

DECISION-MAKER:	Head of Decent Homes		
SUBJECT:	Landlord Heating Charges		
DATE OF DECISION:	16 th September 2010		
REPORT OF:	Utilities Manager		
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STATEMENT OF CONFIDENTIALITY			
Not applicable.			

SUMMARY

This report proposes the level of increase that is necessary for the landlord controlled heating charge to tenants to enable income to meet expenditure and reduce the deficit that has arisen over the last two years.

The objective is to stop the increasing levels of deficit on the account and eventually restore balances to the agreed levels. In order to achieve this, an increase of 14% is being proposed from November 2010, as well as implementing measures to reduce demand and heating costs. A further review will be undertaken to determine whether a further increase will be necessary in October 2011.

Work will be undertaken in the next few months to discuss and investigate possible measures which could be adopted to reduce heating costs.

This is an officer delegated decision following consultation with the Cabinet Member and Head of Finance.

The purpose of this paper is to provide some background to the current position and to recommend practical solutions to correct the financial position of the account.

RECOMMENDATIONS:

- (i) An increase in landlord heating charges of 14.0% to be made with effect from 1st November 2010
- (ii) To note that following the financial year-end of 2010/11 analysis to be made on the financial position with further relevant recommendations submitted for approval
- (iii) To note that further investigations into ways of reducing the heating expenditure are undertaken – for example, insulation in tower blocks and controlling heating levels / times.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn figures for 2009/10 show that the deficit on the account has increased to £601,000, which is £283,000 higher than expected.
2. It is necessary to address the level of deficit on the account and eventually restore balances to the agreed levels. Given the scale of the deficit it is considered impractical to correct this position in a single increase.
3. A further review to assess forecast costs and income will be undertaken to determine whether notice needs to be given of a further increase from October 2011.

BACKGROUND

4. The Cabinet Report of July 2008 set out the basis for the future operation of the "Heating Account" and the following principles are relevant to this paper:
 - To agree that any annual surpluses or deficits at the end of each year are carried forward and are taken into consideration in calculating the following year's charges;
 - To agree that a working balance on the account would be maintained at approximately 10% of total energy expenditure
 - The Head of Decent Homes was given delegated authority to undertake all such ancillary action to implement these proposals, and this decision is taken under delegation 6.5.5. "To determine the level of charges for Landlord Controlled Heating".
5. The 2008 report also set out the current charging methodology in calculating the weekly amounts which was approved by the Cabinet at this time. This based the new charge on the floor area of the dwelling with each property categorised into one of 8 charging bands. Given the scale of the changes for some tenants a phased introduction was agreed. The next step in this phased introduction will take place in April 2011. The impact of this change is not therefore something for consideration at this time. However, it is worth noting that after April 2011 there will only be 127 dwellings (1.7%) that will not yet have reached the new charge level.

CONSULTATION

6. This report is submitted following consultation with the Cabinet Member for Housing that took place on the 17th August 2010 with further consultation following this initial meeting.
7. Council tenants will be notified of the changes within the guidelines giving 28 days notice of any changes to their service charges.
8. Leaseholders are not affected by this change as due to the leaseholders agreement their charges are calculated separately and under a different charging format

DETAIL

9. At the end of 2007/08 the balance on the heating account was a surplus of £414,000, which represented 17% of annual expenditure. Since then there have been 2 winters which have seen usage increase substantially over previous levels. At the end of 2008/09 the balance on the heating had become a deficit of £66,000.
10. Increases in heating charges were last consulted with the Cabinet Member for Housing in September 2009. At that time a 7% increase was agreed to take effect from December 2009, with no increase from April 2010. It was acknowledged at that time that further increases would be needed to stop these losses and return the account to a positive balance.
11. As stated above the financial outturn figures for 2009/10 are higher than expected and there are 2 reasons for this:
 - The very cold winter led to higher usage (electricity alone used 2.7m more units than 2008/09 at an average cost of 7.6ppu = £205k)
 - Following the installation of new electrical risers, Scottish & Southern Electric have deemed the supply to warrant an availability charge due to the demand on supplies, and has increased the tariffs substantially – an average of 17pence per unit compared to other tariffs of around 8 pence per unit). This decision has been challenged by SCC, but calculations show that this change has led to increased costs of approx £100k.
 - The level of the deficit is not easily recovered in one go therefore spreading the recovery over a number of years will ease the burden on tenants financial position.
12. It is acknowledged that this process takes some time to restore balances to the required level but it tries to strike a balance between increasing charges and affordability for tenants as well as implementing measures to reduce demand and heating costs. A table of the current charges to tenants, and the effect of the proposed increase, is set out in Appendix 1.
13. A crucial factor in determining price increases to tenants is the forecast of consumption and the costs that the council can purchase energy at. In this regard the last 2 years have seen major increases in usage over budgeted levels. It is also very difficult to get information on future price increases beyond the next few months. The assumed consumption for 2010/11 and 2011/12 for the purposes of this report is the average usage (KWH) for the last 5 years – this includes the two highest usage years on record of 2008/09 and 2009/10.
14. A further detailed review is planned following preliminary discussions with tenant group(s) on the introduction of measures to reduce heating demand and costs. A decision will be taken in Spring 2011 to determine whether a further increase is required from October 2011 in order to ensure that progress is being made to reduce the deficit on the heating account.

FINANCIAL/RESOURCE IMPLICATIONS

15. Set out above

Property

16. None

Other

17. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

18. Legal power under the Housing Act 1985 which deals with rent to be charged.

Other Legal Implications:

19. A letter confirming 28 days notice will be sent to tenants receiving the charge, being 4 weeks notice as with rent increases in accordance with the Housing Act 1985

POLICY FRAMEWORK IMPLICATIONS

20. The proposals in this report are consistent with the Housing Strategy and the HRA business plan.

SUPPORTING DOCUMENTATION

Appendices

1.	Current and revised weekly Charges
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Documents In Members' Rooms

	None.
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Background Documents

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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	None.	
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Background documents available for inspection at: complete

Neighbourhoods Directorate, Asset Management, Villiers Road, Shirley Southampton. SO15 3JH

FORWARD PLAN No:

KEY DECISION?

YES

WARDS/COMMUNITIES AFFECTED:	All
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