

## RENT RESTRUCTURING CHRONOLOGY

2002/03	Rent restructuring introduced; convergence date set at 2011/12
2003/04	Tenant service charges unpooled from main rent
2004/05	–
2005/06	Formal 3-year review of policy (implementation delayed by 1 year)
2006/07	Restructuring formula amended; average rent increase capped at 5%
2007/08	Average rent increase capped at 5% again
2008/09	Convergence date extended to 2016/17
2009/10	Convergence date extended to 2023/24; amending Determination issued*
2010/11	Convergence date reduced to 2012/13
2011/12	[ <i>Original convergence date</i> ] Convergence date extended to 2015/16 (to match the HRA Review exemplification used earlier in 2010)

\* The amending Determination reduced the national average guideline rent increase from 6.2% to 3.1% by adjusting subsidy levels to compensate councils for their rent income foregone as a result.

APPENDIX B

AVERAGE RENTS ACROSS LONDON BOROUGHES 2010/11

	Average Rent 2010/11 (A) £	Target Rent 2010/11 (T) £	Gap between (A) and (T) %	Guideline Rent 2011/12 £	Target Rent 2011/12 £
Barking and Dagenham	73.97	82.41	11.4%	80.91	86.74
Barnet	83.17	90.21	8.5%	89.62	94.82
Bexley	–	–	–	–	–
Brent	88.85	95.81	7.8%	94.38	101.05
Bromley	–	–	–	–	–
Camden	85.68	101.17	18.1%	98.79	106.50
City of London	76.64	91.74	19.7%	90.57	96.41
Croydon	85.12	89.54	5.2%	89.27	94.12
Ealing	82.02	86.69	5.7%	86.55	91.21
Enfield	81.33	85.45	5.1%	84.94	89.39
Greenwich	81.52	85.98	5.5%	85.43	90.71
Hackney	79.75	84.50	6.0%	83.58	88.80
Hammersmith and Fulham	86.42	98.05	13.5%	97.24	103.04
Haringey	83.18	89.56	7.7%	89.31	94.14
Harrow	86.60	93.27	7.7%	92.90	98.01
Havering	69.71	81.41	16.8%	81.23	85.57
Hillingdon	89.95	91.79	2.0%	90.97	96.52
Hounslow	78.90	87.81	11.3%	86.95	92.29
Islington	85.52	96.97	13.4%	95.53	101.93
Kensington and Chelsea	90.89	107.98	18.8%	107.37	113.54
Kingston-upon-Thames	90.14	94.83	5.2%	94.15	99.66
Lambeth	85.34	91.46	7.2%	89.65	96.26
Lewisham	77.71	81.43	4.8%	81.11	85.72
Merton	–	–	–	–	–
Newham	74.29	81.00	9.0%	80.37	85.08
Redbridge	83.81	86.61	3.3%	86.31	91.04
Richmond-upon-Thames	–	–	–	–	–
<b>Southwark</b>	<b>80.60</b>	<b>91.00</b>	<b>12.9%</b>	<b>89.74</b>	<b>95.63</b>
Sutton	81.21	89.94	10.7%	89.04	94.69
Tower Hamlets	86.46	93.42	8.0%	91.44	98.35
Waltham Forest	80.95	86.19	6.5%	85.12	90.64
Wandsworth	104.65	105.07	0.4%	102.67	110.37
Westminster	97.72	105.30	7.8%	103.50	110.83
<b>London Average</b>	<b>83.40</b>	<b>90.26</b>	<b>8.2%</b>	<b>90.16</b>	<b>95.64</b>

Source: Department for Communities and Local Government (CLG)

Notes:

- Southwark's average rent (adjusted mid-year stock position) for 2010/11 ranks 8<sup>th</sup> lowest of the 29 London Boroughs that manage their housing stock either directly or via an ALMO.
- Average Rent figures exclude tenant service charges.
- The London Borough of Merton divested its housing stock during 2010/11.

**SOUTHWARK BUDGET PRINCIPLES**

1. At a time of unprecedented cuts proposed by central government, the 2011 Southwark budget should continue to prioritise the commitments made by the cabinet at its first meeting as a new administration in June and its vision to create a fairer future for all by promoting social and economic equality in an economically vibrant borough.
2. We recognise that some services currently provided by the council may be lost, and some may change. However, we will do all that we can to protect our front-line services and support our most vulnerable residents.
3. We will ensure that the services which the council delivers provide value for money, value for council tax payers and contribute towards delivering our vision of creating a fairer future for all in Southwark.
4. We will explore alternative ways of providing a service prior to proposing any cut or reduction. This will include talking to partner organisations, the voluntary sector, the trade unions, the business community and other local authorities.
5. We will be transparent with any specific group or groups of users who may be affected by any cut or reduction in service provision as soon as possible and explore with them other ways to provide the service. We will conduct an equalities impact assessment for our budget proposals.
6. Before proposing any cut or reduction we will have a clear and comprehensive explanation for why that service should be cut, reduced or no longer provided by the council, and this explanation should be capable of being subject to robust challenge.
7. Budget proposals should be based on a three year approach and should have regard to innovative ways of providing services and maintaining employment in the borough.

