

<b>Item No.</b> 13.	<b>Classification</b> Open	<b>Date:</b> 27 January 2015	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Final Rent-Setting and Budget Report 2015/16	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Richard Livingstone, Cabinet Member for Housing	

## **FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR HOUSING**

As part of the council's fairer future promises, the cabinet is committed to keep rents low, by limiting increases to inflation plus one per cent in each of the next four years.

On 9 December 2014, the cabinet agreed to consult on proposals for the 2015/16 Housing Revenue Account based on that principle. The council has since consulted with Tenants Council and the Area Forums and this report therefore asks cabinet to consider the outcomes from that consultation before taking final decisions on the housing revenue account, rent and service charges for the forthcoming year.

## **RECOMMENDATIONS**

Cabinet is recommended to:

1. Approve a rent increase of 2.2% to be applied to all housing revenue account (HRA) dwellings as set out in the previous report to cabinet on 9 December 2014. This is equivalent to an increase of £2.18 per week on average for tenanted properties, with effect from 6 April 2015 and is in accordance with the earlier decision of cabinet on 28 January 2014 on rent levels. This percentage increase is also to be applied to estate void and hostel properties from 6 April 2015. The average budgeted dwelling rent for 2015/16 is estimated to be £101.25 per week.
2. Instruct officers to set rents for newly-let existing stock from 6 April 2015 (paragraphs 22 – 26) at the target level for that property, calculated and inflated using central government methodology, with the proviso that exemptions are to be granted where circumstances necessitate a move.
3. Approve increases in the estate cleaning, grounds maintenance, communal lighting and door entry maintenance charges by 2.2% as laid out in paragraph 27 with effect from 6 April 2015.
4. Approve increases in charges for non-residential property (garages, store sheds and parking bays) by 2.2%, as laid out in paragraph 28 with effect from 6 April 2015.
5. Set heating and hot water charges at the same level as 2014/15 as laid out in paragraph 29 with effect from 6 April 2015.

6. Set sheltered housing charges at the same level as 2014/15 as laid out in paragraph 30 with effect from 6 April 2015.
7. Note that water and sewerage charges levied by Thames Water are liable to an inflationary uplift as set out at paragraph 31, but as yet the council has not been informed by Thames Water of what that increase will be.
8. Note the revised HRA budget for 2015/16 (as set out in Appendices D and E).

## **BACKGROUND INFORMATION**

### **Indicative HRA budget (9 December report)**

9. Cabinet on 9 December 2014 considered the Indicative HRA rent-setting and budget position for 2015/16. 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. Officers will provide a formal report of any resolutions from tenant council, home owner council, Southwark tenant management organisation (TMO) committee and area housing forums at the cabinet meeting.
10. 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 8 above.

### **Statutory framework**

11. 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, leaseholder 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 community services department is being considered separately.
12. 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 early consultation with the bodies listed in paragraph 9 above. This process commenced before Christmas 2014, and continued throughout January 2015.
13. 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 2014/15 and 2015/16, predicated on the basis of a rent increase of 2.2% and other proposed increases in charges.

## **KEY ISSUES FOR CONSIDERATION**

### **Financial context under self-financing**

14. Whilst self-financing provides financial freedoms, it also brings with it a number of increased risks and budget pressures, particularly in the early years of operation. To a large extent these have already been mitigated through the

delivery of efficiency savings and wholesale restructuring of landlord services since 2011/12. Appendix B sets out savings and income generation for 2015/16 specifically.

15. The government effectively operated control over rent policy through the rent restructuring regime and calculated Southwark's debt settlement adjustment on the assumption that rent levels match those imputed by full adherence to the national rent policy. The difficulty caused to Southwark by government assumptions regarding rent convergence was set out in some detail in last year's final HRA budget report to cabinet on 28 January 2014.
16. As reported to cabinet last year, the key principle underlying the introduction of self-financing was the generation of revenue surpluses sufficient to meet the investment needs of the stock over thirty years, without further government support. However, the key assumptions made by government in arriving at the settlement figure in late March 2012 did not adequately reflect the financial reality facing Southwark and changes in government policy since 2012 have further impeded the council's position in relation to the realisation of rental income to the levels originally expected.
17. Even with these additional pressures, such as the decision to formally end rent convergence and the introduction of the "***Reinvigorating the right to buy***" policy, the council was able to set a balanced HRA budget for 2014/15 including a rent increase of 2.7%, which was half that expected under government guidelines. At the same time cabinet resolved to follow future guidance under the Spending Review, and limit rent increases to September CPI plus 1% for the next four years.
18. Budgeted expenditure and income for 2015/16 is represented in bubble map form in Appendix C; Appendix D indicates the revised budget for 2014/15 and the base for 2015/16 incorporating the changes identified in Appendix A. This is further analysed to a divisional level in Appendix E.

