

<b>Item No.</b> 9.	<b>Classification</b> Open	<b>Date:</b> 11 December 2012	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Indicative Rent-Setting and Budget Report 2013/14	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

## **FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT**

The way local authority social housing is financed has changed fundamentally since April 2012 with the commencement of self-financing, and the council is keen to address the challenges and risks that this brings and to embrace its freedoms. The debt write-off that the council received was less than we had lobbied for and whilst the financial realities of the settlement at a local level are different from the one-size fits all approach of government we are working towards building a solid financial base for the long-term delivery of housing provision in Southwark.

Whilst the Indicative HRA Budget Report has been constructed in accordance with government's assumptions regarding rent inflation which underpins the HRA business plan, we are in a position to offer some comfort to residents with regard to other charges for 2013/14, which we are proposing to maintain at existing levels. In addition we are also consulting on a package of service improvements funded from efficiency savings already realised from elsewhere within the HRA.

The council has recently received the Housing Commission report "Investing in Council Housing: Options for the Future" from Jan Luba QC and his team, and I encourage residents and stakeholders to read it. Southwark is keen to engage in a meaningful discussion on the important issues raised by the Commission and I welcome this process.

## **RECOMMENDATIONS**

Cabinet is recommended to:

1. Note on a provisional basis, a rent increase of 4.85% in accordance with the government's rent guidance (as set out in paragraphs 31 – 39) which is equivalent to an increase of £4.46 per week on average, to be applied to all HRA dwellings (including estate voids and hostels), with effect from 1 April 2013.
2. Note that the average budgeted dwelling rent for tenanted stock in 2013/14 will be £96.40 per week.
3. Note the separate consultation process currently underway regarding the council's lettings policy, and the two options relating to charging newly-let properties at formula rent levels from their commencement as set out in paragraphs 40 – 42.

4. Note on a provisional basis no increase to tenant fixed service charges as set out in paragraphs 43 – 44 with effect from 1 April 2013.
5. Note on a provisional basis no increase to the standard charge for garages, as set out in paragraphs 45 – 46 with effect from 1 April 2013.
6. Note on a provisional basis no increase to heating and hot water charges as set out in paragraphs 47 – 49 with effect from 1 April 2013, and that officers bring further proposals back to cabinet regarding application of accumulated non-earmarked surpluses in the council's ring-fenced heating account.
7. Instruct officers to provide a final report on Rent-Setting and the HRA Budget for 2013/14 after due consultation processes have been followed for consideration at their meeting on 29 January 2013.

## **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 and it is anticipated that future Spending Reviews will continue along the same path. The HRA, despite being ring-fenced from the general fund is not immune from the fall-out from this, and officers were instructed to identify a three-year savings package in line with that required for the rest of the council. 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. Whilst under self-financing the council is nominally free to set rent levels as it wishes, in reality they are almost entirely predicated on national decisions such as assumptions made by government when calculating the HRA debt settlement figure under which self-financing operates. The link between rents and service expenditure locally is therefore at best a nominal one, 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).
10. Any potential mitigation of the guideline rent increase would have both immediate and longer term effects; a foregoing of rental income would require further efficiency savings or a reduction to the service proposals in order to compensate in 2013/14. The in-year loss of income could not be recovered without compensatory rent increases above the guideline in future years, if parity were to be subsequently restored. The council needs to weigh the short-term benefit to tenants against the long-term funding implications of such a measure.
11. The Housing Commission report takes as its start date April 2015, which is after the financial year to which this budget report refers. However the general parameters of the early years of self-financing have been assumed to have been followed for 2013/14 and 2014/15 in order to allow a stable base from which the financial assumptions underpinning the report of the Commission then flow.

## **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, 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, TMO Liaison Committee and Home Owner Council before the final version is presented to cabinet.

