
**MANCHESTER CITY COUNCIL
REPORT FOR RESOLUTION**

REPORT TO	Executive
DATE	19 November 2008
SUBJECT	Annual Increase in Communal Domestic Heating System Charges
REPORT OF	Director of Housing / City Treasurer

PURPOSE OF REPORT

The purpose of this report is to seek Members agreement to an increase in the heating charge to residents living in homes serviced by the Council's communal domestic heating schemes.

RECOMMENDATIONS

1. To approve an increase of 31% for all heating and related charges to have effect from 5.1.09.
2. To approve revised weekly budget rates for residents of properties detailed in Appendices 1 and 2.

FINANCIAL CONSEQUENCES FOR THE REVENUE BUDGET

The Housing Revenue Account (HRA) has in recent years provided for an ongoing deficit on the heating account. Executive Committee in September 2008 was informed that it was expected that the heating account would be brought into balance by 2008/9 following this year's annual increase. A 31% increase in heating and related charges will bring the heating account into balance by year end. .

FINANCIAL CONSEQUENCES FOR THE CAPITAL BUDGET

There are no financial consequences for the Capital Budget.

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BACKGROUND DOCUMENTS

Report by the Director of Housing on District Heating 1991/2 to Housing Committee, July 1991.

Report by the Director of Housing on District Heating 1997/8 to Housing and Environmental Services, Finance and Policy and Resources Committee, 24 February 1997.

Report by the Director of Housing on District Heating Charges 2005/6 to Executive Committee, 10 February 2005.

Report by the Strategic Director of Neighbourhood Services on Heating Charges 2006/7 to Executive Committee, 13 September 2006.

Report by the Director of Housing on Heating Charges 2007/8 to Executive Committee, 12 September 2007.

WARDS AFFECTED

ALL

IMPLICATIONS FOR:

ANTI POVERTY	EQUAL OPPORTUNITIES	ENVIRONMENT	EMPLOYMENT OPPORTUNITIES
YES	NO	YES	NO

1 INTRODUCTION

- 1.1 The purpose of this report is to seek Members agreement to increase charges for communal domestic heating schemes.

2 BACKGROUND

- 2.1 Communal heating systems are those in which one or more heating boiler supplies heat to two or more properties. 5,844 homes are serviced by the Council's communal heating systems, including Manchester CC Council tenants, and private households living in former Council homes, which have retained the communal heating service.
- 2.2 These homes fall within three main categories of heating systems:
1. Large District Heating Schemes including
 - multi-storey block systems (1,677 homes)
 - MEco (Manchester Energy Company) ((417)
 - MAPLES (*Manchester Alexander Park and Longsight Energy Service*)-Alexander Park properties have recently transferred to City South Manchester HT (632)
 - Grove Village (540)
 2. Sheltered Housing and Victoria Square (579)
 3. 2 and 4 Block Flats (1,999)
- 2.3 Heating charges to tenants and other residents served by communal heating systems are increased annually following the annual negotiation of contracts.
- 2.4 In recent years, the Council has sought to protect tenants from the turbulence of the market by adopting a budget strategy, which in effect has smoothed the impact of these major increases to tenants over a number of years. The adoption of this approach has given rise to a deficit on the heating account which has been funded within the HRA. This approach has avoided any undue hardship on tenants subject to heating charge as a result of the escalation of gas prices.
- 2.5 When the charges were revised with effect from 1st October 2006, the report to Executive recommended that the heating charge account be brought into balance by the end of the financial year 2008/9. The deficit against the heating account in the financial year 2006/7 was £1.896 m, of which £1.881 m. had been provided for in the HRA budget.
- 2.6 Executive in September 2007 approved an increase of 10% for heating charges with effect from 1st October 2007. The deficit against the heating account in the financial year 2007/8 had reduced to £949k, against a budgeted provision of £625k in the HRA budget. It was expected that the heating account could be brought into balance in

2008/09 with a further increase in charges of around 10% if the gas market entered a period of stability with increases at levels of general inflation.

3 SETTING THE REVISED HEAT CHARGES

- 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
 - water rates and boiler house rates
 - costs of electricity to control and operate central boiler plant.
- 3.2 Whilst the latter factors must be accounted for, the major determining consideration is the basic contract price for gas. Due to the continued volatility of gas markets, officers have delayed agreeing new contracts to ensure the best possible rates are obtained.
- 3.3 Communal Heating schemes are split between the Council's two gas contracts; the Industrial and Commercial contract (I&C), and the Domestic contract. The I&C contract covers the district heating schemes, Multi Storey blocks and sheltered blocks. A separate domestic gas contract serves mainly 2/4 block properties. Both contracts have been renegotiated on favourable terms in comparison with prevailing market conditions.
- 3.4 As part of the work to reduce the impact of gas and heating increases for residents, Officers have recently reviewed the model on which heating charge increases have been based. Assumptions about gas and other costs have been brought up to date; only charges relating to collection of pre-payments, and Energy Management Unit services are included.. A single increase in heat charge of 31.33% for all residents will balance the model, i.e. agreed costs of heating systems will be met by anticipated income.
- 3.5 The proposed increase is significantly less than the increases in the Council's commercial gas contracts and compares favourably to domestic gas increases.

