

DECISION-MAKER:	HEAD OF DECENT HOMES
SUBJECT:	LANDLORD HEATING CHARGES
DATE OF DECISION:	11 JULY 2011
REPORT OF:	HOUSING ACCOUNT MANAGER
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The purpose of this paper is to provide an explanation of the current financial position on the account and set out the increases that are recommended to bring the account back into balance. It also examines operational matters that could help reduce the number of units used.

The deficit on the landlord heating account at the end of 2010/11 was larger than budgeted due to the harsh winter so urgent consideration must be given to the level of increase in charges to tenants for landlord controlled heating.

This is an officer delegated decision to the Head of Decent Homes.

RECOMMENDATIONS:

- (i) That charges to tenants for landlord controlled heating are increased by 19.5% from 5 September 2011.
- (ii) To note that further increases in charges to tenants on top of increases due to rises in energy prices will be needed over the next 4 years
- (iii) To note that if the measures to reduce electricity consumption do not deliver the anticipated savings it will be necessary make further increases to ensure that the deficit on the heating account does not increase beyond the limits set in this report.
- (iv) To adjust the energy consumption throughout the year by increasing /decreasing the “energy charging” periods to reduce the energy consumed as covered by Delegated Powers 6.1.6, 6.5.5 and 6.5.6.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2010/11 shows that the deficit on the heating account has increased to £1,620,000, which is £883,000 higher than expected.
2. It is necessary to address the level of deficit and have a plan to restore balances to agreed levels. Given the scale of the deficit a phased approach over the next 5 years is proposed. This involves steps to reduce electricity consumption as well as increases in charges to tenants.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The alternative options involve not taking steps to reduce electricity consumption and / or recovering the deficit over a shorter period. Both would lead to higher increases in charges to tenants. These options have been rejected as it is considered that the increases would be excessive in the current economic climate.

DETAIL (Including consultation carried out)

Background

4. The current charges to tenants are based on the floor area of their dwellings. These are allocated into one of 8 charging bands. This new basis was approved by Cabinet in July 2008. Given the scale of the changes for some tenants a phased introduction was agreed. The last phasing change was in April 2011, which left 127 properties still to converge. The next change, in April 2012, will reduce that number to 93.
5. The report in July 2008 also set out the basis for the future operation of the heating account and the following principles are relevant to this paper:
 - To confirm the existing definition of total costs as all energy costs (currently gas and electricity) used to provide landlord heating for all blocks in the city where there is landlord controlled heating plus the reasonable costs of administering the scheme;
 - 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;

Current position

6. At the time the policy was established the surplus on the heating account was £414,000, which represented 17% of annual expenditure. Since then there have been 3 winters in which average external temperatures have been lower than previous years which has seen usage increase substantially over previous levels. At the end of 2009/10 the balance on the heating account had become a deficit of £601,000.
7. The financial outturn figures for 2010/11 show that the deficit on the account has increased to £1,620,000, which is £883,000 higher than expected. There are a number of reasons for this:
 - Yet another cold winter led to lower average temperatures meaning higher usage (electricity used 0.7m more units than 2009/10). However the forecast had been based on a much lower usage – the average usage of the previous 5 years, rather than the high usage of the previous 2 years. This has resulted in a usage variance against forecast of £639,000.
 - The usage variance has been mitigated by a favourable price variance of £136,000, resulting from the reduction in KVA rates following a change of contract (KVA is the term for higher demand heavy-duty supplies to tower blocks)
 - Gas usage has also substantially increased as a result of the cold winter, and has contributed a further £89,000 to the deficit
 - SCC has recently been informed by Scottish and Southern Electric that meters at Rozel Court and Neptune Court have been under-billed for a number of years. Agreement has been reached that £150,000 will be paid to clear these arrears.

- Following the change of corporate contracts a number of final invoices are in dispute to the value of £56,000. While this may well not be the final amount payable, the full amount has been accrued in the deficit.
 - Further to a referral to the Audit Commission, investigation has shown that the incorrect classification of some lighting and heating meters has resulted in the heating account being under-charged. As a consequence of this investigation, it was noticed that communal heating areas within sheltered accommodation were incorrectly being charge to the heating account. The net result of the correcting transactions over the past 6 years is an extra cost to the account of £65,000.
 - The Audit Commission charged £20,000 for their additional work on heating.
8. It is therefore necessary to consider what actions are needed to stop the increasing levels of deficit on the account and eventually restore balances to the agreed levels.
 9. 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 3 years have seen major reductions in average external temperatures and therefore increases in usage over budgeted levels. It is therefore considered prudent to use the actual consumption levels in 2010/11 as a starting point for the expenditure forecasts.
 10. Consideration has then been given to steps that can be taken to reduce energy consumption. We have been advised that a possible 10% reduction in energy consumption can be made by amending the periods when the heating system is charged and reducing the overall maximum charging period by 1 hour from 10 to 9 hours. This will have an impact on all times accordingly within the range of temperature settings
 11. The expenditure forecasts have assumed that this saving can be delivered and that the new charging arrangements will start from this winter. Additional steps are being taken to monitor energy usage to check if these savings are being delivered. If they are not being delivered for any reason then a further increase in charges to tenants will be needed early next year.
 12. The other key factor is an assessment of increases in energy prices. It has been widely reported that energy suppliers are increasing charges for domestic customers by up to 20%. The latest information is that electricity prices paid by the council can be expected to rise by 15% from October this year. Further 15% increases have been assumed in subsequent years.
 13. Having established an expenditure forecast it is necessary to decide how charges to tenants need to be increased to bring the account back into balance and when the increases should take place.
 14. Various options have been considered. Key consideration were:
 - The period over which the deficit is recovered,
 - Whether the deficit on the account should be allowed to increase beyond current levels

15. If a view was taken that the deficit on the account should not increase in 2011/12 then an increase in charges of over 40% would be needed from September. This was considered excessive.
16. A range of options were developed that established a small working balance by the end of 2015/16. All involve allowing the deficit to increase in 2011/12, after which income should cover costs in 2012/13 with the deficit being reduced over no more than the subsequent 3 years.
17. The recommended option is the one that provides for equal price rises (subject to increases in charges from energy suppliers which are currently assessed at 15% pa) over the next 5 years and means a 19.5% increase in charges from September 2011. The new charges are set out in appendix 1. Increases for 2012/13 onwards would need to exceed increases in charges from energy suppliers by approximately 4.5%. The increases would need to be made in August each year as soon as the final financial information from the previous financial year was available.
18. The projected deficit on the heating account at the end of 2011/12 is £1.9M. The account would remain in deficit until 2015/16, with the deficit not starting to reduce until 2013/14.

RESOURCE IMPLICATIONS

Capital/Revenue

19. Set out above

Property/Other

20. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

21. Legal powers are in the Housing Act 1985 which deals with the rent to be charged.

Other Legal Implications:

22. A letter confirming 28 days notice will be sent to tenants receiving the charge. This accords with the rent increase notification set out in the Housing Act 1985.

POLICY FRAMEWORK IMPLICATIONS

23. The proposals in this report are consistent with the Housing Strategy and HRA business plan and the principles established by Cabinet in July 2008 for the operation of the account.

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KEY DECISION? Yes

WARDS/COMMUNITIES AFFECTED:	All
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Current and Revised weekly charges to tenants.
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	Yes/No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

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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1.	None.	
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