

Item No. 15.	Classification Open	Date: 14 December 2010	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Indicative Rent-Setting and Budget Report 2011/12	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing	

FOREWORD - COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING

1. Housing finance stands at a crossroads, having to cope simultaneously with the Coalition Government's Spending Review, the impact of proposed welfare reforms and the imminent publication of the Localism Bill, which will bring about the biggest changes to the structure of how councils account for their housing spend in a generation. Since May we have created a new post of Director of Housing Services, with a brief to re-establish a dedicated Housing department within Southwark, and intend, through the budget for next year and onward, to reshape service delivery to the benefit of tenants and leaseholders across the borough. To all intents and purposes rent levels are nationally, not locally-set, and are heavily dependent on inflation in the wider economy. Southwark Council has adhered closely to rent guidelines for a number of years in order to maximise the support that we receive in the form of subsidy. But this support is falling, and the effects of the Spending Review mean that we have to take some difficult decisions about the HRA budget for next year. We will be consulting widely on what this might mean for our residents, and officers will bring a final report back to Cabinet in the new year on that basis.

RECOMMENDATIONS

Cabinet is recommended to:

2. Note a provisional average rent increase of 7.08% in accordance with the Government's required formula rent guidance (as set out in paragraphs 14 – 19). This is equivalent to an increase of £5.71 per week on average, to be applied to all HRA dwellings (including estate voids and hostels), with effect from 4 April 2011. Average budgeted dwelling rent for 2011/12 will be £86.31 per week.
3. Note provisional changes in tenant service charges as set out in paragraphs 28 – 32 with effect from 4 April 2011.
4. Note a provisional increase in rents and charges for all non-residential property of 50% as set out in paragraphs 33 – 35 with effect from 4 April 2011.
5. Note a provisional standstill in heating and hot water charges such that each charge remains at the rate determined for 2009/10 and 2010/11 (as set out in paragraphs 36 – 38) with effect from 4 April 2011.

6. Instruct officers to provide a final report on Rent-Setting and the HRA Budget for 2011/12 after due consultation processes have been followed for consideration at their meeting on 25 January 2011.
7. Instruct officers to write to the Secretary of State for Communities and Local Government, highlighting the size of the provisional rent increase in comparison with those of recent years, where Government has intervened to place a national ceiling on average rent rises, and to ask that a similar ceiling be considered for 2011/12.

BACKGROUND INFORMATION

Context

8. The Spending Review undertaken by the Coalition Government published on 20 October 2010 contained significant financial issues for local government, as well as the entire public sector. The HRA, despite being ring-fenced from the rest of the General Fund is not immune from the fall-out from this, and officers were instructed to identify a savings package in line with that required for the rest of the council. Current projections identify a "budget gap" of some £7.8m for 2011/12. The level of savings that this would entail presupposes certain other financial decisions which the council is minded to make on HRA finances, such as maintaining a prudent and necessary level of reserves and the degree to which capital investment may be supported from revenue.
9. There is no direct link between rent increase levels, given that they are almost entirely predicated on national decisions and service expenditure locally, aside from rental income contributing to the overall total within which the HRA at Southwark must operate. The council has a statutory responsibility to provide a balanced HRA budget (i.e. all budgeted expenditure must be matched by income and/or the application of reserves).
10. It is important to place any proposals for the HRA budget for 2011/12 and future years in context. It is noted later in this report that major reform of HRA Finance from April 2012, including the establishment of a self-financing relationship between local government housing providers and central government will lead to very substantial changes in the way in which the HRA is financed, and this makes the budget horizon for income very problematic. More detailed work will become possible once the Government publish hypothecated projections for individual local authorities in early 2011.
11. The council is consulting on its proposals for efficiency savings on General Fund services throughout January, and intends to do the same with regard to those provided by the HRA. To this end, and in order not to pre-empt this consultation process, this Indicative Report only presents a position on expenditure in terms of achieving a balanced budget for the HRA, as is the council's statutory responsibility. Proposed efficiency savings will be consulted on separately.

Statutory framework

12. The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, housing subsidy, leaseholder service charges and other income.