## **KEY ISSUES FOR CONSIDERATION**

### **Self-Financing Parameters**

14. The assumptions made by central government in arriving at the settlement figure in late March 2012 did not all reflect the reality of the situation facing Southwark from April onward; and dealing with the additional implications of this is a major aspect of the HRA budget for this year, and the HRA Business Plan over the next thirty years. Some specific issues include:
  - Rents are assumed to converge at the formula level in 2015/16, and thence rise consistently at September RPI + 0.5% thereafter. The history of Southwark's rent policy pre-rent restructuring, and the council's scrupulous application of annual affordability limits means that it is likely that just over 40% of tenancies will achieve convergence by 2015/16, with this rising to the 80%+ level by 2021/22. This means that from the outset, there is considerable pressure on the HRA's primary income stream – rents.
  - Government took into account projected demolitions and other stock adjustments up until 2017, but the regeneration of the Aylesbury estate is scheduled to take considerably longer than this. In essence the council is already carrying debt relating to properties that it is committed to disposing of, meaning that the business plan must take account of debt charges for these former properties with no parallel income stream to match this.
  - Another debt-related issue is that in order to demonstrate that any given social housing provider could be self-financing, the standard planning assumption was that all debt would be repaid over the course of the initial thirty years; indeed for most providers, if all projected surpluses were applied to debt repayment at the expense of all other policy objectives, the inherited debt would be cleared in around years 17 – 20. Since the council intends to achieve significant alternative outcomes as part of discharging its responsibilities as a landlord, clearly repayment of debt cannot necessarily be the primary policy objective. We will be exploring this further as part of the development of a detailed treasury management plan as an integral part of the overall HRA business plan.

## Financial implications

15. The HRA budget for 2012/13 was set against the backdrop of the national Spending Review 2010, and contained provision for savings and expenditure patterns over a three-year budget horizon, in tandem with the general fund. The savings for 2013/14 already therefore form part of the financial framework which the authority is working to. For the most part, and unless compensatory provision has been established elsewhere, these savings are on track to be realised during 2013/14. The course for the HRA now is to roll-forward the planning horizon a further year, and so preliminary savings packages up to and including 2015/16 are being formulated by officers and will be subject to consultation in due course.
16. For 2013/14, with previously agreed HRA savings targets remaining deliverable, there is now the opportunity for a redirection of resources into key service priorities whilst still delivering a balanced budget as indicated in Appendix A. This provides the opportunity to allow this to be applied to support specific service improvements without placing the overall viability of the HRA business plan at risk. The table below gives an indication of deliverable options as to potential use, sourced from a variety of internal and external contributions, including an analysis of commonly registered complaints from residents regarding landlord services and a selection of recent member requests. However, specific growth bids are not on the whole costed as yet, and this, alongside their deliverability will have a direct impact on their achievability in 2013/14.
17. Once costs are assessed, it is likely to be the case that bids outweigh the surplus available, in which case a prioritisation approach will be determined. It is important to note that, whilst a complaints/member-driven data-set of requests is a useful tool in gauging areas where the application of additional resources might be possible, it is not linked to any kind of needs analysis, and so care must be exercised in any kind of allocative or assessment process.

Service Area	A Fairer Future for All*	Indicative Cost
<b>Look and Feel of the Environment:</b>		
Door entry/security measures	2, 4	
Sheltered refurbishment	6	
External decorations/planned maintenance	4	
Communal areas refurbishment/repairs service	4	
Environmental estate improvements (Estate Action Days)	4	
		<b>£4.25m</b>
<b>Tackling Fraud and Abuse:</b>		
Illegal occupation (sub-letting)	1, 2	
		<b>£0.25m</b>
<b>Invest to Save:</b>		
Garage refurbishment	1	
Underoccupation	1	
Channel-shift (increasing digital take-up of services)	1, 4	
Void re-let standards	1, 4	
Repairs quality enhancement (annual property check)	1, 4	
		<b>£1.50m</b>
<b>TOTAL</b>		<b>£6.00m</b>

*\*Links for each item to the policy statement 'A Fairer Future for All' (see Background Documents).*

18. The Final HRA Rent-Setting and Budget Report will set out a base budget for the HRA in 2013/14. The revised position for 2012/13 is attached as Appendix B for reference. The position on the HRA for 2012/13 has been reported on a quarterly basis in September and November 2012, and is planned for February 2013.

