

DECISION-MAKER:	SERVICE DIRECTOR – ADULTS, HOUSING AND COMMUNITIES		
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES		
DATE OF DECISION:	13 AUGUST 2019		
REPORT OF:	SERVICE DIRECTOR – FINANCE AND COMMERCIALISATION		
<u>CONTACT DETAILS</u>			
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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.

The heating account contains a surplus of approximately £702,000. However, the consortium from which the Council procures energy is forecasting fuel inflation of 8% for 2019/20, followed by further annual increases for four subsequent years. Although the surplus on the account is sufficiently large to allow a freeze in the charge for this year, in future years it is likely that prices will need to change by the forecast fuel inflation. The forecast position on the account, based on the recommendations in this report, is shown in the following table:

	Opening Balance £M	Forecast Expenditure £M	Forecast Income £M	Closing Balance £M
2019/20	(0.70)	3.73	(3.53)	(0.50)
2020/21	(0.50)	3.81	(3.69)	(0.38)
2021/22	(0.38)	4.00	(3.87)	(0.25)
2022/23	(0.25)	4.22	(4.10)	(0.13)

RECOMMENDATIONS:

- (i) To agree that charges to tenants for landlord controlled heating will increase by 4.5%, with effect from 6 January 2020
- (ii) To agree that, for the residents of International Way, Erskine Court, Sturminster House and Shirley Towers, the unit charge will remain unchanged

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2018/19 shows that the surplus on the heating account has reduced from £1,236,000 to £702,000 during the financial year. The surplus at 31st March 2019 is £108,000 lower than forecast in August 2018 due to lower income from leaseholders and tenants. However, it is likely that there are a number of estimated bills included in this usage that do not accurately reflect the colder weather between January and March.

The surplus has enabled the re-payment of the loan of £391,000 made by the HRA to the heating account in 2013/14

The surplus generated by International Way has reduced and stabilised, and the new heat energy systems at Erskine Court, Sturminster House and Shirley Towers are being monitored closely to ensure full recovery of costs.

These recommendations will ensure that tenants are charged fairly for the costs of heating their properties, use the current surplus on the account to reduce the potential increase to tenants in the current year, and ensure the medium term sustainability of the heating account.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options are to increase charges in line with energy inflation, or to freeze charges for a third year in order to reduce the existing surplus more quickly. The former option will not materially affect the surplus on the account, which is contrary to policy, whereas the latter option, while reducing the surplus, will lead to larger increases being required in later years that would be greater than fuel inflation.

DETAIL (Including consultation carried out)

Background

3. The current charges to tenants are based on the floor area of their dwellings, which are allocated into area 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 account has been in surplus since 2015/16, and subsequently charge reductions and freezes have been applied
6. Although the account remains in surplus at present, cumulative energy price increases of approximately 40% by 2023/24 are forecast by our energy supplier. It is therefore considered prudent to increase the charge to tenants, but by less than the predicted energy inflation figure

Current position

7. The financial outturn for 2018/19 shows that there is a surplus of £702,000 on the heating account. However, the end of year surplus is £108,000 lower than forecast in September 2018,
8. A crucial factor in determining price increases to tenants is the forecast of consumption.

The annual usage for the last 4 years has been analysed, and the average consumption has been used as the assumed future usage for this report. The highest and lowest years have also been modelled to indicate best / worst possible cases.
9. The other key factor is an assessment of increases in energy prices. The latest information is that from October 2019, electricity prices will rise by 8.5%, with four subsequent years of above-RPI inflation. This source of energy represents 91% of the total fuel cost. Although gas / geothermal prices are forecast to increase by a smaller percentage, this has a negligible effect on the heating account as only a small minority of households use these fuels. This information has been supplied by Kent Laser, the Council's energy supplies manager and has been used in the forecast models. The forecast increases are similar to those forecast in previous models.
10. Having established a forecast for expenditure of £3.73M for 2019/20 and £3.81M for 2020/21, based on the average usage scenario outlined above, it is necessary to decide by how much charges to tenants need to be increased.
 - It is forecast that an increase in charges of the rate of energy inflation would generate a deficit of £138,000 in 2019/20, thus reducing the surplus on the account to £564,000. Further inflation-level increases over the subsequent four years would stabilise the surplus at an average of approximately £608,000.
 - A further freeze in the charge would generate a deficit of £281,000 in 2019/20, and even with the application of energy inflation level increases for the subsequent four years would result in a deficit of approximately £763,000
 - A below-inflation increase of 4.5% will generate a deficit of £127,000 in 2019/20, and subsequent inflation-level increases will reduce the surplus to a break-even level over four years
11. 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 potential impact is that the Council would see an increase in reduced or defaulted payments relating to heating charges. This will be monitored closely in future years.
12. It is therefore recommended to increase charges to tenants for landlord controlled heating by 4.5% as a result of this annual review. The weekly charge for each of the area bands is shown in the following table (a more detailed table is provided in Appx 1). The table also shows how many of the 5,746 properties with landlord controlled heating fall within each band.

Area Band	No of properties	£ pw
Band A <40 m ²	1,714	9.59
Band B <50 m ²	2,195	11.98
Band C <60 m ²	289	14.39
Band D <70 m ²	656	16.75
Band E <80 m ²	651	19.16
Band F <90 m ²	216	21.57
Band G <100 m ²	8	23.95
Band H <110 m ²	13	26.34
Band J <20 m ²	4	3.60

13. In addition to the landlord-controlled heating, a number of buildings have been fitted with heat energy systems over which the residents have full control of their consumption. However, in order to ensure full recovery of costs incurred by the Council, it is necessary to set a price per unit payable in these buildings
14. A full review has been carried out on the income and expenditure at these properties, and it has been determined that the current charges per unit are sufficient to ensure full cost recovery, and need not be amended.

Consultation

15. The report recommendation has been discussed with the Cabinet Member for Homes and Culture, and the Tenant Resources 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 it was originally 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 up to 50%.

18. Similar projects have been completed at Shirley Towers and Sturminster House and the current Housing Revenue Account Capital Programme contains funding to pursue alternative heating and insulation solutions for other properties and areas in the City. The aim is for properties to be removed from the landlord heating system each year and, therefore, the need to maintain a separate heating account will diminish. 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.
19. In September 2021 the current contract with our energy suppliers will expire and prior to that date a procurement exercise will be undertaken to source a new supplier. Southampton City Council's new energy company, CitizEn Energy, will be invited to bid as part of this exercise.

RESOURCE IMPLICATIONS

Capital/Revenue

20. The revenue and capital implications are set out above.

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. This is an Officer Decision under delegation 13.35. 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 Homes and Culture.

Other Legal Implications:

23. A letter confirming 28 days' notice of a change will be sent to tenants receiving the charge, in accordance with the rent increase notification set out in the Housing Act 1985.

RISK MANAGEMENT IMPLICATIONS

24. Although it is important that fuel costs are fully recovered, the Council recognises that fuel poverty is an issue, and provides a confidential help and support service for residents to ask advice on money and debt issues. The

team can be contacted by email on welfarights.advice@southampton.gov.uk, and by telephone on 023 8083 2339

POLICY FRAMEWORK IMPLICATIONS

25. 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.	None
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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	NoYes s
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Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	No
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Other Background Documents

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	
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