13. Whilst there is no statutory requirement to consult, the council is committed to engaging with stakeholders, particularly under the terms of the Tenancy Agreement, and so this report will be subject to consultation with Tenant Council, Area Forums and Home Owner Council before the final version is presented to Cabinet. This process will commence before Christmas 2010.

KEY ISSUES FOR CONSIDERATION

Annual Rent Guideline and Formula Rent

14. Government housing subsidy rules ensure that councils are financially penalised if they vary rents, either up or down, from the prescribed guideline rent. Under the Government's policy of rent restructuring, the capacity to set an increase below the guideline is limited by the annual withdrawal of housing subsidy at least equal to the guideline increase (rent clawback). Any increase beyond the guideline would contravene the Government's rent restructuring framework – specifically the affordability criteria implicit within caps and limits. In addition, housing benefit limitation arrangements within the subsidy rules means the Government reduces the amount payable to Southwark if the rent increase exceeds the HB limit, such that the HRA would ultimately receive c.40% of the additional increase above the prescribed guideline.
15. Government implemented its review of rent restructuring in 2006/07. In Southwark this had an impact on rent levels and had the effect of accelerating convergence with housing association rents.
16. In the normal course of events, there are 3 separate drivers for rent inflation under rent restructuring: the underlying inflation rate (the Retail Price Index at September 2010 is used as specified by the Government); the 0.5% top-up added to hasten comparability with RSL rent levels and the effect of phasing the move between Southwark's actual and target rents. This final percentage is mainly influenced by the 'convergence date' determined by the Government – i.e. the year by which actual rents are assumed to have reached the formula rent level. The Draft Determination continues with revised assumptions made under the HRA Review exemplifications, and the assumed date of convergence has therefore been eased from 2012/13 to 2015/16. The 2011/12 Determination utilised the September 2010 RPI of 4.6%. The effect of each of these drivers is summarised in the table below.

Average Rent Inflation	2010/11 Final	2011/12 Draft	2011/12 Final*
Inflation Uplift (RPI @ September)	(1.40%)	4.60%	4.60%
Top-Up Element	0.50%	0.50%	0.50%
= Increase in Formula Rent	(0.90%)	5.10%	5.10%
plus national convergence element	4.00%	1.70%	tbc
= Increase in National Guideline Rent	3.10%	6.80%	tbc
plus local convergence element	1.28%	1.25%	tbc
less annual affordability limits	(3.05%)	(0.97%)	tbc
= Total Increase in Actual Rents	1.33%	7.08%	tbc

*Final Determination expected January 2011.

17. The previous Government's intention was that rent restructuring would be complete (or rents would have 'converged') after 10 years (i.e. in the forthcoming year – 2011/12). However, they intervened on a number of occasions during the operation of the policy in order to alleviate the actual rent rises that would otherwise have resulted, most notably two years ago, when the final Determination was amended 3 months after publication in order to reduce the national guideline rent increase. A chronology of the national changes made since 2002/03 is attached as Appendix A.
18. The average guideline rent, though calculated on an individual authority basis by the Government, does not take account of local rental history, nor of the Government's intention that rents be restructured on an individual basis, rather than a blanket increase being imposed on tenants. As rent restructuring is property-related, actual rent increases (in line with government guidance) will depend on the formula rent for each property (which relates to the value, size and location) and the existing actual rent. This generally adds around 1¼% to the average rent increase each year. Without the application of annual affordability limits (RPI + ½% + £2.00) for individual rent rises, the average increase would be higher than the guideline figure. In 2010/11 this led to a drop in the average rent increase for Southwark of 1.77% (+1.28% – 3.05% in the table above), but the extension of the convergence date means that in 2011/12 fewer tenants will benefit from the application of the affordability limit, reducing its dampening effect on the average increase.
19. Appendix B is a collated list of average and formula (or 'target') rents across London Boroughs. In 2010/11 Southwark's average rent ranked 8th lowest of the 29 London Boroughs that manage their housing stock, either directly or via an ALMO (the London Borough of Merton divested itself of its housing stock during 2010/11). Appendix B also indicates how far each authority has to travel before reaching the target rent level demanded under this system. Southwark is one of ten London Boroughs where this gap still exceeds 10%, meaning that the local inflationary convergence pressure will take some years to be fully realised.