### **Commitments/Unavoidable Demands**

19. The effect of government welfare reforms is difficult to quantify, but their impact on the HRA is very likely to increase risk, particularly in terms of rent arrears. Paragraphs 20 and 21 also form part of the Strategic Director of Finance and Corporate Services 'scene-setting' report into the general fund budget for 2013/14 in terms of housing services, but are equally relevant to consideration of the HRA.
20. The Welfare Reform Act 2012 introduces a raft of changes to welfare support and benefits entitlement commencing in 2013. The government's stated intentions are to reduce the nation's benefit bill, simplify the benefit system and 'make work pay'. Government has yet to provide the detail behind some of the proposals which makes assessment and planning for their impact more problematic, but initial indications suggest that preventing homelessness will become more difficult as the private rented sector in Southwark and across London will no longer be a feasible option for many households. Temporary accommodation schemes such as private sector leasing which are currently self-financing will now become a net cost to the council's general fund, albeit still cheaper than bed and breakfast provision, which will itself become increasingly more difficult to procure at reasonable cost.
21. Southwark has a good record of preventing homelessness, but has seen an increase of around 100 cases in each of the last two years, but there is the potential for this to rise considerably and is affected by a number of external factors that are hard to predict and over which the authority has little or no control, such as private sector landlords' reaction to the changes, resident mobility and employment opportunities. The introduction of housing benefit caps and social size criteria affecting those tenants currently underoccupying by virtue of the DWP's new 'bedroom standard' means they will lose a proportion of their existing benefit entitlement. Initial estimates indicate around 14% of Southwark tenants are likely to be affected.
22. A longer-term phased introduction of Universal Credit commences in October 2013; the intention being to replace a range of existing benefits and allowances into a single consolidated benefit affecting anyone of working age regardless of employment status. Direct payment to the claimant in arrears to a bank account will replace the current arrangement of paying direct to the landlord, which will compound the risk of non-collection and higher arrears for the council moving forward. There is already evidence that the HRA is now exposed to a greater financial risk due to the current economic climate and the combined effect of these measures are likely to exacerbate the situation.

23. Whilst the principal impact of the far-reaching reforms currently being implemented by the government will be on general fund services, such as homelessness, it is clear that elements of temporary accommodation provision funded within the HRA would bear greater pressure, and an initial scoping exercise estimates this to be £300k. An initial estimate of the Housing Benefit impact has been costed at £3.3m.
24. General Inflation – as with assumptions for the general fund, inflation on 2013/14 employee costs has been set at 1%. There is a general inflation rate of zero applicable to other HRA budgets, with the exception of inflation factors calculated to cover items such as long-term contracts, which are tied to industry-specific rates of inflation. These do not have a single ‘headline’ rate. The total is estimated at £2.0m.
25. Council tax on void properties – cabinet received a report on council tax technical reforms at their meeting of 20 November 2012. Within this report, it was noted that the likely impact on HRA properties of the proposed changes is in the order of £1m.
26. The Indicative HRA budget does not include adjustments relevant to an increase in rental streams should any change to the new-let policy take place consequent to the separate consultation on options as noted elsewhere in this report, but changes to guideline rent levels are included – paragraphs 31 – 42 below refer.
27. Tenant Service Charges – paragraphs 43 – 44 below refer. As there is no change in charging levels, budget changes are stock-related.
28. Non-Dwelling Rents (Garages) – paragraphs 45 – 46 below refer. Whilst there is no proposal to vary charges, the council has embarked upon a programme of refurbishment designed to increase lettings opportunities for the garage stock, and has seen an increase in the rental stream which is anticipated will continue to grow as more garages are brought back into use.

### **Efficiency Savings**

29. The HRA Budget and Rent-Setting reports for 2011/12 and 2012/13 noted that extensive consultation was undertaken regarding the savings package and options therein worked up by the Director of Housing and Community Services. This process, in alignment with the general fund, also encompassed savings over the years 2013/14 and 2014/15. Savings for the year covered by this report have therefore already been identified, and in the main are available for implementation. Where this is not the case, the Director of Housing and Community Services has identified compensatory savings.
30. Agreed HRA savings for 2011/12 and 2012/13 totalled £15.6m. The Indicative HRA budget projects a further £6.0m, making £21.6m over three years. A detailed 2013/14 list reflecting the new structure of housing and community services will be provided as part of the Final HRA Budget and Rent-Setting Report in January 2013.

## Annual Rent Guideline and Formula Rent

31. In the past, government housing subsidy rules ensured that councils were financially penalised if they varied 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 was 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 meant the government could reduce the amount payable to Southwark if the rent increase exceeded the HB limit, such that the HRA would ultimately receive around 40% of the additional increase above the prescribed guideline.
32. 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. Before 2013/14, the Department for Communities and Local Government (CLG) would issue a draft subsidy determination for consultation in October/November, with a final version in December, encompassing allowance and debt charge levels, and guideline rent assumptions. In 2012/13 to enable the transition to self-financing, a set of draft settlement and transitional subsidy determinations were published on 21 November 2011, setting out rental assumptions for 2012/13 and beyond, the likely final debt settlement calculation and final transitional arrangements between the two systems. From 2013/14 onward, there is no annual Determination, as no subsidy calculation is required. However, the parameters previously employed to calculate rents on a national basis formed an integral part of the self-financing business plan, and up to 2015/16, it is proposed to continue to calculate rents using that methodology.
33. There are three separate drivers for rent inflation under rent restructuring: the underlying inflation rate (the Retail Price Index at September 2012 is used as specified by the government); the 0.5% top-up 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 self-financing settlement continued with the assumption that 2015/16 would be the convergence date. September 2012 RPI was confirmed earlier this year as 2.6%. The effect of each of these drivers is summarised in the table below:

