

REPORT TO: HOUSING COMMITTEE – 18 MARCH 2002  
REPORT ON: LEASED HEATING FOR COUNCIL HOUSING STOCK  
REPORT BY: DIRECTOR OF HOUSING  
REPORT NO: 165-2002

## 1. PURPOSE OF REPORT

The report recommends that the Council enters into a contract agreement with a specialised leasing finance company and heating contractors to lease the moveable elements of the Housing Department's replacement heating programme (ie excluding the Scottish Executive Central Heating Programme). In so doing, net savings of approximately £2.132m can be made to the capital budget in 2002/03. Additional savings can be made by extending the agreement to cover replacement boilers installed under day to day repairs and maintenance and the capital programme.

## 2. RECOMMENDATIONS

- 2.1. Committee is requested to agree to leasing of heating systems due to be funded from the City Council's "Heating for All Programme".
- 2.2. That officers from the Housing Department, in conjunction with the City Architectural Services Officer, the Finance Department and the Legal Division seek tenders from leasing companies and providers to procure leasing finance. The results will be reported to a future Housing Committee for approval. Authority is sought to appoint an the successful leasing Finance Company and report to Housing Committee retrospectively on the successful provider appointed.
- 2.3. That the Leasing Company links to the partnership being developed with four contractors installing the central heating forming the 2002/2003 programme.
- 2.4. That the new Scottish Secure Tenancy for Dundee City Council tenants includes a clause reflecting that the finance company has a right to remove the leased heating system if the Council defaults on the lease charges.
- 2.5. That the possibility of leasing electrical central heating is considered for future financial years.
- 2.6. That application is made to Transco to partake in the affordable warmth scheme thus ensuring that any residual value after the first ten years of leasing will be underwritten.

## 3. FINANCIAL IMPLICATION

A Leased Heating Initiative could generate net savings of approximately £2.132m in 2002/03. Additional savings could be made by also leasing boilers replaced under Repairs and Maintenance and electric heating systems. Leasing however will lock the Council into leasing payments for at least a 10 year period after the installation of heating. Payments in Year One will be approximately £319,000. This can be financed through Planned Maintenance and is included in the net savings figure.

#### 4. **LOCAL AGENDA 21 IMPLICATIONS**

Heating installation will increase the energy effectiveness of our housing stock thus reducing CO<sub>2</sub> emissions in the atmosphere. In achieving this objective we will also be addressing the issue of fuel poverty currently suffered by significant numbers of our tenants.

#### 5. **EQUAL OPPORTUNITIES IMPLICATIONS**

None.

#### 6. **BACKGROUND**

6.1. A proposal to enter into a leasing arrangement was developed in 2000. However, the Scottish Executive's Central Heating Programme initiative was developed which meant resources were redirected, and the leasing proposals were suspended. However, savings of £2.954m are required on the draft capital budget for 2002/03. A Leased Heating Initiative could generate net savings of approximately £2.132m in 2002/03 (where we install gas central heating), and would release capital for £2.132 borrowing over the remaining period of the lease. There would be a net saving to the Council of £2.132m in Year One, taking into account the ongoing revenue costs by way of loan charges and leasing costs. The leasing costs will be charged to the Planned Maintenance Budget.

#### 6.2. **The Leasing Arrangement**

Under a Leasing Arrangement, the Council rents those parts of a heating system that are considered moveable. This includes boilers, radiators, heaters and timers, and can include piping, manifolds and wiring. The moveable elements of both gas and electric systems can be leased, up to 95% of the cost of capital works.

The finance to lease these parts is borrowed from a finance company specialising in leasing. A normal operating lease is taken out over 10 years. The current cost of taking out a lease for £1000 is approximately £130 per year, i.e., over the 10 year period a total of £1,300 per £1,000 leased is paid back. This compares favourably with the cost of borrowing under the conventional method used to fund the Capital Programme.

The primary difference is at the end of the 10 year period, the Council does not take ownership of the system. In fact, this is specifically prohibited under the rules of leasing. Instead, the Council would take out a secondary lease to cover the residual value of the heating systems.

The secondary lease is a much lower amount reflecting the age of the system and is typically around 10% of the original lease cost.

Currently, the cost of carrying out a full heating installation is £3,500 per house. This includes pipework, asbestos removal (where necessary), decoration allowances, decant costs, fees, etc. The net contract cost is in the region of £3,000.