Management and Maintenance Allowances

20. The Government's draft Determination was issued on 5 November 2010; and consultation for this ends on 16 December 2010. This is a reversion to the timetable previously employed (albeit with a slight delay still in evidence), since last year's draft was not issued in time for the final Determination to be incorporated within our rent-setting report.
21. The proposal in the draft Determination is that allowances nationally rise by 1.9% in line with the GDP inflation indicator used. Movement in local weightings for costs, crime and dwelling types mean Southwark's allowances rise by another 0.57% in 2011/12, making the total proposed rise 2.47%, taking management and maintenance allowances together. The modest rise in Management Allowance does not translate into an increase in cash for that element of subsidy, once stock losses are factored in. The larger increase in Maintenance Allowance does give us a subsidy increase in cash terms.

22. However, due to the loss we incur on rent clawback overall revenue support per property falls in 2011/12. Rent clawback (the amount Government assumes Southwark's rent income to be) has increased by an underlying 6.8%. The table below provides comparative subsidy allowances per property for 2011/12 compared to 2010/11 allowances. This shows that Southwark will receive £184.90 less per property in 2011/12 for revenue purposes than the current year.

	2010/11* £	2011/12 £	(gain)/loss £	%
Management	(1,107.38)	(1,113.90)	(6.52)	0.59
Maintenance	(1,478.18)	(1,535.43)	(57.25)	3.87
Rent Clawback	4,228.80	4,477.47	248.67	5.88
Net Clawback	1,643.24	1,828.14	184.90	11.25

** since the Final Determination was issued after the deadline for last year's rent-setting report, these figures differ slightly from those published last year.*

Major Repairs Allowance and Debt Charges

23. Major Repairs Allowance (MRA) represents the estimated long-term average amount of capital spending required to maintain the stock in its current condition. MRA funds are ring-fenced for HRA asset investment and play no part in the determination of rent levels or revenue budgets.
24. Nationally a 1.9% inflation uplift has been applied to allowances, which in the past has not adequately reflected building cost pressures in London and the South East. This has been exacerbated by the application of regional cost weightings (Geographical Adjustment Factor), which re-distributed resources nationally. This equates to a proposed increase in MRA for Southwark from £37.6m to £38.6m in 2011/12.
25. This increase in MRA, which on a per property basis is a rise from £943.46 in 2010/11 to £980.84 in 2011/12, when taken with the fall in net revenue resources due to rent clawback of £184.90 noted above results in an overall loss in resources per property for 2011/12 of £147.42.
26. The effect of lower interest rates and premia means that whilst gross debt charge subsidy fell by £2.7m (£57.5m in 2010/11 to £54.8m), related movement in the depreciation element of £1.7m gives a likely net movement in 2011/12 of £1.0m, as reflected in the table above.

27. The total effect of the allowance and stock changes on subsidy is shown in the table below.

2011/12 Movement (gain)/loss	Draft Subsidy Determination	
	£m	£m
Loss of Management Allowance	0.3	
Gain in Maintenance Allowance	(1.5)	
Gain in Major Repairs Allowance	(1.0)	
Total change in Allowances		(2.2)
Increased Rent Clawback		7.5
Fall in Subsidy Debt Charges	2.7	
Fall in Depreciation Charge	(1.7)	
Net fall in Debt Charge Subsidy		1.0
Total loss of Subsidy		6.3

