

DECISION-MAKER:	CABINET		
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES		
DATE OF DECISION:	20 AUGUST 2013		
REPORT OF:	CABINET MEMBER FOR HOUSING AND SUSTAINABILITY		
<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 and set out the actions that are recommended to bring the account back into balance.

The report presented last year recommended a rise of 18.0% in 2012/13, which was in line with projected energy inflation. It was also anticipated that an increase in line with energy inflation (around 10%) would be required 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, and that this position will not be helped by the changes in benefit payments associated with Central Government welfare reform.

The report also notes that over the last year work at International Way has removed 520 properties (about 7.5% of properties) from the landlord system and the impact of this lost contribution to recouping the deficit needs to be taken into account. This is also likely to be just the first of a series of projects which takes properties out of the landlord account and therefore this future direction of travel also needs to be accounted for.

This report, therefore, recommends amendments to the principles for the operation of the heating account, which had previously been agreed by Cabinet in July 2008. These amendments, including a one-off contribution from the favourable level of HRA balances currently available, will allow the Council to limit the increase in 2013/14 to 2.5%, which is in line with expected general price inflation and significantly lower than the anticipated energy inflation.

RECOMMENDATIONS:

- (i) To amend the basis for the future operation of the landlord controlled heating account as set out in paragraph 11 of the report;
- (ii) To agree a one-off contribution of £391,000 from available HRA balances in 2013/14 to reduce the current deficit on the heating account;
- (iii) To agree that charges to tenants for landlord controlled heating are limited to an increase of 2.5% from 7 October 2013; and
- (iv) To thank the Tenant Resource Group for their input to the charge setting process and to note their endorsement of the recommendations above.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2012/13 shows that the deficit on the heating account has reduced by £51,200 to £1,405,800 during the financial year. Although the level is reducing, the deficit is £103,000 higher than forecast in August 2012 due to the longer than expected cold period at the beginning of the year. It is, therefore, necessary for Cabinet to agree measures aimed at continuing to eliminate the deficit whilst also recognising the increased pressures on residents and the ongoing affects of fuel poverty.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. One alternative option is to continue 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.

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 8 charging bands. This basis was approved by Cabinet in July 2008.
4. 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 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; and
 - To agree that a working balance on the account would be maintained at approximately 10% of total energy expenditure.

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 have been reviewed and amendments recommended.

Current position

5. At the time the current policy was established 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.
6. Increases of 19.5% (October 2011) and 18.0% (October 2012) have ensured that the deficit has started to reduce. It was anticipated that a further increase in line with energy inflation of around 10% would be required in 2013/14 with the aim that the account would be back in balance by 2014/15, and produce a 10% working balance by 2015/16.
7. The outturn figures for 2012/13 show that the deficit on the account has now reduced to £1,405,800. However, this is £103,000 higher than forecast in August 2012, mainly due to the long cold spell at the beginning of 2013.
8. 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 2010/11 (high)
- Optimistic – usage as per 2011/12 (low)
- Realistic – an average of the last 4 years usage, comprising two “high” years, one “average” year and one “low” year.

The recommendations in this report are all based on the ‘Realistic’ scenario.

9. The other key factor is an assessment of increases in energy prices. The latest information is that from October 2013 electricity prices will rise by 8.8% and gas prices by 7.2%. This information has been supplied by Kent Laser, the Council’s energy supplies manager, and has been used in the forecast models.
10. 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.
11. It is proposed to make the following amendments to the basis for the future operation of the landlord controlled heating account:
 - 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.

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. During 2012/13, the HRA benefited from a number of efficiencies from the introduction of self-financing. This has left the overall HRA account with a favourable level of balances which were reported as part of the HRA Outturn report for 2012/13. It is unlikely that such balances will be achieved each year and, therefore, it is proposed to make a one-off revenue contribution to the heating account. The level of HRA balances carried forward into 2013/14 exceeds the minimum working balance, as agreed by Council, by £1.289M. It is proposed to use £391,000 of this available balance to reduce the heating account deficit.
14. Based on this proposal, the projected deficit on the heating account at the end of 2013/14 is £583,000. Price increases of 2.5% in line with expected general price inflation are also currently planned for the next two years. If actual energy inflation is in line with the forecast, the account would be back in balance by the end of the 2015/16 financial year. However, it is thought likely that increases may need to revert to being closer to energy inflation from 2016/17 in order to generate an adequate working balance. This will be reviewed in August 2016.

Consultation

15. The report recommendations have been discussed with the Tenant Resource Group. They have endorsed the proposals for the reasons outlined in this report.

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 new funding streams through the Energy Company Obligation are currently being explored 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 benefits 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. It is anticipated that residents will see savings of at least 50%, 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, including those identified as part of the Estate Regeneration Programme.
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, over the next 5 or 6 years, the Council hopes to fully eliminate the current landlord heating system.

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.

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

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	
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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	
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