

Item No. 9.	Classification Open	Date: 21 January 2020	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2020-21	
Ward(s) or groups affected:		All	
Cabinet Members:		Councillor Kieron Williams, Housing Management and Modernisation and Councillor Victoria Mills, Finance, Performance and Brexit	

FOREWORD – COUNCILLOR KIERON WILLIAMS, CABINET MEMBER FOR HOUSING MANAGEMENT AND MODERNISATION AND COUNCILLOR VICTORIA MILLS, CABINET MEMBER FOR FINANCE, PERFORMANCE AND BREXIT

We are committed to ensuring the council’s 53,000 rented, leasehold and freehold homes are well maintained and managed. The money we use to do this sits within our Housing Revenue Account (HRA). Tenants and homeowners pay their rents and service charges into the HRA and this money is then used to fund all the activity need to ensure our homes and estates are well run and in good condition. As this money comes from our tenants and homeowners we are committed to consulting them on how it is spent so it always used in ways that best meet their needs and improve their homes.

This report sets out a final budget for next year’s HRA (2020-21) and also considers what the appropriate charges should be for a variety of housing services. Also included is an appendix setting out the result of our consultation on the proposals with tenants and homeowners which took place during January.

This year sees an end to the four years of National Rent Reduction of 1% a year which formed part of the Welfare Reform and Work Act 2016. We estimate that the cumulative impact has been a £62.5m reduction in the annual HRA budget, which has created a significant hole in our financial planning. Under this substantial pressure we have worked hard to protect frontline housing services for our tenants and residents whilst also ensuring long-term investment in making our housing warm, dry and safe continues at pace. However, with the ending of this cap the Council is proposing a rent rise of inflation plus 1% (in this case 2.7%) to begin to mitigate the impact of the last four years. After the proposed rise, Southwark’s rents will remain 8% – 9% lower than the government’s assumed target and the 8th lowest of the 29 London Boroughs with retained housing stock.

As well as managing our existing homes, the council also uses the HRA to build new council homes, at council rents as part of our commitment to build 11,000 new council homes. The Government’s recent announcement to increase interest rates on borrowing from the Public Works Loan Board will have a significant adverse impact on the Council’s ability to make use of the lifting of the HRA borrowing cap which we were welcoming this time last year. There is a huge and pressing need for new housing to be built across the country and Southwark will of course continue to play its part with our ambitious council housing programme. However at a time when the Government is able to access borrowing at historically low rates we urge them to re-think this decision which will have real impact on our ability to build the number of new truly affordable council homes that are needed in our borough.

RECOMMENDATIONS

1. Cabinet agrees a rent increase of 2.7% for all directly and tenant managed (TMO) housing stock within the HRA (including estate voids, sheltered and hostels) with effect from 6 April 2020. This is in accordance with the provisions of the Rent Standard 2020.
2. With regard to other HRA-wide charges, cabinet agrees that tenant service charges, comprising estate cleaning, grounds maintenance, communal lighting and door entry maintenance be increased as set out in paragraph 17 with effect from 6 April 2020.
3. Cabinet agrees that an increase of 2.7% be made to sheltered housing service charges as set out in paragraph 18 with effect from 6 April 2020.
4. Cabinet agrees that charges for garages and other non-residential facilities be increased as set out in paragraph 19 with effect from 6 April 2020.
5. Cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 20 with effect from 6 April 2020.
6. Cabinet agrees the HRA budget proposals set out in this report and notes these changes ensure a balanced budget is set as required by statute.
7. Cabinet reaffirms the commitments made last month to ensure that savings made are primarily based on efficiencies, and where staffing reductions form part of any said savings, that due consultation and process is followed with trade unions.