Tenant Service Charges

28. Tenant service charges were separated out from the rent as part of the Government's rent restructuring regime in 2002/03. This was to enable greater consistency and transparency between local authority and RSL sectors. Charges were frozen in 2010/11. Increases are normally capped nationally at September RPI @ 4.6% + 0.5%, which would equate to an overall increase of 5.1% for 2011/12. However, given the substantial changes that have taken place in the provision of these four services in the last few years, and as prefaced in last year's HRA Budget report, they are reviewed individually below.
29. Estate Cleaning is based upon the cost of that element of the integrated cleaning contract. The inflation rates applied to the cleaning contract are in no way linked to the Government's subsidy-related cap, and so over the years charges and costs have diverged. However, given recent changes to the relevant contracts, and revised service levels for this area, the last couple of years have seen a much closer match between income and costs for Estate Cleaning, to the extent that the maximum increase under the Government cap in 2011/12 would result in an over-recovery of costs. It is proposed to rebase this service charge at the level necessary to match anticipated costs next year, which translates into an increase of £0.15 to £4.60 per week, which is less than that allowable under Government policy.
30. Grounds Maintenance is similar to the Estate Cleaning service charge in many ways, and covers both grounds and tree maintenance. However, early under-recovery of costs has been addressed due to changes in service provision, and a continuation of this approach will result in costs and income becoming aligned in 2011/12 if an increase of the order of previous Government ceiling levels were to be agreed. It is therefore proposed to increase this charge by the Government cap of 5.1% for 2011/12.

31. The underlying discrepancy in inflation rates is at its most obvious when considering Communal Lighting, as this charge is intended to recover only relevant electricity supply costs. As may be seen from district heating charges over the past few years, utilities inflation has greatly outpaced that across the economy as a whole, and has been considerably higher than the RPI + 0.5% cap imposed by Government on service charges. The Government's own HRA Manual notes that fuel inflation is a legitimate reason for revisiting charging levels even without consideration of other general inflationary factors or levels of service, and on that basis, in order to once more recover costs, this charge must increase to £1.17 per week.
32. Door Entry charges were originally based on the contractual costs of maintenance of the various systems across the borough – with a specific exemption from liability for tenants occupying ground-floor properties. The cost of this contract has been falling in recent years, and it is therefore right that the charge to tenants is also reviewed in this light. On that basis, this service charge can be reduced to 68p per week.

	2010/11 £ per week	2011/12 inflated charge	2011/12 Proposed new charge	%age change
Estate Cleaning	4.45	4.68	4.60	3.4%
Grounds Maintenance	1.03	1.09	1.09	5.1%
Communal Lighting	0.93	0.97	1.17	24.7%
Door Entry	1.09	1.15	0.68	(37.6%)
Total	7.50	7.89	7.54	0.6%

Non-Residential Rents and Charges

33. Non-residential rents and charges were last increased in 2009/10. The report to the then Executive on 27 January 2009 that proposed this increase contained a section setting out Southwark's charging level relative to other comparable London Boroughs. It was further stated:
- “With regard to 2010/11, it is intended that Southwark introduce a differential charging policy, based on different levels of demand in different parts of the borough. In order to do this, work is required to assess which garages will attract premium rates, which need refurbishment work to bring them up to a lettable standard and which should be disposed of, to generate funds to re-invest in the remaining garage stock”.*
34. On consultation with tenants and other stakeholders, strong opposition to a differential charging policy was expressed, and as a result the council opted not to increase non-dwelling charges in 2010/11 in order to consider likely alternatives. Any increase for 2011/12 therefore needs to be considered in the context of a freeze in charges for the previous twelve months.
35. The council intends to introduce a concessionary charge of £5.00 per week for blue badge holders, those in receipt of a mobility or disability allowance and any council tenant over 70 years of age. This decision, alongside the need to generate income to undertake necessary improvements to the non-dwelling stock to increase its availability for re-letting mean that a flat rate increase of 50% is required. Even with this increase Southwark's charges remain extremely competitive, both in terms of other London boroughs, and privately-held alternatives.

District Heating Charges

36. Heating and hot water charges increased by 14.5% in 2009/10, as the council was in the process of procuring an extended, 4-year flexibly-priced contract for the provision of gas for 'large sites'. The former Executive considered a Gateway 1 and 2 report on this at their meeting on 16 December 2008. Flexible pricing means that the council is not tied to a given price at the time of procurement, and that (in conjunction with other members of the consortium agreement) we are able to follow the wholesale market in order to better deliver sub-premium prices to tenants.
37. In last year's rent-setting report, it was recommended that heating charges be kept at previously-set levels, but that the review process be maintained on an annual basis to assess the possibility of future changes to charges where merited.
38. The performance of the flexible price contract has been updated and re-examined, and despite recent retail price increases, the advantageous operation of the contract means that cost of District Heating can be maintained at previous levels once again. However, it should be noted that continuing market price volatility means that the council cannot commit to maintaining this position beyond next year at this stage, but the operation of the Heating Account as 'ring-fenced' within the HRA will enable the offsetting of potential price increases in future years to continue as an ongoing policy objective.