### **HRA reserves and financing**

19. The 9 December report also set out the current position in regard to council policy on HRA reserves and balances, in common with the council's general fund. HRA reserves and balances continue to be managed in accordance with the council's Medium-Term Resourcing Strategy 2014/15 – 2016/17.
20. £3.7 million was identified within the 9 December report as being for financing purposes. £3.0 million of this is to be utilised to continue the process of debt repayment, whilst the remaining £0.7 million forms part of the on-going transition to a fully-componentised depreciation charge – split almost equally between dwellings and non-dwellings-related elements. This aspect of the budget is unchanged from that previously set out.

### **Rent levels and straight-to-target rent policy**

21. Southwark's long-standing policy of maintaining historically low social rent levels brought particular pressures under rent restructuring and meant that it became impossible for the council to achieve rent convergence (actual rents being derived entirely on a formula rent basis) by the government-set national deadline of 2015/16. In order to continue to set balanced HRA budgets, which the council

is obliged by law to do, expenditure plans have been revised to meet reduced expectations regarding income levels.

22. In Autumn 2013 the Department for Communities and Local Government (CLG) issued a consultation paper '**Rents for Social Housing from 2015-16**', which proposed moving to a new inflation factor of CPI + 1% and ending the policy of rent convergence from April 2015. These proposals have subsequently been enacted and whilst it removes an inflationary element for tenants, it exacerbates the council's position in terms of a lower realisable rental stream than that predicated under the self-financing settlement.
23. The consultation paper also took the policy of moving new-let properties straight to target as a given, as a means of defraying rental income lost by non-convergence. The council has previously resisted this, however, given the extensive Warm Dry Safe (WDS) programme and the introduction of a higher voids standard which now incorporates redecoration and other internal improvement works, and in a number of instances kitchen and bathroom replacements, there is a compelling argument that rent levels (only applicable to new tenancies), should reflect this additional investment in the stock and the higher lettable standard of accommodation on offer. These initiatives have had a discernible impact on tenant satisfaction.
24. The council recognises the positive engagement of tenants leaving their homes to facilitate council-led regeneration for which financial recognition is made under existing arrangements and it is proposed that where circumstances necessitate a move, tenants be considered for exemption from this policy change. Tenants impacted by the changes to benefit in the social sector ("spare room subsidy" or "bedroom tax") might similarly be considered for exemption, although under-occupancy moves are primarily driven by changes in national housing/welfare benefits policy rather than council policy, and the council already provides assistance to tenants to ameliorate the impact where it is able to do so.
25. To place target rents in a London-wide context; of the other twenty eight boroughs still in direct control of their dwelling stock (including those with ALMO arrangements in place), one has already converged, officers understand that two are intending to set rent levels such that they will achieve converged rents in 2015/16, one has remained outside the rent restructuring policy and eleven of the remainder have some form of straight-to-target policy already in place. Several others intend to set rents above CPI + 1% in order to independently continue along the more immediate route to rent convergence.
26. Finally, this change would be consistent with the approach proposed in terms of rental policy for properties generated as part of the Direct Delivery programme, (cabinet, 9 December 2014). The medium-term effect of the policy change would be to move towards converged rents, but over an extended period of time, balancing the resourcing needs of the HRA with the council's Fairer Futures promise of keeping rents low.

### **Tenant service charges**

27. As set out in more detail in the 9 December report, the council intends to increase tenant service charges for 2015/16 by the same level as dwelling rents (2.2%). The resultant charges are set out in the table below.

	2014/15 £ per week	2015/16 £ per week	Percentage change
Estate Cleaning	4.60	4.70	2.2%
Grounds Maintenance	1.09	1.11	1.8%
Communal Lighting	1.17	1.20	2.6%
Door Entry System Maintenance	0.68	0.70	2.9%
<b>Total</b>	<b>7.54</b>	<b>7.71</b>	<b>2.2%</b>

### Non-residential rents and charges

28. The council intends to increase non-residential rents and charges by the same level as dwelling rents (2.2%). This covers garages, parking bays, storage facilities and sheds.

### District heating charges

29. As previously stated, the council reviews charges annually to ensure that within the context of the current flexibly-priced gas supply contracts, charges are set at a level to smooth price volatility as far as possible over the contract period. Ongoing investment in the infrastructure to increase energy efficiency/reduce consumption contributes to the financial sustainability of the heating account which has enabled charges to be maintained at the same level over the medium-term. Together with the potential use of accrued balances, this means that charges can be held at existing levels once again for 2015/16.

### Sheltered housing service charges

30. It is not proposed to vary charges for the provision of a sheltered housing service from their levels in 2014/15.

### Thames Water

31. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2015. Following approval by the regulator Ofwat, 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.