4 PROPOSALS

- 4.1 There are three methods by which users pay for communal heating;

- Unmetered supply, with a fixed rate heating charge where the resident, in sheltered housing, in flats at Victoria Square or in a 2 or 4 block flat, receives neither rebate nor surcharge.
 - Metered heating supply with a weekly budget heating charge paid as an addition to the rent where the resident living on a district heated estate receive a rebate or a surcharge demand based on a periodic reconciliation of the actual usage with total payments made.
 - Metered heating supply with a prepayment facility whereby the resident living on a district heated estate or in a multi-storey block flat pays in advance for heat by charging a card with heat credit at a sales outlet.
- 4.2 As pre-payment meters have become more popular, there is increasingly a range of payment methods in use across most schemes. It is proposed that all are increased by 31% as indicated in Appendices 1 and 2.
- 4.3 Occupants of most 2 and 4 block flats are required to pay a charge for gas consumed within the flat, referred to as a gas cooking charge. It is recommended this charge is also increased by 31%, as per Appendix 1.

5 IMPLICATIONS FOR COUNCIL POLICIES

- 5.1 With regard to the Council's policies on energy efficiency and climate change, the fact that a number of communal heating systems remain unmetered, may remove incentives for some residents to conserve energy. A medium term strategy will be to develop and implement costed plans for ensuring that remaining City Council homes within communal heating schemes, will be connected to highly efficient infrastructure and boilers, using renewable energy sources where possible, with fully functioning metering and heating control systems.
- 5.2 Whilst the proposed increases in heating costs compare favourably with increases in domestic energy prices on the open market, there is no doubt that many households on lower incomes may experience fuel poverty as energy prices increase. (A household is said to be in fuel poverty if it needs to spend more than 10% of its income on fuel to maintain a satisfactory heating regime.)
- 5.3 Through the Council's Housing Energy Team and the Greater Manchester Energy Saving Trust Advice Centre (ESTAC) which is hosted by Manchester City Council, there are a range of services providing advice and practical assistance for all residents, but with a particular focus on reducing fuel poverty. In addition to the formal letters advising residents of the increased charge, the Housing Energy Team will undertake an awareness raising campaign targeted at these residents, stressing the benefits of energy conservation.

- 5.4 The Council's Affordable Warmth Strategy provides a strategic framework for this range of activities. We continue to have very successful partnerships with the Government's Warmfront scheme and energy utility companies, to deliver a range of free or subsidised products such as loft and cavity wall insulation, to reduce energy bills. We are also in discussion with Government to take advantage of recent changes in the Carbon Emissions Reduction Target (CERT) regulations, to explore external insulation measures suitable for non-traditional and older pre-1919 properties which cannot benefit from cavity insulation.

APPENDIX 1

PROPOSED WEEKLY HEATING CHARGES 2008/9			
Unmetered fixed rate schemes			
		All these properties are classed as un-metered and users are thus not liable to pay VAT	
		Current charges October 2007 to date	Charges proposed from January 2009
Victoria Square :			
Flat Type	A	£7.55	£9.92
	B	£8.12	£10.66
	C	£8.73	£11.47
	D	£9.07	£11.91
	E	£11.63	£15.27
	Caretaker	£13.93	£18.29
Sheltered Housing :			
1 Person Flat		£11.05	£14.51
2 Person Flat		£13.56	£17.81
Warden		£19.55	£25.68
Gas Heated Domestic Tariff :			
2 Block & 4 Block flat		£11.66	£15.31
Gas Cooking Charge		£1.21	£1.59

APPENDIX 2

PROPOSED WEEKLY HEATING CHARGES & kWh price 2008/9		
METERED DISTRICT HEATING & MULTISTOREY BLOCK FLATS		
	Current charges October 2007 to date exc-VAT	Charges Proposed Januaryt 2009 exc-VAT
KW/h charge (pence)	5.02 p/kWh	6.59 p/kWh
	Weekly budget charges	
1 Bed Flat	£10.51	£13.80
2 Bed House	£12.98	£17.05
3 Bed House (small)	£16.41	£21.55
3 Bed House (large)	£17.70	£23.25
4 Bed House (small)	£18.92	£24.85
Residents at the above estates can opt to pay the charges by heat credit purchase on a heat prepayment card, as an addition to the rent or by a periodic regular payment arrangement.		