

DECISION-MAKER:	CABINET
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES
DATE OF DECISION:	21 AUGUST 2012
REPORT OF:	CABINET MEMBER FOR HOUSING AND LEISURE
STATEMENT OF CONFIDENTIALITY	
None	

BRIEF SUMMARY

The purpose of this paper is to provide an explanation of the current financial position on the Landlord Controlled Heating Account and set out the increases that are recommended to bring the account back into balance.

The report presented last year recommended a rise of 19.5% in 2011/12 and stated that increases for 2012/13 onwards would need to exceed increases in charges from energy suppliers by approximately 4.5%. However, the deficit on account at the end of 2011/12 was smaller than forecast, due to the mild winter and the impact of reducing the number of hours the heating systems were switched on. Therefore, a rise of 18% is recommended for 2012/13, which is in line with projected energy inflation. It is currently anticipated that an increase in line with energy inflation will also be sufficient in 2013/14, with an expectation of lower than energy inflation increases in subsequent years.

The Council recognises that a large number of its residents who benefit from the landlord heating system may also be suffering from fuel poverty, particularly in some of the most deprived areas of the city. Therefore, the Council plans to consider a number of future heating options which will have the benefit of giving tenants control over their heating, whilst also reducing their utility costs.

RECOMMENDATIONS:

- (i) That charges to tenants for landlord controlled heating are increased by 18% from 1 October 2012.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2011/12 shows that the deficit on the heating account has reduced to £1,457,000, which is £453,000 lower than forecast.
2. Although the level of deficit has reduced, it is still necessary to implement measures to eliminate the deficit by 2014/15, and produce a surplus of approximately 10% of annual expenditure by 2015/16. This approach was agreed by Cabinet in July 2008.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3. The alternative option is not to increase charges to tenants, which would result in an increased deficit on the landlord heating account.

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 2012, which left 34 properties still to converge. The next change, in April 2013, will reduce that number to 33, with full convergence achieved by April 2017.
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.
Subsequently there were 3 winters in which average external temperatures were lower than previous years, which saw usage increase substantially over previous levels, and this led to a deficit on the heating account of £1,620,000 at the end of 2010/11.
The price increase of 19.5%, applied in October 2011, was the first step towards eliminating the deficit and establishing a 10% surplus, although the forecast model (which was based on an assumption that all future usage would remain at 2010/11 levels) predicted an initial increase in the deficit of £290,000.
7. The financial outturn figures for 2011/12 show that the deficit on the account has reduced to £1,457,000, which is £453,000 lower than expected.
This is due to the decision to reduce the hours for which the heating systems were operating, combined with an exceptionally mild winter, which has reduced the consumption. It is not possible to analyse the contribution for each of these factors, but the energy expenditure was £564,000 less than forecast.
There are some smaller adverse variations on the account that have partially offset this position, as follows:
 - Income from tenants was £48,000 lower than forecast, due to the delay in implementation of the charge increase.
 - Income from leaseholders was £38,000 lower than forecast due to the reduced consumption.A further invoice of £20,000 was received from the Audit Commission for investigation of a tenant's complaint.

8. Although the deficit has been substantially reduced compared with forecasts, it will still be necessary to implement a further increase, as early as possible in 2012/13, if the deficit reduction is to proceed as agreed.

9. A crucial factor in determining price increases to tenants is the forecast of consumption and the costs at which the council can purchase energy. In this regard, 3 of the last 4 years have seen major reductions in average external temperatures and therefore an increase in usage over budgeted levels.

Three usage scenarios have been considered :

- Pessimistic – usage as per 2010/11 (high)
- Optimistic – usage as per 2011/12 (low)
- Realistic – an average of the last 3 years usage, comprising two “bad” years and one “good” year.

The recommendation is based on the ‘Realistic’ scenario

10. In 2011/12 it was agreed that the heating systems would be switched on for 1 hour less per day. The mild winter meant that the monitoring of exact savings from this measure was not possible (though theoretical savings can be calculated), but customer feedback indicated that the changes had no adverse impact on the comfort of our residents over the course of the last winter.

12. The other key factor is an assessment of increases in energy prices. The latest information is that electricity prices paid by the council can be expected to rise by 18% from October this year, but the rate of increase will slow for subsequent years. This information has been supplied by Kent Laser, and has been used in the forecast models.

13. Having established a forecast for expenditure 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. The report presented last year recommended a rise of 19.5% in 2011/12 and each subsequent year until 2015/16. This was based on an assumption of 15% per annum increases in charges from energy suppliers. As the landlord heating account is in a better position than forecast, this will not now be necessary. Based on the ‘Realistic’ scenario, as described above, an increase in line with projected energy inflation in 2012/13 and 2013/14 will be sufficient to allow lower than inflation increases in the last 3 years of the model.

15. Based on an 18% increase in October 2012, the projected deficit on the heating account at the end of 2012/13 is £1.2M. It is planned that the account would remain in deficit until 2014/15, and produce a 10% surplus by 2015/16.

Future Heating Options

16. The Council has long held the aspiration to give tenants direct control over their heating but until recently the design of the system and the electrical capacity of the risers has meant this has not been possible. However, as a result of significant work undertaken with Southern Electric over the last year it is now possible to directly connect the electrical heating system into an individual’s own supply and this approach has been piloted in recent months. However, the arrangement simply provides residents with control over the current electrical system and the Council has concerns that the current

system may not be the best heating solution for residents in the longer term.

17. The Council is currently undertaking a significant project at International Way in Weston, which includes the re-provision of a landlord heating system, but with the added benefit of it being a 'wet' system with radiators fired by a single boiler house for each block. This has the added benefits of providing the residents with hot water as well. The system is fully controllable and the residents will have direct control over the heating and hot water, only paying for what they use through a key meter system. As the Council is still purchasing the energy through a bulk arrangement, the cost savings can be passed on as a benefit to the residents
18. Consideration is also being given to wider heating options through district heating schemes or combined heat and power schemes using the Council 'estate' as the heat load to sustain a locally based system. External funding may be available for this type of scheme. In addition, Housing Revenue Account funding could be made available to pursue alternative heating solutions for key properties and areas in the City, including those identified as part of the Estate Regeneration Programme.
19. The work at International Way will provide key learning opportunities for the Council to consider how a better and more efficient heating solution can be provided to residents. Work with British Gas through their legacy obligation under the Community Energy Savings Project (CESP) funding will provide training, awareness and education to the residents on how best to manage their heating and hot water in the future.

RESOURCE IMPLICATIONS

Capital/Revenue

20. The revenue implications are set out above. The effect of price rises on area bands is illustrated in Appendix 1.

Property/Other

21. None.

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

22. The legal powers to charge and vary rent in relation to Council owned housing are contained within the Housing Act 1985, with any reasonable upward variations subject to appropriate notice being provided to tenants.
Leaseholders are governed by the Landlord and Tenant Act 1985, which sets out the requirements insofar as increases to service charges are concerned, and in particular any relevant consultation, notice periods or limitations that may apply.

Other Legal Implications:

23. None.

POLICY FRAMEWORK IMPLICATIONS

24. 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
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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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