*Agreed by Cabinet on 21 September 2010*

## HRA EXPENDITURE AND INCOME 2010/11 BY SERVICE

<b>Housing Management</b>	
Expenditure: £72.2m	Income: £185.5m
Provision of "front-line" tenant-related services across the borough, including estate property management; repairs; asset management and inspection; business support and resident involvement	Rental and service charge income District Heating charges Thames Water charges Investment and other asset related income
<b>Home Ownership Unit</b>	
Expenditure: £14.5m	Income: £43.4m
Provision of "front-line" leaseholder-related services across the borough Tenant Management Organisations exp. Commercial property portfolio	Leaseholder variable service charge and major works income Tenant Management Organisations income Commercial rent income
<b>Sustainable Services</b>	
Expenditure: £27.6m	Income: –
Grounds maintenance, pest control; estate cleaning; refuse collection and energy management (incl. Heating Account exp.)	
<b>Public Realm</b>	
Expenditure: £1.3m	Income: £0.7m
Parking control and abandoned vehicles	Parking income
<b>Community Safety</b>	
Expenditure: £2.4m	Income: –
Wardens and enforcement; noise reduction; anti-social behaviour; CCTV and special investigations	
<b>HQ Functions</b>	
Expenditure: £0.5m	Income: –
Provision of senior management and commissioning support for the housing function	<i>Aspects relating to Housing General Fund services are netted-off from expenditure</i>
<b>Housing Strategy &amp; Options</b>	
Expenditure: £7.7m	Income: £4.2m
Temporary accommodation and related costs Investment Programme and other strategic management	Hostel rents and charges
<b>HRA Finance</b>	
Expenditure: £138.5m	Income: £30.9m
Central support costs and debt charges Contribution to Investment Programme Thames Water charges	Housing Subsidy income

*N.B. Revised 2010/11 budget figures used*

APPENDIX E

HOUSING REVENUE ACCOUNT REVISED BASE BUDGET 2010/11 (for reference)

	<b>Revised Base Budget 2010/11</b>
	<b>£m</b>
<b><u>Expenditure:</u></b>	
Employees	30.3
Running Costs	21.3
Thames Water Charges	10.9
Contingency Reserve	1.4
Grounds Maintenance & Estate Cleaning	14.4
Responsive Repairs & Heating Repairs	46.3
Revenue Contribution to Investment Programme	6.3
Regeneration Landlord Commitments	6.0
Planned Maintenance	7.7
Service Level Agreements	12.9
Corporate Support Costs	6.2
Asset Rents (Debt Charges)	86.4
Co-Op's, TMO's etc.	2.4
Heating Account	12.2
<b>Sub-total</b>	<b>264.7</b>
<b><u>Income:</u></b>	
Rents – Dwellings	(156.1)
Rents – Non Dwellings	(4.2)
Heating/Hot Water Charges	(9.7)
Tenant Service Charges	(12.0)
Thames Water Charges	(10.5)
Commission Receivable	(2.4)
Leaseholders – Major Works	(8.0)
Leaseholders – Service Charges	(16.4)
Housing Subsidy & Grants	(33.2)
Interest on Balances	(0.3)
Commercial Property Rents	(6.7)
Fees & Charges	(1.7)
Capitalisation (Repairs)	(3.0)
Recharges	(0.5)
<b>Sub-total</b>	<b>(264.7)</b>
<b>TOTAL</b>	<b>0.0</b>

**APPENDIX F**

**HRA INDICATIVE BUDGET MOVEMENTS 2010/11 TO 2011/12**

	<b>Paragraphs</b>	<b>£m</b>
<b>Commitments/ Unavoidable Demands:</b>		
Housing Subsidy and Debt Financing (net)	20 – 27	6.3
General Inflation	49	2.4
Fire Risk Assessment Works Programme	50	3.5
Realignment of Base Budget	51	3.1
Service Improvements and Enhancements	52	1.1
Contribution to HRA Reserves	53	2.0
Major Projects/Regeneration Initiatives	54	1.8
<b>Gross Deficit/ (Surplus)</b>		<b>20.2</b>
<b>Rents and Charges:</b>		
Guideline Rent Increase	14 – 19	(10.2)
Tenant Service Charges	28 – 32	(0.4)
Non-Residential Rents (Garages)	33 – 35	(0.9)
Leaseholder Service Charges and Major Works	58	(0.9)
<b>Sub-total</b>		<b>(12.4)</b>
<b>NET DEFICIT BEFORE EFFICIENCY SAVINGS</b>		<b>7.8</b>
<b>Proposed Efficiency Savings:</b>		
Savings required to meet net deficit*	59	(7.8)
<b>Sub-total</b>		<b>(7.8)</b>
<b>NET DEFICIT / (SURPLUS)</b>		<b>(0.0)</b>