BACKGROUND INFORMATION

Indicative HRA budget (17 December report)

8. Cabinet on 17 December 2019 considered the indicative HRA rent-setting and budget position for 2020-21. This report contained all of the background information necessary to consider the reasons behind the proposals for rents and other charges. It is not proposed to repeat this detail here, but where further and updated information has been received that is germane to this process it is outlined below. However for ease of reference the appendices to the indicative report are repeated as they set out the detail behind the various categories of year-on-year budget movement. Any resolutions or comments arising from the consultation process will be reported to cabinet on the night.
9. The purpose of this final report is to seek formal approval of the recommendations in respect of rents and other charges outlined at paragraphs 1 to 7 above.

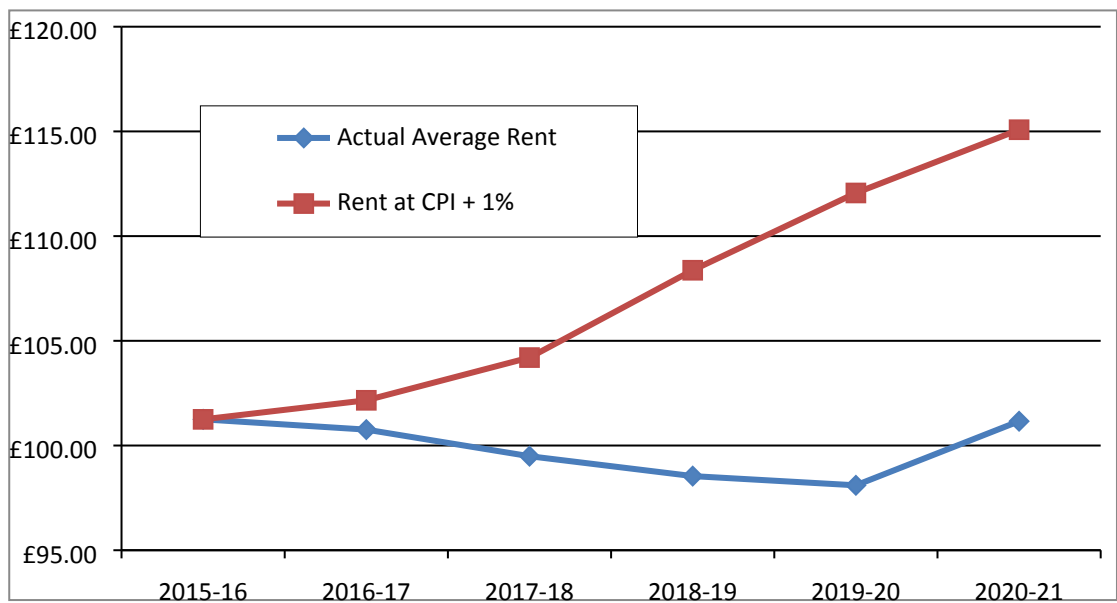
Statutory framework

10. The 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, homeowner service charges and other income. The HRA forms a specific part of the council's accounts, and a report regarding the general fund budget including those aspects provided via the housing and modernisation department is being considered separately.

11. 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 the December report formed the basis of consultation with Tenant Council, area housing forums, Homeowner Council and Southwark TMO Liaison Committee.
12. The council is obliged by statute to agree a balanced HRA budget, whereby income and expenditure levels for the forthcoming year match. Appendix A summarises budget movements between 2019-20 and 2020-21, predicated on the basis of a rent increase of 2.7% and other proposed changes to charges and budget movements.

Impact of the National Rent Reduction Policy

13. Southwark has a history of low or inflation-linked rent rises, and has always adhered to the government's rent formula when setting rents, with the single exception to agree a lower rent increase in 2014-15, equivalent to CPI for that year, as the implied national increase was considered to be too high. Southwark's rents remain between 8% – 9% lower than the government's assumed target and rank 8th lowest of the 29 London Boroughs with retained housing stock.
14. Given the significant adverse financial impact of the statutory rent reduction policy, the restoration of increases at CPI+1% is to be welcomed. Had this policy been in effect for 2019-20 the resultant rent increase would have been 3.4% raising around £6.7m, as opposed to a real-terms cash loss. Over the four years, average rents this year would have been some 14% higher (£112.06 per week) than the estimated mid-year average of £98.10 per week used for 2019-20 budget-setting purposes. CPI-related inflation alone over the four years was just under 11%, as illustrated in the table below. The cumulative impact over the four years equates to around £62.5m in resources foregone and extrapolated over the thirty-year life of the HRA business plan is estimated to exceed £800m.