Thames Water

39. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2011. Notification of the increase will be advised in the next few weeks by Thames Water, on whose behalf the council act as agent for billing and collection.

Budget Consultation

40. The administration at Southwark has set out seven over-arching budget principles, covering both the HRA and the General Fund, and these are attached as Appendix C.
41. The adoption of these principles means that the council has looked anew at its consultation processes for the HRA, and has commenced the process earlier, with an interim report to Cabinet in December 2010, setting out the provisional budget scenario in terms of HRA finances. This will enable the commencement of consultation with tenants and leaseholders before Christmas, instead of waiting until January. Notwithstanding this, the report will also be presented to Tenant Council in early January in order for formal remission to Area Housing Forums during the month to take place. Home Owner Council will also consider this report during January.
42. Since finalised information from central Government will not be available until after this process has begun, there will still be a need to refine HRA budget information during January, and officers will be asking Cabinet to set rents accordingly at their meeting in late January 2011. As normal, the results of the consultation processes will also be reported to Cabinet at that time.

43. The changing financial circumstances which all local authorities find themselves in require significant changes to the levels of service likely to be able to be afforded by local government, and despite the ring-fence, the HRA is no exception to this.
44. In its simplest form, the HRA may be represented on a service basis within the following table – details regarding expenditure and income for each service are contained in Appendix D. Revised budget figures for 2010/11 have been used.

£'000	Exp.	Inc.	Net
Housing Management	72,230	185,525	-113,295
Home Ownership Unit	14,509	43,441	-28,932
Sustainable Services	27,561	–	27,561
Public Realm	1,275	698	577
Community Safety	2,368	–	2,368
HQ Functions	538	–	538
Housing Strategy & Options	7,651	4,155	3,496
HRA Financing	138,569	30,882	107,687
TOTAL HRA	264,701	264,701	–

Financial implications

45. The HRA continues to be under pressure, as subsidy resources continue to decline. The Government effectively operates control over rent policy, through the rent restructuring regime and reduces Southwark's subsidy (through rent clawback) based on notional data, which is divergent from the actual position as it relates to Southwark.
46. For 2011/12, the HRA indicative budget includes a range of measures, including increases in rents, improved collection and voids management generating higher income and lower debt provisions. As indicated in Appendix F, this leaves a gap of £7.8m which for the purpose of presenting a balanced budget, will have to be met by a package of efficiency savings. It is anticipated that these may be delivered through revised and more efficient working across housing services, together with further contract and supply chain improvements. Re-profiling and re-direction of resources provides the flexibility to target those areas of highest priority/greatest need. In order to prudently manage the scarce resources available, the council also intends to contribute sums into reserves to cover exceptional cost items now and in the future.
47. The final HRA Rent-Setting and Budget Report will set out an indicative base budget for the HRA in 2011/12, including appendices to present the indicative budgeted expenditure and income of the HRA for 2011/12. The revised position for 2010/11 is attached as Appendix E for reference.

Commitments/Unavoidable Demands

48. Housing Subsidy and Debt Financing – paragraphs 20 – 27 above refer.
49. General Inflation – allowance for inflationary pressures in the cost of supplies, services and contracts assumed at an average of 2% across the board, zero uplift on employees (excludes expected uplift in Thames Water charges directly chargeable to tenants).

