

DECISION-MAKER:	SERVICE DIRECTOR – HOUSING, ADULTS AND COMMUNITIES			
SUBJECT:	LANDLORD CONTROLLED HEATING CHARGES			
DATE OF DECISION:	16 AUGUST 2017			
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 and the progress on actions, approved by Cabinet in August 2013, to bring the account back into balance from a deficit position. Following two years of price reductions (2.5% in 2015 and 5.0% in 2016), the heating account contains a surplus of approximately £800,000. However, the consortium from which the Council procures energy is forecasting fuel inflation of 11% for 2017/18, followed by further large 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
2017/18	(0.80)	3.84	(3.67)	(0.63)
2018/19	(0.63)	4.03	(3.84)	(0.44)

RECOMMENDATIONS:

- (i) To agree that charges to tenants for landlord controlled heating will not change as a result of this annual review.
- (ii) To agree that, for the residents of International Way, the unit charge of 5.4 pence will also remain unchanged.

REASONS FOR REPORT RECOMMENDATIONS

1. The financial outturn for 2016/17 shows that the surplus on the heating account has increased from £682,000 to £803,000 during the financial year. However, the surplus at 31st March 2017 is £57,000 lower than forecast in August 2016 and the forecast for future price inflation is significantly higher than previously anticipated.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. Alternative options are to increase charges in line with energy inflation, or to reduce charges by using the existing surplus. The former option will further increase the surplus on the account, which is contrary to policy, whereas the latter option, while reducing the surplus, will lead to 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 amendments aimed to reduce a deficit on the account and bring it back into balance by 31st March 2016. However, following a mild winter, the deficit had been reduced to £3,000 by 31st March 2015.
6. Although there was a price reduction of 2.5% in 2015, the account moved to a surplus of £682,000 during the 2015/16 financial year, partly due to another mild winter. This allowed a further price reduction of 5.0% to be recommended in 2016.
7. The September 2016 report also stated the intention, if circumstances permit, of a further 5% reduction in 2017/18. Given the long-term projections of fuel costs received since that time, this approach is no longer recommended.

Current position

8. The financial outturn for 2016/17 shows that there is a surplus of £803,000 on the heating account. However, the end of year surplus is £57,000 lower than forecast in September 2016, principally due to a reduced level of income from leaseholders, which has been reflected in future forecasting.
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 2013/14 (high due to severe winter weather)
- Optimistic – usage as per 2015/16 (low due to a mild winter)
- Realistic – an average of the last 4 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 2017, electricity prices will rise by 11.0%, with four subsequent years of above-RPI inflation. This source of energy represents 89% of the total fuel cost. Although gas prices are forecast to increase by smaller percentages 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. The forecast increases are significantly higher than were being forecast in previous models.

11. Having established a forecast for expenditure of £3.84M for 2017/18 and £4.03M for 2018/19, based on the 'realistic' scenario outlined above, it is necessary to decide if charges to tenants need to be increased, or whether a price freeze or reduction can be considered. It is forecast that a freeze on charges would generate a deficit of £171,000 in 2017/18, thus reducing the surplus on the account to £632,000. In the following year, amending charges in line with energy inflation would further reduce the balance to £441,000 (approximately 10% of the estimated annual fuel bill) by 31st March 2019.
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 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.
13. It is therefore recommended to keep charges to tenants for landlord controlled heating static as a result of this annual review. The weekly charge for each of the area bands is shown in the following table. The table also shows how many of the 5,881 properties with landlord controlled heating fall within each band.

Area Band	No of properties	£ per week
Band A <40 m ²	1,726	9.18
Band B <50 m ²	2,199	11.46
Band C <60 m ²	292	13.77
Band D <70 m ²	673	16.03
Band E <80 m ²	742	18.33
Band F <90 m ²	224	20.64
Band G <100 m ²	8	22.92
Band H <110 m ²	13	25.21
Band J <20 m ²	4	3.45
Weighted average		12.69

14. With regard to the heat energy supply at International Way, the decision taken in November 2016 to remove the 29.2 pence per day charge, and freeze the 5.4 pence per unit charge has arrested the increasing surplus on the account, which has stabilised at approximately £100,000, and a further freeze is expected to reduce the surplus over the next two years.
15. It is therefore recommended for the residents of International Way, the unit charge of 5.4 pence will also remain unchanged.

Consultation

16. The report recommendation has been discussed with 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

17. 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.
18. 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%.
19. Similar projects have been progressed this year 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.

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 14.41. 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 Adult Care.

Other Legal Implications:

23. A letter confirming 28 days' notice of a change would normally be sent to tenants receiving the charge, in accordance with the rent increase notification set out in the Housing Act 1985. However, this is not necessary when charges are unchanged.

RISK MANAGEMENT IMPLICATIONS

24. None.

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	No
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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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