Average Rent Levels

15. In terms of rent levels for 2020-21, the table below sets out the current average rent by bed-size and the indicative average rent after the proposed increase (calculated on the same stock base for consistency). For comparison, the equivalent figures for 2011-12

(the year prior to the implementation of HRA self-financing) and 2015-16 (the year prior to the statutory rent reductions commenced) are also included.

Bed size for ave. rent	Dwelling numbers	2019-20 Average weekly rent £	2020-21 Average weekly rent £	Increase £	2011-12 Average weekly rent £	2015-16 Average weekly rent £
0	1,663	78.22	80.33	2.11	69.25	81.00
1	10,279	89.64	92.06	2.42	77.94	92.20
2	13,006	98.97	101.64	2.67	85.26	101.77
3	8,487	108.23	111.16	2.93	92.97	111.23
4	2,055	116.87	120.03	3.16	100.46	120.20
5	264	128.07	131.53	3.46	109.65	132.17
6+	111	140.99	144.80	3.81	121.63	145.88
Total	35,865	98.90	101.57	2.67	85.13	101.50

Notes: the borough-wide average of £98.90 is derived from the stock dataset as at 30 September 2019. 2011-12 and 2015-16 data above based on actual rents as reported to MHCLG, rather than the headline budget report averages due to in-year stock movements (and in the latter case) the implementation of the straight-to-target policy.

KEY ISSUES FOR CONSIDERATION

16. As set out in the indicative budget report, the Ministry for Housing, Communities and Local Government (MHCLG) indicated that rent increase levels would revert to September CPI+1% increases for five years post-2020. To that end they extended the remit of the Regulator for Social Housing to cover the local authority sector, and directed the Regulator to issue a new Rent Standard, setting the maximum rent increase at 2.7% (being September 2019 CPI +1%). The 17 December report indicated that this is the level of rent increase to be adopted by the council.
17. The existing and proposed rates for tenant service charges are set out below.

	2019-20 per week	2020-21 per week	Change pence per week
Estate Cleaning	£5.78	£5.99	21p
Grounds Maintenance	£1.26	£1.26	nil
Communal Lighting	£1.30	£1.34	4p
Door Entry System Maintenance	£0.63	£0.66	3p
Total	£8.97	£9.25	28p

18. Service charges for sheltered residents were first introduced in 2013-14 to meet the cost of enhanced housing management provision not covered by the base rent. As reported to cabinet in 2018-19 it had previously been the government's intention to review the funding of this area of service provision on a national basis; however this did not take place, and the cumulative effect of a number of years of frozen charges has been to uncouple the amount raised from the cost base. The council intends to address this by increasing these charges by the same rate as dwelling rents (2.7%) and will review this area during the forthcoming year in order to assess charging levels for 2021-22 onward.
19. The existing and proposed garage charge rates are set out below.

	2019-20 £ per week	2020-21 £ per week	Change £ per week
Standard charge	20.70	21.30	0.60
Concessionary rate (£5 reduction)	15.70	16.30	0.60
Small sites rate	11.00	11.30	0.30
Private sector rate	34.50	35.50	1.00
Additional charges:			
Larger than average garage	5.30	5.30	nil
Additional parking	5.30	5.30	nil
Water supply	0.50	0.50	nil
Additional security	1.00	1.00	nil

20. The 17 December 2019 report set out how council-wide utility contracts have and continue to deliver savings for gas and electricity and charges remain lower on average than retail market prices. Periodic review of the budget is necessary to align the anticipated cost and income during the forthcoming year arising from fluctuating prices, spikes in demand due to poor weather and changes in the recoverable stock base. Ongoing investment in the infrastructure to increase energy efficiency/reduce consumption also contributes to the financial sustainability of the heating account which has enabled charges to remain static over an extended period and can be held at existing levels once again for 2020-21.
21. Further detail on the composition of the HRA budget movements by category: budget pressures and commitments, income generation, and efficiency savings is contained in the appendices to this report, and also in the main body of the 17 December report.