50. Fire Risk Assessment Works Programme – a wide-ranging programme of works is being developed to address risks identified through the FRA surveys. The extent and cost of the works necessary are still being refined, but there is an expectation that the bulk of these works will take place over the next 18 months, with costs largely falling in 2011/12.
51. Realignment of Base Budget – over time budgets are subject to variation and movement due to changes in service provision or changes in volumes/ activity. For 2011/12 there are number of budget anomalies that require re-alignment. These comprise:
- Reduction of the garage income budget due to the withdrawal of the proposed differential charging policy assumed for 2010/11;
 - Increase in the budget for temporary accommodation where it is necessary to relocate secure tenants on the grounds of: domestic violence, gang or neighbour threat, disrepair requiring vacant possession, etc.; and
 - Reduction in the value of costs chargeable against the investment programme relating to the asset management function within housing management, together with a reduction in the amount able to be offset against capital receipts payable to central government.
52. Service Improvements and Enhancements – comprising:
- Handypersons;
 - Housing Options – customer service officers;
 - Pest Control contract;
 - Estate Parking;
 - Estate Feasibility studies;
 - Document management and handheld technology; and
 - Housing Management mobile area office.
53. Contribution to HRA Reserves – reserves and working balances are needed as a matter of course due to the size, scale and complexity of housing services, particularly to protect against financial risks and exceptional events. Maintaining an adequate level of reserves and working balances to mitigate risk is a key factor in the Finance Director’s assessment of the robustness of the HRA budget and a target of £20m has been set in the medium term. Reserves currently stand at £14.1m as stated in the audited statement of accounts for 2009/10.
54. Major Projects/Regeneration Initiatives – the operational revenue costs of large-scale housing redevelopment, such as Heygate and Aylesbury is rightly deemed to fall to the HRA, together with other major cost and project commitments, e.g. severance and redundancy and the impending Lakanal Inquest/Public Enquiry. For 2011/12 the base budget needs to be closely matched against the likely scale of commitments arising next year.
55. Guideline Rent Increase – paragraphs 14 – 19 above refer.
56. Tenant Service Charges – paragraphs 28 – 32 above refer.
57. Non-Residential Rents (Garages) – paragraphs 33 – 35 above refer.

58. Leaseholder Service Charges and Major Works – Service charges (annual & capital) represent a share of our costs of providing housing management services, and are recoverable under the terms of lease agreements. The value of leaseholder major works billing is driven by the investment programme and the extent of landlord commitments and decent homes works undertaken. Year on year this can fluctuate and requires regular review and alignment with the programme to ensure that budgeted income is realistic and achievable.

Efficiency Savings

59. The largest part of the annual revenue allocation will always be to the Housing Management Division which provides all core management services including repairs, engineering, tenancy management and resident involvement. The revenue budget for these services for 2010/11 is £72m. The extent of current pressures make a fundamental review of these core services essential. As part of the budget-setting process, a full review of all landlord services has been conducted, and savings to the tune of £16.4m or 23% have been identified (over the three-year budget planning horizon). Savings at this level are necessary to allow the council to divert HRA funds to areas of greatest need, such as fire-related repairs, and to ensure that capital works are fully supported through appropriate revenue funding. In addition to cost pressures, the council has been working to ensure that the commitments made by the new administration can be delivered, particularly those that relate to improved access to services. The proposals for change in outline are to:
- Maintain current contract services levels on all major repairs and engineering contracts;
 - Continue with the efficiency programme in relation to contract management, in effect reducing costs by better contract management;
 - Restructure client-side services to a commercial client model to deliver savings on staffing and management costs;
 - Create a professionally staffed housing advice line that delivers on the spot advice and intervention on all tenancy and leasehold management services;
 - Restructure the area service to provide a tenancy and leasehold management service delivering excellence in key statutory areas such as management of anti social behaviour, income collection and day to day estate management;
 - Provide a locally based resident's advocacy service within the tenancy and leasehold management service;
 - Maintain a physical presence in all localities;
 - Maintain current levels of support to vulnerable tenants through the tenancy management service and SUSTAIN; and
 - Review all services to deliver efficiency savings through service alignment within the new Housing Department.