<b>Average Rent Inflation</b>	<b>2012/13 Final</b>	<b>2013/14 Indicative</b>
Inflation Uplift (RPI @ September)	5.60%	2.60%
Top-Up Element	0.50%	0.50%
= Increase in Formula Rent	6.10%	3.10%
plus national convergence element	1.74%	1.67%
= Increase in National Guideline Rent	7.84%	4.77%
plus local convergence element	0.63%	1.81%
less annual affordability limits	(0.51%)	(1.73%)
<b>= Total Increase in Actual Rents</b>	<b>7.96%</b>	<b>4.85%</b>

34. The previous government's original intention was that rent restructuring would be complete (or rents would have 'converged') after 10 years (i.e. in 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. A chronology of the national changes made since 2002/03 is attached as Appendix C.
35. 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) 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 1 to 2% to the average rent increase each year, increasing as the convergence date approaches. Without the application of annual affordability limits (RPI + 0.5% + £2.00) for individual rent rises, the average increase would be even higher than the guideline figure.
36. Appendix D is a collated list of average and formula (or 'target') rents across London Boroughs. In 2012/13 Southwark's average rent ranked 9<sup>th</sup> lowest of the 29 London Boroughs that manage their housing stock, either directly or via an ALMO. Appendix D also indicates how far each authority has to travel before reaching the target rent level demanded under this system. Southwark is one of eight London Boroughs where this gap is still at least 8%, meaning that the local convergence pressure will take some years to be fully realised. This point is further illustrated by the chart forming Appendix E.
37. Government set out their assumptions regarding rent levels post-settlement in their covering letter with the draft settlement determination papers issued on 21 November 2011. The relevant passage is quoted below:

*"The draft determinations and the [settlement] models set out the self-financing policy and methodology. Key components in the self-financing valuation model are:*

***Assumed rental income:*** *As described in both the February and July 2011 policy documents, national social rent policy is that rents in the council housing sector should converge with those charged by housing associations by 2015-16, followed by rent rises at RPI + 0.5% per year after this, in line with housing associations. In valuing each local authority's housing business we have assumed adherence to this rent policy.*

*In keeping with previous years, we will base next year's rent rises on RPI inflation in the previous September, combined with a convergence factor to reflect the number of years to rental convergence with the housing association sector.*

*Source: 'Consultation on the draft determinations to implement self-financing for council housing', CLG 21 November 2011*



38. The likely effect of the assumptions on rents are summarised below. It can clearly be seen that as convergence approaches in 2016, the inflationary pressure on average actual rent to match the formula rent level becomes very significant, and the effect of annual affordability limits in mitigating this increase has a substantial impact on the total rent assumptions made by the government as part of the self-financing settlement.

	<b>2012/13 Base</b>	<b>Indicative 2013/14</b>	<b>Indicative 2014/15</b>	<b>Indicative 2015/16</b>
Average Weekly Rent	£85.16	£91.94	£96.40	£100.41
September RPI + 0.5%	6.1%	3.1%	2.5%	2.5%
Estimated Uplift	£5.19	£2.85	£2.41	£2.51
Cumulative Move to Formula Rent*	£90.35	£94.79	£98.81	£102.92
Caps and Limits Adjustment	£2.44 (£0.85)	£3.20 (£1.59)	£4.07 (£2.47)	£6.72 (£5.12)
<b>Average Rent – Tenanted Stock Increase</b>	<b>£91.94</b> 7.96%	<b>£96.40</b> 4.85%	<b>£100.41</b> 4.16%	<b>£104.52</b> 4.09%
Estimated rents/other charge inc.	£225.0m	£236.6m	£237.5m	£243.5m
<b>Estimated Increase**</b>		<b>£11.6m</b>	<b>£0.9m</b>	<b>£6.0m</b>

*\*Encompassing both the national guideline increase and local convergence*

*\*\*2013/14 is a 53 week rent year, distorting the change in total rent debit between that year and those preceding/succeeding – adjusting for a 52 week equivalent year in 2013/14 gives increases of £7.4m and £5.2m for 2013/14 and 2014/15 respectively*