Community impact statement

22. In line with our Public Sector Equality Duty contained within section 149 of the Equality Act 2010, the department undertakes equality analysis/screening on its budget proposals, which helps to understand the potential effects that the proposals may have on different groups and whether there may be unintended consequences and in the event, how such issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and council-wide impacts. To date no cumulative impacts have been identified.
23. Information on the equality analysis is shared with cabinet so as to enable it to be considered when decisions are taken. Changes to services will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community or staff cohort, and where necessary, consultation will be undertaken alongside mitigating action.
24. The purpose of this report is specifically to set tenant rents and associated charges (which can also impact homeowners), and set a balanced budget as required by statute. The analysis has established there is no differential effect for any community or protected group. It should be noted that rent policy from 2016-17 to 2019-20 was determined nationally and required authorities to reduce rents by 1% per annum. However, from 2020-21 rents are proposed to increase by CPI+1% and it is recognised that any increase in rents and charges may present particular difficulties for people on low incomes. However, rents and tenant service charges remain eligible for housing benefit/universal credit.

25. The wider impact of welfare reform changes have been considered and measures to mitigate the effects on the community have been implemented together with the provision of additional resources to support tenancy sustainment and financial assistance through the provision of Discretionary Housing Payments (DHP). The provision of further DHP support is subject to annual confirmation from central government.

Consultation and notification

26. The purpose of presenting rent setting and budget information to cabinet in two stages is to facilitate the early commencement of consultation with representative groups (i.e. before the Christmas break). To that end, the 17 December report was labelled 'indicative' and figures therein were subject to change. However since then there have been no changes in the figures or the recommendations.
27. Tenant Council met on 6 January 2020 to consider the December report, and to refer it on to area housing forums. They reconvened on 20 January 2020 to consider any recommendations arising from the area forum consultation and make consolidated recommendations to cabinet, which due to time constraints are reported under separate cover to this report. Homeowner 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 charges and in terms of the rest of the HRA budget and considered the report at their meeting of 8 January 2020. Any such comments are reported to cabinet alongside those of Tenant Council. Similarly, the December report was also the subject of formal consultation with Southwark TMO Liaison Committee at their meeting on 16 January 2020.

Statutory and Contractual Notifications

28. Subsequent to the approval of this final report on 21 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

Director of Law and Democracy

29. The report sets out an Indicative Budget for the Housing Revenue Account (HRA) for 2020-21. Members are invited to approve:
- A rent increase for existing directly managed and TMO managed tenancies;
 - An increase made in tenant service charges;
 - An increase made in charges for garages and other non residential facilities;
 - An increase made to charges for sheltered housing service charges;
 - No increase in district heating and hot water charges; and
 - The HRA budget proposals in the report.
30. The financial and budgetary considerations underpinning officer recommendations are explained in the body of the report and its annexes.