### 6.3. **Cost Implications**

The net saving in year one to the Capital Budget will be £2.132m. These savings will be used to continue other Capital Programmes such as roof replacement, improvement works, and roughcast repair. A similar saving in year two of the scheme will ensure the continuation of these vital programmes.

The full cost implications of a lease heating programme over the full 12 year period of the lease is shown in Appendix 1.

Of the £3,000, some £2,850 is eligible for leasing purposes (95% of the total). The Council would need to fund the balance of £150 from the capital budget as well as the £500 not eligible for leasing purposes.

### 6.4. **Other Financial Considerations**

- If a tenant who has a leased heating system exercises their Right to Buy, The lease would be terminated and the Council would pay a termination cost for lease redemption. This sum is normally the outstanding rental discounted at 3%, and will therefore be greater the earlier in the life of the lease the property is purchased. The cost of the lease is generally covered by the increased receipt to the Council due to the dwelling being centrally heated.
- The introduction of leasing will mean that the annual lease cost will require to be met. Weekly rent rises of up to £2.00 are to be paid by all tenants who benefit from the heating programme. This system will remain unchanged, and will generate £82,560 in Year One.

### 6.5. **Procurement of Finance**

It is proposed to tender for a finance provider for the duration of the Lease Heating Initiative. A partnership agreement has already been forged with 4 heating contractors for the 2002/03 programme. It is proposed that the finance package should be in place to fund contracts early in the 2002/03 programme.

## 7. **DELIVERING THE PROGRAMME**

### **Tri-partite Agreement**

The leasing arrangement requires that a legal contract is drawn up and signed by the three parties, ie the Council, the leasing company and the tenant. This contract is called the Tri-partite agreement. The tenant is required to sign as there must be an amendment to the tenancy agreement that says that the finance company has a right to remove the system if the Council defaults on the lease charges.

It is anticipated that this agreement would be signed by the tenant when the Housing Officer visits before the work begins, thus minimising the impact on Area Office staff. The new Scottish Secure Tenancy should include a clause referring to the right of the finance company to remove a leased heating system if the Council defaults, so that new tenants will not need to sign a separate Tri-Partite agreement.

8. **CONSULTATIONS**

All Chief Officers and the Dundee Federation of Tenants Associations have been consulted on the contents of this report.

**ELAINE ZWIRLEIN**  
**DIRECTOR OF HOUSING**

**Signed:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**LEASE HEATING REPORT**  
**COMPARISON OF CAPITAL AND REVENUE COSTS**

**Assumptions**

Year 1 1,075 properties of which 860 would be gas.

Year 2 956 properties of which 765 would be gas.

Leased £2,850. Capital £650

Borrowing over 10 years at 6.5%  
 Leasing costs £130 per thousand.

**Capital Allocation Requirements**

<u>Year</u>	<u>Without Lease Heating</u>	<u>With Lease Heating</u>
1	£3,010,000	£559,000
2	<u>£2,677,500</u>	£497,250
<b>TOTAL</b>	<u>£5,687,500</u>	<u>£1,056,250</u>

**Revenue Costs**

<u>Year</u>	<u>Without Lease Heating</u>	<u>With Lease Heating</u>		<u>Total</u>
		<u>Loan Charges</u>	<u>Leasing Costs</u>	
1	£0	£0	£318,630	£318,630
2	£418,705	£77,760	£602,063	£679,822
3	£791,158	£146,929	£602,063	£748,992
4	£791,158	£146,929	£602,063	£748,992
5	£791,158	£146,929	£602,063	£748,992
6	£791,158	£146,929	£602,063	£748,992
7	£791,158	£146,929	£602,063	£748,992
8	£791,158	£146,929	£602,063	£748,992
9	£791,158	£146,929	£602,063	£748,992
10	£791,158	£146,929	£602,063	£748,992
11	£791,158	£146,929	£283,433	£430,362
12	£372,453	£69,170	£0	£69,170
<b>TOTAL</b>	<u>£7,911,579</u>			<u>£7,489,918</u>

Based on today's prices an additional £4.63m would be available for borrowing over the next 2 years.

However, revenue costs by way of loan charges and leasing costs would increase by £0.58m over the same period before becoming slightly cheaper from year 3 onwards.