39. Calculation of the debt settlement figure by CLG is predicated by projected rent debit levels over the next thirty years. The cost to the authority of servicing total debt post-settlement, together with the likely rental income lost by not being able to fully converge individual rents by 2015/16 means that any decision not to realise rents to the level anticipated by the CLG calculation is an increased risk to the HRA, as it will be likely to have a detrimental impact on the council's ability to deliver service improvements and meet the investment needs that the stock requires.
40. In the budget and rent-setting process for 2012/13, a proposal was made to charge new-build and newly let properties directly at the formula rent level, i.e. assuming full and immediate convergence. It was acknowledged that this proposal required more detailed consideration by members and officers, and so it was referred to the cross-party Lettings Review Panel, which was tasked with considering all aspects of the council's lettings policy. This panel has concluded its work, and consultation on its recommendations began in November 2012, with a view to reporting to cabinet in spring 2013.
41. One of the recommendations of the panel is to consult on two options regarding a 'straight-to-formula' aspect for new lettings. In brief, this is to either:
- Allow all new lets to be at the formula rent level, with the exception of those resulting either from decants for regeneration purposes or from the council's underoccupation policy which would be let at a rent consistent with equivalent properties in the immediate vicinity; or
  - Allow the current policy to continue, whereby only lets of new-build properties be set at formula rent levels.

42. It is not for this report to pre-empt this separate consultation exercise, but it is hoped that a sufficiently clear picture emerges for a recommendation consistent with consultation outcomes to be included in the Final HRA Budget Report to cabinet on 29 January 2013.

### Tenant Service Charges

43. Tenant service charges were separated out from rent as part of the government's rent restructuring regime in 2003/04; initial rent implementation having commenced the previous year. This was to enable greater consistency and transparency between local authority and RSL sectors. Charges were frozen in 2012/13. Increases are normally capped nationally at September RPI @ 2.6% + 0.5%, which would equate to an overall increase of 3.1% for 2013/14. However, in the case of estate cleaning, grounds maintenance and communal lighting, contract-based savings will offset this underlying increase and so the charges are not proposed to increase in 2013/14.
44. In the case of door entry maintenance systems, although the contract price for this remains unaltered in 2013/14 there are significant cost pressures due to additional works as a consequence of the increased fire risk assessments programme being undertaken by the council. Under normal circumstances this would equate to a rise in the charge – but the council does not wish tenants liable for this service charge to make an additional contribution purely because of the need to match FRA expenditure; and so this charge is also proposed to be left at the 2012/13 level. The relevant contract is due for renewal during 2013/14, and any resultant change in the cost base will be reflected in the service charge for 2014/15 onward. For ease of reference, the respective service charges are listed in the table below:

	<b>2012/13 £ per week</b>	<b>2013/14 Proposed new charge</b>	<b>%age change</b>
Estate Cleaning	4.60	4.60	0.0%
Grounds Maintenance	1.09	1.09	0.0%
Communal Lighting	1.17	1.17	0.0%
Door Entry	0.68	0.68	0.0%
<b>Total</b>	<b>7.54</b>	<b>7.54</b>	<b>0.0%</b>

### Non-Residential Rents and Charges

45. Non-residential rents and charges were not changed in 2012/13, with the exception of variations to the terms and conditions of various concessionary rates previously offered.
46. At their meeting on 23 October 2012 the Garages Working Group proposed that the freeze in charges continue for a further twelve months, and officers have formulated the Indicative HRA budget on that basis.

### District Heating Charges

47. Heating and hot water charges last increased in 2009/10, as the council was in the process of procuring an extended, four-year flexibly-priced contract for the provision of gas for 'large sites'. 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.

48. In last year's rent-setting report, as for the previous year, 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. The current accumulated surplus on the heating account equates to £5.5m, of which approximately £4m is earmarked for upgrading existing heating systems to improve energy efficiency and reduce consumption, which in turn helps to mitigate upward cost pressures through lower consumption.
49. With the application of greater efficiencies in terms of gas consumption as outlined above, and potential use of the accrued balances on the heating account, the advantageous operation of the contract means that the cost of District Heating can be held at existing levels once again despite recent retail price increases, and so it is recommended that heating charges are retained at the previous year's levels for 2013/14; but also that officers investigate more fully the opportunity to allocate the heating account surplus once the costs of the new contract become clearer.