Policy and Legislative Context

31. The **Local Government and Housing Act 1989** (“the 1989 Act”) sets out legal requirements the council must comply with in relation to housing finance. In particular, Section 74 of the 1989 Act places a duty on the council to maintain a Housing Revenue Account (“HRA”) and, under Section 76 of the Act duties to budget to prevent a debit balance on the HRA, to implement and to review the budget.
32. The **Housing Act 1985** (“the 1985 Act”) Section 24 makes provision for the council to “*make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses*” with the requirement from time to time, to review rents and make such changes as circumstances may require.
33. This provision conferring discretion as to rents and charges made to occupiers within the scope of the above HRA provision, has also been subject to further restrictions arising from the provisions of the **Welfare Reform and Work Act 2016** (“the 2016 Act”).
34. The 2016 Act, and regulations made pursuant to it require the council to ensure (with limited exceptions) that for each relevant year the rents payable by its social tenants is reduced by at least 1% year on year from a frozen 2015-16 baseline, for a period of four years. Provision is also made for a period of four years commencing 2016, for the maximum levels of rent for social tenancies commencing after 8 July 2015; these provisions apply to tenancies of new homes and re-lets to a new tenant, but not the grant of a new tenancy to an existing tenant.
35. For social rent properties, the rent reduction requirement applies to the rent element of the charge under the tenancy agreement and not to charges made for services.
36. The Government’s policy statement on rents lifts the rent restrictions under the 2016 Act from 30 March 2020. The council will have the opportunity to increase rent as recommended in the report provided it has met its rent reduction obligations over the course of the previous 4 years.
37. From 1 April 2020 the council must rents in accordance with the **Rent Standard 2020** (“the 2020 Standard”) issued by the Regulator of Social Housing on the direction of the Secretary of State for Housing, Communities and Local Government using powers granted by the Housing and Regeneration Act 2008 Section 197. The direction on Rent Standards 2014 will cease to have effect in relation to rents from 1 April 2020.
38. The 2020 Standard allows the council to apply annual rent increases, over a 5 year period, of up to 1% above the general index of consumer prices; CPI. The 2020 Standard sets out the formula to be applied to social and affordable rents for existing tenants, to fair rents and for tenants moving between different types of rent.
39. The council must comply with the rules contained in the 2020 Standard; Housing and Regeneration Act 2008 section 194(2A). There is additionally a requirement to provide information to the Regulator of Social Housing when required and a duty to report non compliance or potential non-compliance.

Consultation

40. 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.

41. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council before seeking to change rent and other charges. The report indicates that representative groups have been consulted in order to comply with this term.
42. The council is required, by Section 103 of the Housing Act 1985 in relation to its secure tenancies; Section 111A of the Housing Act 1985 in respect of its introductory tenancies and the council's agreement with its tenants, to notify tenants of variations of rent and other charges, by service of a notice of variation, at least 28 days before the variation takes effect.

Equalities Impact

43. In making a decision the cabinet must have due regard to the council's equalities duties set out in the Equalities Act 2010 and specifically the need to:
 - Eliminate discrimination, harassment, victimisation or other prohibited conduct.
 - Advance quality of opportunity between persons who share a relevant protected characteristic and those who do not. The protected characteristics covered by the equality duty are age, disability, gender reassignment, pregnancy and maternity, race, religion, sex and sexual orientation. The duty also includes marriage and civil partnerships in respect of eliminating unlawful discrimination.
 - Foster good relationships between those who share relevant characteristics and those who do not.
44. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act.

Strategic Director of Finance and Governance

45. The financial implications arising from the various movements in expenditure/income on the HRA are covered within this report.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
HRA Indicative Budget and Rent-Setting 2020-21	160 Tooley Street London SE1 2QH	Paula Thornton 020 7525 4395
Link (please copy and paste into your browser):		
http://modern.gov.southwark.gov.uk/documents/s86244/Report%20Indicative%20Housing%20Revenue%20Account%20Budget%20and%20Rent%20Setting%20Report%202020-21.pdf		

APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2020-21
Appendix B	HRA Budget Pressures and Commitments 2020-21
Appendix C	HRA Income Generation 2020-21
Appendix D	HRA Efficiencies and Improved Use of Resources 2020-21
Appendix E	Objective Analysis of HRA Expenditure 2020-21 by Division
Appendix F	Results of consultation – to follow

AUDIT TRAIL

Cabinet Members	Councillor Kieron Williams, Housing Management and Modernisation and Councillor Victoria Mills, Finance, Performance and Brexit	
Lead Officers	Duncan Whitfield, Strategic Director of Finance and Governance Michael Scorer, Strategic Director of Housing and Modernisation	
Report Author	Ian Young, Acting Director of Finance and Departmental Finance Manager, Housing and Modernisation	
Version	Final	
Dated	9 January 2020	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Cabinet Member	Yes	Yes
Date final report sent to Constitutional Team		9 January 2020