

DECISION-MAKER:	HEAD OF HOUSING SERVICES		
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES		
DATE OF DECISION:	26 AUGUST 2014		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Alan Denford	Tel: 023 8083 3159
	E-mail:	Alan.Denford@southampton.gov.uk	
DIRECTOR	Name:	Alison Elliott	Tel: 023 8083 2602
	E-mail:	Alison.Elliott@southampton.gov.uk	
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 the progress on actions that were recommended to bring the account back into balance.

The report considered by Cabinet in August 2013 approved amendments to the principles for the operation of the heating account. These amendments, including a one-off contribution from the favourable level of Housing Revenue Account (HRA) balances, allowed the Council to limit the increase in 2013/14 to 2.5%, which was in line with expected general price inflation and significantly lower than the anticipated energy inflation. The report also set out that the Council hoped to limit increases to 2.5% in subsequent years.

The Council recognises that a large number of its residents who benefit from the landlord heating system may still be suffering from fuel poverty, particularly in some of the most deprived areas of the city. As a result of the milder winter and prudent management of energy costs, this report is able to recommend that the Council limits the increase in 2014/15 to 1.9%, which is in line with expected general price inflation and significantly lower than expected national energy price inflation.

RECOMMENDATIONS:

- (i) To agree that charges to tenants for landlord controlled heating are limited to an increase of 1.9% from 6 October 2014.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2013/14 shows that the deficit on the heating account has reduced from £1,405,800 to £523,100 during the financial year, partly due to a contribution of £391,000 from HRA balances. The end of year deficit is £59,900 lower than forecast in August 2013, mainly due to a relatively mild winter. However, it is still necessary for the decision maker to agree a level of charging that aims to eliminate the deficit by 31st March 2016, whilst also recognising the increased pressures on residents and the ongoing effects of fuel poverty.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. One alternative option is to increase charges in line with energy inflation, which could increase levels of fuel poverty in deprived areas of the City and compound some of the impacts of welfare reform.

Another alternative option is not to increase charges to tenants, which would result in an increased deficit on the landlord heating account and place a potential financial burden on other tenants in the City.

DETAIL (Including consultation carried out)

Background

3. The current charges to tenants are based on the floor area of their dwellings. These are allocated into one of eight charging bands. This basis was approved by Cabinet in July 2008 in a report that also set out the principles for the future operation of the heating account.
4. In the light of the changes in benefit payments associated with Central Government welfare reform, the impact of ongoing fuel poverty on the well-being of many residents and the future proposals to undertake further schemes which reduce the number of properties on the landlord scheme, these principles were amended by Cabinet in August 2013.
5. The following amendments were recommended and approved by Cabinet last year:
 - To agree that a one-off contribution from HRA balances can be taken into consideration in calculating the charges for 2013/14;
 - To agree that a deficit balance can be carried forward until 31st March 2016 by which time the account should be back in balance; and
 - To agree that the level of working balance required in subsequent years will be reviewed in setting the charge for 2016/17. This will be based on the number of properties still receiving landlord controlled heating at that time and with consideration to closing the heating account and accounting for any balances or deficit within the main HRA.

Current position

6. At the time of the July 2008 Cabinet report the surplus on the heating account was £414,000, which represented 17% of annual expenditure. Subsequently there were three winters where average external temperatures were lower than those usually experienced, which saw usage increase substantially over previous levels. This led to a deficit on the heating account of £1,620,000 at the end of 2010/11.
7. Increases of 19.5% (October 2011) and 18.0% (October 2012) ensured that the deficit started to reduce. However, the outturn figures for 2012/13 showed that the deficit on the account was still £1,405,800, mainly due to the long cold spell at the beginning of 2013.

8. The financial outturn for 2013/14 shows that the deficit on the heating account has reduced from £1,405,800 to £523,100 during the financial year, partly due to a contribution of £391,000 from HRA balances. The end of year deficit is £59,900 lower than forecast in August 2013, following a relatively mild winter, and is on course to be back in balance by 31st March 2016, as planned.

9. A crucial factor in determining price increases to tenants is the forecast of consumption.

Three usage scenarios could have been considered :

- Pessimistic – usage as per 2012/13 (high)
- Optimistic – usage as per 2011/12 (low)
- Realistic – an average of the last 3 years usage

The recommendation in this report is based on the ‘Realistic’ scenario.

10. The other key factor is an assessment of increases in energy prices. The latest information is that from October 2014, electricity prices will rise by 4.9% but that gas prices will not increase. This information has been supplied by Kent Laser, the Council’s energy supplies manager and has been used in the forecast models.

11. 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.

12. The changes in benefit payments associated with Central Government welfare reform, in particular the size criteria determination, is starting to have an impact on residents. It is particularly affecting smaller households in two and three bedroom flats which form the majority of properties on the landlord heating system. Reductions in benefits, coupled with large increases in heating charges, will place some households in a difficult financial position. The likely impact is that the Council sees an increase in reduced or defaulted payments of the heating charges.

13. It is, therefore, recommended that the Council limits the increase in October 2014 to 1.9%, which is again in line with expected general price inflation. Based on this proposal, the projected deficit on the heating account at the end of 2014/15 is £295,000.

14. If actual energy inflation is in line with the forecast, a further price increase would be required in 2015/16 to bring the account back into balance by the end of that year. At this time it is anticipated that a similar level of increase will be required next year. As previously agreed, the level of working balance required in subsequent years will be reviewed in setting the charge for 2016/17. This will be based on the number of properties still receiving landlord controlled heating at that time and with consideration to closing the heating account and accounting for any balances or deficit within the main HRA.

Consultation

15. The report recommendation has been discussed with the Tenant Resource Group. They endorsed the proposal for the reasons outlined in the report and we are grateful for their input into this process.

Future Heating Options

16. The Council will continue to consider future heating options that will have the benefit of giving tenants control over their heating, whilst also reducing their utility costs. It remains the aspiration to give tenants direct control over their heating and last year it was anticipated that new funding streams through the Energy Company Obligation (ECO) would be able to support investment to help significantly reduce the number of properties on the landlord system and lift some of the poorest residents in the City out of fuel poverty. Despite the changes announced to ECO in the Autumn Statement in December 2013, the Council is continuing to explore opportunities for schemes and external funding for improvements to heating systems, alongside improvements to insulation in some of the poorest performing buildings, which will help reduce the cost burden to residents of heating their flats.
17. The Council has undertaken a significant project at International Way in Weston which included 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 benefit of providing the residents with hot water as well. The system is fully controllable and the residents now have direct control over the heating and hot water, only paying for what they use through a key meter system. Residents have reported seeing savings of at least 50%, and more details will be published once year on year comparisons are available.
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.
19. As a result, it is anticipated that properties will be removed from the landlord heating system each year and therefore, the need to maintain a separate heating account will diminish. As properties are removed from the account, it is necessary to offset the amount of any remaining deficit that these properties would have helped pay back, otherwise an unfair burden remains on the reduced number of tenants still part of the scheme. Ultimately, the Council remains committed to eliminating the current landlord heating system in the coming years, subject to the availability of appropriate local and national funding.

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. Legal powers are in the Housing Act 1985 which deals with the rent to be charged. The Head of Housing Services is making this decision under delegation 4.8.39. This gives authority to determine and revise the level of charges for Landlord Controlled Heating in future years and is being carried out following the required consultation with the Cabinet Member for Housing and Sustainability.

Other Legal Implications:

23. 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

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

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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Equality Impact Assessment

Do the implications/subject of the report require an Equality Impact Assessment (EIA) to be carried out	No
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Other Background Documents

Equality 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)
1. None	