Spending Review

60. The majority of headlines generated by the Government's Spending Review, published on 20 October 2010, in a housing context, have related to the rules around housing benefits and associated welfare provision, which are accounted for outside the Housing Revenue Account. There are several specific areas impacting on the HRA, but it should be borne in mind that much of the detail awaits confirmation/amplification by CLG.
61. The Government had already indicated that they wished to press on with HRA reform, and this was confirmed within the Spending Review. The likely commencement date is April 2012. There will be no facility for authorities to leave the system voluntarily a year earlier as previously envisaged.
62. Social Rent policy is likely to be unchanged by the Spending Review, although provision is to be made to allow the creation of "intermediate" rents, set at 80% of the Local Housing Allowance for new social housing tenancies. It is thought that this will primarily affect other providers (such as Housing Associations), but the possibility that it could be extended to cover local authority provision ought not to be discounted. To place in context, the '80% level' would involve very substantial increases in rents for properties across Southwark (which falls under the 'Inner South-East London' LHA banding).
63. The Government have stated that the proposed relaxation of capital receipt pooling rules, whereby local government has to remit 75% of Right-to-Buy receipts centrally will be postponed until at least the end of the Spending Review period (i.e. 2014/15). At the moment, these receipts are relatively minor; however, there will be an impact on the sustainability of self-financing over the long-term whenever income-generation avenues such as these receipts are constrained.
64. The Spending Review also indicated that the likely sums available to address Decent Homes backlogs would not be as high as previously understood – the section on Self-Financing below addresses this in more detail.
65. On a positive note, the Spending Review assumes that aids and adaptation provision; which was excluded from the HRA Review Prospectus; was done so in error, and therefore should form part of the overall debt settlement, which is an outcome lobbied for by local government.

Self-Financing

66. Cabinet received a report on 22 June 2010 regarding progress on the HRA Review, and Southwark's response to the consultation conducted by CLG over Summer 2010.
67. The Coalition Government has indicated that they intend to legislate on the matter of HRA reform and self-financing, with details being made available as part of the Decentralisation and Localism Bill. There is, at this time, little in concrete terms around this, other than one or two aspects of the Spending Review, which indicate that the likely devolved debt position to the LA sector as a whole will not be as advantageous as outlined in the 'Prospectus', nor that the full amount of Decent Homes monies previously identified will be forthcoming. The Minister for Housing and Local Government has written to local authorities, mentioning a figure of around £2bn to be allocated, which would "*more than halve*" the national backlog – this compares with £3.2bn which was estimated to be necessary (within the Prospectus) to address the whole backlog of Decent Homes works.

68. On 11 November 2010 the Homes and Communities Agency issued a consultation paper on behalf of CLG, inviting those authorities with an identified Decent Homes backlog of more than 10% non-decent stock to bid for resources totalling £2.1bn, of which £500m is to be earmarked for large-scale voluntary transfer support. The remaining pot of £1.6bn is profiled over the currency of the Spending Review as set out below, meaning that we will be able to bid against a national total of £260m for 2011/12. Under the proposed allocations, all authorities are expected to fund the final 10% of Decent Homes backlog themselves.

	2011/12	2012/13	2013/14	2014/15
DH Backlog Capital Funding	£260m	£352m	£389m	£594m

Source: HCA

69. It is the council's current understanding that the Bill will not be published by CLG until mid-December 2010.
70. Local authorities have been told that CLG will issue indicative debt settlement figures around the end of January, updating the debt figures produced as part of the consultation process last year, and reported to Cabinet on 22 June 2010. As the framework will be subject to legislative agreement as noted above, these figures will be for guidance only, but it is anticipated that they will be reasonably close to the final debt settlement "offer" from Government to enable self-financing to commence.

Welfare reforms and community impact statement

71. In parallel with announcements directly relevant to the HRA as a means of accounting for local authority social housing, and the macro-economic picture within which the national Spending Review must be viewed, the Government has also made a number of announcements on welfare reforms, some of which have a direct impact on Southwark tenants and leaseholders. The council formally responded to the Government's consultation on this area '21st Century Welfare' earlier this year, and Appendix H comprises relevant extracts from that response, and an indication of the measures intended to be introduced as a consequence.
72. Since this report is based on an "Indicative" HRA balanced budget, the precise composition of efficiency savings required to set that budget has not yet been determined, and will be influenced by the consultation exercises that the council is undertaking in order to inform the Final HRA Rent-Setting and Budget Report in January (as noted below). A thorough equalities assessment will therefore be conducted in parallel with this exercise, and the results will be reported in the final report.

