

DECISION-MAKER:	CHIEF EXECUTIVE		
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES		
DATE OF DECISION:	18 AUGUST 2015		
REPORT OF:	CHIEF FINANCIAL OFFICER		
<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 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 allowed the Council to limit the increase in 2013/14 to 2.5%, and in 2014/15 to 1.9% 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. A relatively mild winter, along with prudent management of energy costs, has contributed to the deficit on the account being eliminated one year earlier than forecast. As a result, this report is able to recommend that the Council reduces the 2015/16 charge by 2.5%, with the intention, if circumstances permit, of freezing the charges in 2016/17.

RECOMMENDATIONS:

- (i) To agree that charges to tenants for landlord controlled heating are reduced by 2.5% from 5 October 2015.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2014/15 shows that the deficit on the heating account has reduced from £523,100 to £3,000 during the financial year. The deficit at 31st March 2015 is £292,000 lower than forecast in August 2014, mainly due to a relatively mild winter.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options are to increase charges in line with energy inflation, or to freeze charges at current levels. Both options are likely to generate a surplus on the account, which is contrary to policy, and could increase levels of fuel

poverty in deprived areas of the City and compound some of the impacts of welfare reform.

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 in August 2013:
 - 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. As a result of three winters where average external temperatures were lower than those usually experienced, usage increased 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 was reduced, and this has allowed smaller increases to be applied in 2013 and 2014.
8. The financial outturn for 2014/15 shows that the deficit on the heating account has reduced from £523,100 to £3,000 during the financial year, due to reduced consumption as a result of a milder winter, and the removal of International Way from the heating account. The end of year deficit is £291,600 lower than forecast in August 2014, and has been effectively eliminated one year earlier than 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 2014/15 (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 2015, electricity prices will rise by 2.4%. This source of energy represents 89% of the total fuel cost. Although gas prices are forecast to reduce by 15.0% this has a negligible effect on the heating account as only a small minority of households use it. 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 if charges to tenants need to be increased, or whether a price freeze or reduction can be considered. Based on the “realistic” scenario outlined above, it is forecast that a reduction of 2.5% would still generate a relatively small surplus of approximately £100,000 in 2015/16.
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 would see an increase in reduced or defaulted payments relating to heating charges.
13. It is, therefore, recommended that the Council reduces the charge in October 2015 by 2.5%.
14. If actual energy inflation is in line with the forecast, and if there is an “average” winter in terms of temperature it is hoped that a price freeze can be applied in October 2016. The “realistic” scenario is currently forecast to produce a break even position in 2016/17.

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 up to 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. This is an Officer Decision under delegation 4.6.37. 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)
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1.	None	
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