

Report of Chief Officer Property and Contracts Housing Leeds
Report to Director of Environments and Housing
Date: October 2014
Subject: Heat Lease termination payments

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:1	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Appendix 1 to this report has been marked as confidential under Access to Information Procedure Rules 10.4 (3) on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) which, if disclosed to the public, would, or would be likely to prejudice the commercial interests of that person or of the Council.		

Summary of main issues

The Council has a number of lease arrangements in place, used for provision of gas central heating, that expire over the next three financial years. Those leases require a final payment for non-reverting assets at their conclusion. Two offers have been received from both the Lease Broker and the Finance company to roll all the final payments into a single settlement percentage rather than negotiate each payment separately. This Report proposes acceptance of the lower settlement value from the Finance company and provision will be made for the specific schemes ending in each year as part of the relevant capital programmes.

1 Purpose of this report

- 1.1 To obtain approval to accept a financial offer for asset buy out of the remaining live assets on the thirty three Heat Lease schemes which terminate between 2015/16 and 2017/18.

2 Background information

- 2.1 Prior to establishment of the Leeds ALMOs and accessing the Decent Homes Standard funding the Council developed a leasing arrangement (known as Heat Lease) to increase funding available for installation of gas central heating systems in Council owned homes. For a time limited fixed weekly sum Tenants were able to have a new gas central heating system installed in their homes. The major components of the heating systems (boilers, radiators, piping) were leased for a fixed term (generally of ten years) at the end of which any live assets either revert back to the Lease Company or can be purchased for a negotiated settlement fee by the Council. A number of separate Heat Lease (also called Total Heat) schemes have been operated over the last decade as each scheme had a financial limit that dictated capacity.

3 Main issues

- 3.1 Thirty three separate Heat Lease schemes come to the end of their life at different times during the next three financial years (2015/16 to 2017/18). The Council's Treasury Management Team has been in discussions with the Lease Broker (Virtual Lease Services Ltd) and the finance providers (Lombard Finance) about options for either return of the residual assets or a final payment for their outright purchase. As return of the assets is not a practical consideration (this would require decommissioning of the individual central heating systems) discussions have centred on potential buy-out payments.
- 3.2 Virtual Lease Services (VLS) calculated a buy-out based on a residual value of c£250 which they believe reflected the lessors RV position and the likely cost of collection and return of the assets if they were to be handed back. This equates to around 15% of the original asset cost (for those assets remaining live at termination) and was offered on the basis that payments are up to date, the account is settled in full within 14 days and the buyout are on an all or nothing basis with assets sold as seen without warranty save for title.
- 3.3 Independently of the discussions with VLS the Council's Treasury Management Team had a conversation directly with Lombard who ultimately own the assets leased to the Council and they offered to sell the remaining live assets to the Council at the end of each lease for 10% of the original asset cost. This lower figure reflects Lombard's own assessment of the asset and the fact that they were initially considering an option to offer a new lease agreement to the Council to provide new boilers but have discounted this.
- 3.4 The confidential appendix to this report gives an estimate of the value of the two proposed settlements.

3.1 Corporate Considerations

3.1 Consultation and Engagement

3.1.1 Consultation has been limited to discussions with VLS and Lombard as this is purely a commercial transaction.

3.2 Equality and Diversity / Cohesion and Integration

3.2.1 There are no apparent equality and diversity or community cohesion issues.

3.3 Council policies and City Priorities

3.3.1 The proposal in this Report accords with the Spending Money Wisely City priority.

3.4 Resources and value for money

3.4.1 The Heat Lease schemes assumed a final settlement would be required to buy out the non-reverting assets and the proposed settlement direct with the Finance provider delivers a substantial saving compared with that from the Broker.

3.5 Legal Implications, Access to Information and Call In

3.5.1 There are no known legal implications. The Report will be subject to call in.

3.6 Risk Management

3.6.1 There are no identified risks other than failing to act in a timely manner resulting in the offer from Lombard being withdrawn.

4 Conclusions

The current leases in place for the Heat Lease scheme require final payments for non-reverting assets live at end of the lease period. Two offers have been received on valuation of the final payment and this Report proposes acceptance of the lower offer resulting in a saving to the Council.

5 Recommendations

5.1 The Director of Environment and Housing is asked to approve acceptance of the lower Heat Lease final offer valuation of 10% of the initial value as proposed by Lombard Finance and as detailed in para 3.3 above. .

6 Background documents¹

Individual Heat Lease scheme agreements.

¹ The background documents listed in this section are available to download from the Council's website, unless they contain confidential or exempt information. The list of background documents does not include published works.