*\*detailed proposals regarding this are the subject of a separate consultation process*

### WELFARE REFORM SUMMARY IMPACT ON SOUTHWARK

*Extract from response to Department for Work and Pensions consultation during Summer/Autumn 2010*

#### **Background**

Reducing welfare dependency and poverty is a priority for Southwark Council. More than 40,000 Southwark residents are in receipt of Housing Benefit/Council Tax Benefit (HB/CTB) of whom 33,000 are social housing tenants. Rented social housing makes up a much larger proportion of the total housing stock in Southwark by tenure type than is typical elsewhere in the United Kingdom. This means that the impact of the widely recognised disincentives to enter paid work, or increase hours of paid work, that are characteristic of the current tax and benefit system – particularly when HB/CTB is included – would tend to be greater in Southwark than elsewhere. The current (welfare) system has been widely criticised as excessively complex, burdensome and confusing for claimants, expensive to administer and prone to high levels of fraud and error. Southwark supports the principle of simplification of the system, but would want to ensure that a reformed system continues to ensure fairness for all whilst providing a ‘safety net’ for those in need.

Housing costs and a lack of affordable housing in London is already a challenge for low income households in Southwark and the recent Housing Benefit (HB) reforms will have a significant impact for low income households and residents claiming HB. Proposals for welfare reform also need to consider a localised approach which takes into account the region’s higher living cost in respect of housing. It is recognised that the complexity of the current welfare system is driven by the need to offer fairness and contain costs while meeting a wide range of individual needs. These tensions are unlikely to diminish and in fact the imperative to control costs is likely to increase further at least in the short to medium-term.

#### **Systemic Reform**

The Government’s plans for welfare reform were published on 11 November 2010 in a White Paper *‘Universal Credit: Welfare that Works’*. This commits to retaining the link between social housing rents charged and the housing element of the new Universal Credit, a continuation of the current system under HB. The Government is very keen to see people managing their own budgets and taking individual responsibility for bills. However it recognises the importance of stable rental income for landlords to support the delivery of new affordable homes. The council is pleased to see that the option of direct payments in some form is left open and there is a commitment to working with the sector and lenders in developing the practical aspects of the new system.

In terms of future changes, the Government still wants to go ahead with measures previously announced to limit the amount of housing benefit paid to social housing tenants who under occupy their properties. Other than these changes the Government does not anticipate further changes to Housing Benefit in the short to medium term. It is envisaged that the administration of help with housing costs will move away from local authorities though they may retain responsibility for housing costs in temporary and supported housing.

## **Implications for New Housing & Affordable Homes**

In Southwark, there is a large social housing stock, low income levels and high HB dependency and this all contributes to a disproportionate impact of the proposed changes. This may result in a financial dilemma for housing management – increased evictions leading to a higher number of temporarily void properties versus acceptance of higher arrears levels in the 'can't pay' category. In addition social housing authorities are tasked with ensuring their current stock meets the Decent Homes standard – and there may be tensions between this target and the delivery of affordable housing at a time of reduced availability of resources to fund both key priorities.

There is concern about how HB reform proposals will impact on the deliverability of new homes and whether they will remain affordable to people on a range of incomes. Southwark's policy is to develop mixed and balanced communities and the new changes may limit who will actually be living in these homes. As new homes are likely to have quite high rents in comparison to current council rents, RSLs may want to impose more checks on the ability of prospective tenants to pay this. Indeed it is possible that prospective tenants will rule themselves out because of concerns around this (for example, in the case of people claiming JSA for more than 12 months who will then have a 10% reduction in HB imposed).

More de-regulation by the government around target rents/service charges may help to encourage affordability. Otherwise there is a risk of a shift back to a two-tier rent regime the GLC used to have in the 1970's. Lenders may now be less inclined to support RSL schemes where previously there was confidence in say 80% of tenants being able to pay their rent via Housing Benefit.