### **Thames Water**

50. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2013. Notification of the increase will be advised by Thames Water, on whose behalf the council act as agent for billing and collection. The council has no influence over the charges set by Thames, who are an independent commercial entity regulated by Ofwat.

### **Budget Consultation**

51. The cabinet at Southwark has set out seven over-arching budget principles, covering both the HRA and the general fund, and in July 2011, this was refined by a statement of ten 'Fairer Future' principles as agreed by Council Assembly.
52. The council commences this process with an interim report to cabinet in December setting out the indicative budget scenario in terms of HRA finances, and then begins formal consultation with residents before Christmas. This report will be presented to Tenant Council in early January in order for submission to area housing forums during the month. Home Owner Council and TMO Liaison Committee will also consider this report during January.
53. Budget information will be refined over the coming weeks, and officers will be asking cabinet to set rents accordingly at their meeting on 29 January 2013. As normal, the results of the consultation processes will also be reported to cabinet at that time.

### **Community impact statement**

54. The government has also made a number of announcements on welfare reforms as part of its overall strategy of economic management in the context of the Spending Review, some of which have a direct impact on Southwark tenants and leaseholders, and are explored earlier in this report. An equalities assessment will be conducted in parallel with consultation processes undertaken by the council, and the results will be reported in the final report.

## **Consultation and notification**

55. One of the intentions of presenting financial information to cabinet in December 2011 was to enable consultation processes 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 29 January 2013.
56. Following the adoption of the overarching budget principles and ‘A Fairer Future for All’ (see Background Documents), the council intends to invite any further comment on likely budget options regarding the general fund budget for 2013/14 and beyond during January 2013, and it is anticipated that HRA proposals will follow a similar process.

## **Tenant Council**

57. Tenant Council will meet in early January to both discuss this provisional report, and to refer it on to area housing forums. The meeting will reconvene on 28 January 2013 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 as an appendix to the final report on 29 January.

## **Home Owner Council**

58. 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 will be referred to their meeting of 16 January 2013, and any comments made reported to cabinet at the 29 January meeting.

## **TMO Liaison Committee**

59. For the first time last year, the Indicative HRA budget report was the subject of formal consultation with the TMO Liaison Committee, and it is intended that this process continue for 2013/14 and future years. Their meeting is on 23 January 2013.

## **Statutory and Contractual Notifications**

60. Subsequent to the approval of the final report on 29 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 Legal Services**

61. Statutory requirements as to the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 ("the 1989 Act"). The 1989 Act provisions include a duty, under Section 76 of the 1989 Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.
62. Further provisions relating to housing finance are set out under Sections 168 to 175 of the Localism Act 2011 ("the 2011 Act") and provide for the determination of settlement payments calculated in accordance with such formulae as the Secretary of State may issue from time to time. The settlement payment under the 2011 Act replaced subsidy payments for England made under the HRA, previously provided for by Section 80 of the 1989 Act and this report sets out the effects of the self-financing settlement.
63. 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 calculation of the self-financing debt settlement referred to in this report.
64. 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.
65. 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.

### **Strategic Director of Finance and Corporate Services**

66. The financial implications arising from the commencement of the self-financing regime and movements in expenditure/income on the HRA are covered within this report.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Cabinet agenda 21 September 2010 (item 9) <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=3332&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=3332&amp;Ver=4</a>	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
Council assembly agenda 6 July 2011 (item 5.1) <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&amp;MId=3751&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=132&amp;MId=3751&amp;Ver=4</a>	160 Tooley Street London SE1 2QH	Lesley John Constitutional Team 020 7525 7228
Investing in Council Housing: Options for the Future (Cabinet 23 October 2012) (item 16) <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=4247&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=4247&amp;Ver=4</a>	160 Tooley Street London SE1 2QH	Stephen Gaskell Corporate Strategy 020 7525 7293

## APPENDICES

No.	Title
Appendix A	HRA Indicative Budget Movements 2012/13 to 2013/14
Appendix B	HRA Revised Base Budget 2012/13
Appendix C	Rent Restructuring Chronology
Appendix D	Average Rents across London Boroughs 2012/13 – Table
Appendix E	Actual and Formula Rents by London Borough 2012/13 – Chart

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
<b>Report Author</b>	Ian Young, Divisional Finance Manager, Housing and Community Services	
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<b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER</b>		
	<b>Officer Title</b>	<b>Comments Sought</b>
	Director of Legal Services	Yes
	Strategic Director of Finance and Corporate Services	N/a
	<b>Cabinet Member</b>	Yes
	<b>Date final report sent to Constitutional Team</b>	29 November 2012