Consultation and notification

73. As noted above, one of the intentions of presenting financial information to Cabinet in December, is to enable the consultation process to commence prior to the Christmas break, rather than the New Year. All figures in this report are flagged as "Indicative" and further work will be undertaken by officers, both in tandem with the consultation process, and independently of it in order to generate a "Final" report for Cabinet on 25 January 2011.

74. Following the adoption of the overarching budget principles (see Appendix C), the council already intends to consult more widely on likely budget options regarding the General Fund budget for 2011/12 and beyond during January 2011, and it is anticipated that HRA proposals will follow a similar process.

Tenant Council

75. Representatives having received early notification of the Indicative HRA Rent-Setting and Budget Report, Tenant Council will meet in early January to discuss this approach, and to refer the report on to Area Housing Forums. They will reconvene on 24 January 2011 to consider any recommendations arising from the Area Forum consultation, and wider HRA budget consultation outcomes, where available; and make consolidated recommendations to Cabinet, which will be reported at the 25 January meeting.

Home Owner Council

76. Home Owner Council are unable to make recommendations in the matter of tenant rents and service charges, but may do so in terms of any proposals regarding non-dwellings rents and other charges and in terms of the rest of the HRA Budget; and so this report has been referred to their meeting of 19 January 2011, and any comments made will also be reported to Cabinet at the 25 January meeting.

Statutory and Contractual Notifications

77. Subsequent to the approval of the Final Report on 25 January, either as set out or as amended by Cabinet, and the passing of the necessary date for its implementation, the council will issue a statutory and contractual notification of variation in rents and other charges to all tenants, not less than 28 days prior to the commencement of the new rents and charges referred to above.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Communities, Law and Governance

78. Statutory requirements as to the keeping of a Housing Revenue Account are contained in the Local Government and Housing Act 1989. The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the Housing Revenue Account and to implement and review the budget. Under Section 80 of the Act, the amount of the Housing Revenue Account subsidy payable to a local authority by Central Government is to be calculated in accordance with such formulae as the Secretary of State may from time to time determine. This report covers the formulae contained in the Department for Communities and Local Government Housing Revenue Subsidy Determination 2011/12.
79. Under Section 24 of the Housing Act 1985, local housing authorities have the power to "make such reasonable charges as they may determine for the tenancy or occupation of their houses". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. The section confers a broad discretion as to rents and charges made to occupiers, however Cabinet will note the effective limitation of discretion provided by the housing subsidy rules referred to in this report.

80. Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council, “before seeking to vary the sums payable for rents and other charges”. The report indicates consultation will take place in order to comply with this term.
81. It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, which also applies in respect of introductory tenancies by virtue of Section 111A of the Housing Act 1985, together with the council’s agreement with its tenants, that they are notified of variation of rent and other charges at least 28 days before the variation takes effect by service of a notice of variation. The report indicates the notice of variation will be served in time to comply with this requirement.

Finance Director

82. The financial implications arising from the Subsidy Determination and movements in expenditure/income on the HRA are covered within this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Draft Housing Subsidy Determination 2011-12 (Communities Department)	160 Tooley Street London SE1 2TZ	Shaun Regan 020 7525 7771
Letter from Rt. Hon. Grant Shapps MP ‘Spending Review – Settlement for Housing’; 20 October 2010	As above	As above
Decent Homes Backlog Funding for Council Landlords 11-15 Proposals (Homes and Communities Agency)	As above	As above
LB Southwark response to DWP proposals on welfare reforms	As above	Graham Sutton 020 7525 5456

APPENDICES

No.	Title
Appendix A	Rent Restructuring Chronology
Appendix B	Average Rents across London Boroughs 2011/11
Appendix C	Southwark Budget Principles
Appendix D	HRA Southwark Expenditure and Income 2010/11 by Service
Appendix E	HRA Revised Base Budget 2010/11
Appendix F	HRA Indicative Budget Movements 2010/11 to 2011/12
Appendix G	Welfare Reform Summary Impact on Southwark

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Ian Young, Head of Housing Finance	
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CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law and Governance	Yes	Yes
Finance Director	N/a	N/a
Date final report sent to Constitutional Team		2 December 2010