0 Setting the revised heating charge**

- 3.1 The following factors must be taken into account when determining the unit price for heat and the weekly heating charge:
- prevailing contract prices for gas and projected future energy market trends
  - the need to balance future annual heating accounts
  - management of the district heating schemes and associated administrative costs

3.2 These factors were considered when setting the initial charges, but due to the higher than anticipated increase in respect of the Commercial contract we need to revisit the calculations.

3.3 A number of options have been considered and these are set out below;

#### Do Nothing Option

If we do not pass any increase onto the tenants now, then the Housing Revenue Account will need to absorb around £278k costs in respect of the increased costs of gas used to supply heat and when the gas prices are set for 2012/13 in order to ensure that the heating accounts are balanced, tenants could see significantly higher increases, due to having to absorb the initial 25% increase, together with any further increases that may arise from fixing next years gas prices. This will need to reflect when we set the 2012/13 charges.

#### Pass on the Full costs of the Increase

Any increase in charges could only be applied with effect from October at the earliest, therefore if we were to pass on the full costs of the increased gas, and increase costs by 25% with effect from October this would recover the majority of costs, especially considering that around 70% of gas is consumed between October and March, it would leave a cost on the Housing Revenue Account of around £150k but tenants would only be faced with the costs of any future increases when next years heat charges are set.

If we were to ensure a fully balanced heating account, then we would need to increase costs by more than the 25% actual increase in order to recover the costs of gas consumed between April and September. This would require an increase of around 38%, but would also result in tenants receiving lower increases next year due to already having received an increase effectively from 1 April 2011.

#### Pass on Part of the Increase

The majority of utility companies are currently having to increase their energy prices to consumers due to the increased costs of gas, the average increase is around 18%, and examples of some of the increases currently being applied are detailed below;

- E-On 18.1% increase wef 13<sup>th</sup> September 2011
- British Gas average 18% increase
- Scottish Power average 19% increase

If we were to apply similar increases of 18% to the heating charges, then this would recover the some of the costs, but still leave the HRA with costs of around £171K, and also mean further increase in April to balance the heating account.

3.4 The Council currently supplies heat to Eastlands Homes' tenants on the Longsight district heating scheme. The Eastlands Homes tenancy agreement only allows them to increase rent and any other charges once per year. The heating charge increase will not, therefore, be levied on these tenants.

#### **4.0 Conclusion**

4.1 Due to worldwide events the costs of gas has increased significantly more than what was originally forecast, in order to ensure that the heating account can be balanced we need to increase the costs of the heat charges to tenants.

4.2 The weekly impact of both the 25% and 18% increase is set out at Appendix 1

#### **5.0 Contributing to the Community Strategy**

##### **(a) Performance of the economy of the region and sub region**

N/A

##### **(b) Reaching full potential in education and employment**

N/A.

##### **(c) Individual and collective self esteem – mutual respect**

N/A

##### **(d) Neighbourhoods of Choice**

#### **7.0 Key Polices and Considerations**

##### **(a) Equal Opportunities**

Not Applicable

##### **(b) Risk Management**

Not applicable

##### **(c) Legal Considerations**

Not applicable

## Appendix 1

### Indication of Increased Heat charges

		Current 2011/12 Charge	Revised Charge of 18% Increase	Actual Increase	Revised Charge of 25% Increase	Actual Increase
		£	£	£	£	£
<b>Victoria Square</b>						
<b>Flat Type</b>	A	10.06	11.87	1.81	12.58	2.52
	B	10.81	12.76	1.95	13.51	2.70
	C	11.63	13.72	2.09	14.54	2.91
	D	12.08	14.25	2.17	15.10	3.02
	E	15.48	18.27	2.79	19.35	3.87
	Caretaker	18.54	21.88	3.34	23.18	4.64
<b>Sheltered Housing</b>						
<b>Northwards/Brunswick/Collyhurst</b>						
Flat	1 Person	10.89	12.85	1.96	13.61	2.72
	2 Person	13.36	15.76	2.40	16.70	3.34
	Warden	19.26	22.73	3.47	24.08	4.82
<b>Grove Village PFI Scheme</b>						
Flat	1 Bed	10.35	12.21	1.86	12.94	2.59
House	2 Bed	12.79	15.09	2.30	15.99	3.20
House	3 Bed (Small)	16.16	19.07	2.91	20.20	4.04
House	3 Bed (Large)	17.44	20.58	3.14	21.80	4.36
House	4 Bed	18.64	22.00	3.36	23.30	4.66
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<b>Sandyhill Court</b>						
		6.75	7.97	1.22	8.44	1.69
<b>Metered District Heating (including MECo)</b>						
		6.31	7.45	1.14	7.89	1.58