Some housing schemes e.g. temporary to permanent, are dependent on long-term availability and stability of LHA to develop affordable housing in the longer term and which are used as Temporary Accommodation in the shorter term and on the assumption that many of the tenants will not be in work on a long-term basis. The sub-regional 'temp to perm' scheme model is based on slightly below LHA level rents so hopefully this will not be affected as much but other schemes may be dependent on the highest rates of LHA and these are at more of a risk.

The shortage of affordable housing in London in particular will become more acute following the proposed changes to Housing Benefit announced in the emergency budget in June 2010. Our assessment of impacts for Southwark residents concluded there will be an increase in the number of households threatened with homelessness due to rent arrears as Housing Benefit will cease to cover rent charges over the 30<sup>th</sup> percentile from private landlords. Most existing private tenants claiming HB will have their benefits fall under the new changes resulting in greater hardship as tenants struggle to bridge the gap between the reduced HB payment and the rent. Some tenants will be unable to make up the difference, and may lose their home, leading to an increased demand for rehousing to either the affordable housing sector or to the lower end of the private rented sector. At the same time, there may be increased competition for housing from tenants coming into the borough from areas where the gap is greater. All of our prevention schemes are similarly set at the same LHA rates.

Using information from Southwark's PRS HB caseload and the Valuation Office Agency estimates, it is estimated that just over half (1,738) of the 3,429 LHA HB cases would lose HB from April 2011, by an average of £12.33 per week.



It is estimated that the reduction in LHA from the 50<sup>th</sup> to the 30<sup>th</sup> percentile from October 2011 will result in a greater reduction in HB payments for LHA HB claimants. The council's housing benefit service estimate that the combined April and October 2011 changes would result in reduced HB payments for nearly all of the LHA HB claimant households, with an average loss of £17.39 in weekly HB. This represents a substantial loss in income for households who are already financially hard pressed and is likely to have the effect of reducing the accessibility to private rented accommodation for those on low incomes.

Officers directly involved with the delivery of homelessness prevention initiatives currently estimate that up to 1,000 households may be at risk of homelessness as a result of this change.

Although the Government plans to increase the budget for Housing Discretionary Payments, Southwark's current allocation of £140,000 even with proportionate growth, is very unlikely to be sufficient to top up rents on the scale that is required when the new changes are introduced. This yearly budget is fully spent at Southwark dealing with current activity.

At present however we are not certain as to which way landlords will react to the changes. Should the above estimate be realised however and these households present to the council as homeless, there will be increased pressure on social housing. There are already 16,937 applicants registered on Southwark's Housing Register, with over 8,000 having some form of priority for rehousing.

Aside from an increase in homelessness there is an increased risk of higher levels of bad debt in existing temporary accommodation. Additionally, Housing Benefit reductions are proposed for working age people who are currently under-occupying their social housing tenancy. There is a risk here that some of these affected households would be unable to pay their rent once the HB is reduced, but at the same time may not necessarily be able to move to a smaller property due to possible lack of supply. Even if a smaller property were available, there might be a delay in the tenant being able to move during which time rent arrears may build up. The proposed reduction in HB may also have implications for Southwark's under-occupation scheme in general and for under-occupiers being re-housed on regeneration schemes as some of these initiatives in Southwark currently allow for an extra bedroom above the household's needs.

Southwark continues to offer an enhanced housing options service with customers being offered access to employment advice via our Homesearch Centre. For those in employment, in practice it is difficult to deliver intermediate housing for households with incomes close to a target social rent of £15,400. Currently there are no intermediate housing products available in Southwark for households with incomes of less than £29,000 pa. On the basis that intermediate rents are set at 75% of market rents in Southwark, a household would require an annual income of £25,900 to be able to afford a 1 bedroom dwelling on the assumption they spend 25% of their gross income on rent.

In reviewing the impact of HB reform, Southwark's housing strategy team have assessed that there will be an increase in the number of Southwark households threatened with homelessness due to rent arrears as HB will cease to cover rent charges over the 30<sup>th</sup> percentile from private landlords, and also lead to an increased risk of higher levels of bad debt in existing temporary accommodation. Additionally, Housing Benefit reductions are proposed for working age people who are currently under-occupying their social housing tenancy. There is a risk here that some of these affected households would be unable to pay their rent.

It appears that there may be micro-managing of HB/LHA, but simultaneously the government is looking to simplify welfare benefits in such a way that presumably it will be up to the individual how much of their universal credit etc. they use to fund their housing costs.

Overall housing organisations would welcome more flexibility in HB tapers as the current arrangement does penalise those going back to work on low incomes, and more protection for those returning to work as many of the clients we work with have a history of going in and out of low paid work, with rent arrears building up which are not always cleared by backdated HB.

*Additional material sourced from National Housing Federation Briefing (18 November 2010)*