### Commitments and savings

32. The 9 December report set out recommended contributions and commitments on the basis of a rent increase of 2.2% (i.e. CPI + 1%) for 2015/16. These included general inflation at £2.4 million, financing at £3.7 million and specific service commitments of £2.2 million.
33. Proposed 2015/16 savings, together with those relating to previous years are summarised in the table below, which places them in a divisional context from 2011/12 onward. Further detail on the 2015/16 figures is contained in Appendix B, and in the 9 December budget report.

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
Customer Experience	(0.4)	(0.1)	–	(0.1)	–	(0.6)
Finance and Corporate Services	(1.7)	(0.3)	(4.3)	(3.2)	(2.1)	(11.6)
Specialist Housing Services	(0.2)	(0.1)	(0.7)	(0.2)	(0.1)	(1.3)
Chief Executive's	(0.2)	–	(0.1)	(0.1)	–	(0.4)

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	Total £m
Community Engagement	(0.5)	(0.2)	–	(0.1)	(0.1)	(0.9)
Maintenance and Compliance	(3.2)	(3.1)	(0.1)	(1.4)	(2.4)	(10.2)
Operations	(2.4)	(2.1)	(0.8)	(0.9)	(0.7)	(6.9)
Major Works	(0.6)	(0.5)	–	–	–	(1.1)
<b>Total HRA</b>	<b>(9.2)</b>	<b>(6.4)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(5.4)</b>	<b>(33.0)</b>

### Community impact statement

34. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity, and foster good relations between different groups.
35. Consideration has been given to the report's relevance to equality issues in accordance with the public sector equality duty. This report is primarily to set rents and associated charges and a scoping exercise established there is no differential effect for any community or protected group. It is recognised that increases in rents and charges may present particular difficulties for people on low incomes, but rents and tenant service charges remain eligible for housing benefit. The assessment considers the effects of the self-financing regime introduced under the provisions of the Localism Act 2011 and the determinations issued by Department for Communities and Local Government in accordance with the provisions of Section 173 of that act.
36. There is a statutory requirement to set a balanced HRA budget. Extensive consultation previously undertaken incorporated savings proposals totalling £27.6 million over the period 2011/12 to 2014/15, which have all been delivered. For 2015/16 the extent and composition of efficiency savings and additional income generation assumed in the budget proposals are detailed in Appendix B and set out on a divisional basis as part of Appendices E and F. An assessment to ascertain their potential impact has been undertaken and concluded there is no differential effect for any community or protected group.
37. Above and beyond the increases in rent there are wider issues impacting both nationally and locally in terms of the government's welfare reforms and housing benefit changes for under-occupancy, which came into force in April 2013. These have also 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 through down-sizing, assist in gaining employment, prevent eviction and homelessness and provide direct financial assistance through the provision of Discretionary Housing Payments (DHP). The position regarding 2014/15 remains under review, pending confirmation of additional funding from the Department of Work and Pensions (DWP).

### Consultation and notification

38. 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 December report was labelled 'Indicative' and figures therein were all subject to change. The sections in this Final report have set out such changes as are required to provide the HRA with a balanced budget for 2015/16.

39. Tenant Council met on 5 January 2015 to consider the December report, and to refer it on to area housing forums. They reconvened on 26 January 2015 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 due to time constraints are reported under separate cover as Appendix F to this report. 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 the December report was considered at their meeting on 18 December 2014. Any such comments will also be reported to cabinet alongside those of Tenant Council. The December report was also the subject of formal consultation with Southwark TMO Committee at their meeting on 21 January 2015.

### **Statutory and Contractual Notifications**

40. Subsequent to the approval of the Final report on 27 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**

41. Statutory requirements as to the keeping of a Housing Revenue Account (HRA) 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 HRA and to implement and review the budget.
42. Provisions contained within Part 7 of the Localism Act 2011 replace the Housing Revenue Account subsidy system with self financing arrangements for housing authorities in England. To facilitate this, the Act sets out the framework for the calculation of a 'settlement payment' with respect to each local housing authority by way of Secretary of State determination. It is provided that the Secretary of State must consult before making a determination.
43. This report includes recommendations on the charges made by the council in respect its HRA residential accommodation. 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 arising from the self-financing determinations referred to in within this report.
44. 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 change the amounts payable for rent and other charges”. The report indicates consultation is taking place in order to comply with this term and the outcome will be reported to cabinet. Members must consider the product of consultation when considering the recommendations in this report.

45. It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, which also applies in respect of its 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.
46. As noted at paragraph 34 of the report, the public sector equality duty (PSED) contained within section 149 of the Equality Act 2010 requires the council to have due regard in its decision-making processes to the need to:
  - (a) Eliminate discrimination, harassment, victimisation or other prohibited conduct;
  - (b) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it; and
  - (c) Foster good relations between those who share a relevant characteristic and those that do not share it.
47. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The duty also applies to marriage and civil partnership, but only in relation to (a) above.
48. The council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making decisions in the current context. The cabinet must consider the report author’s reference to equalities considerations at paragraphs 34 – 37 of this report.

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

49. 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
Cabinet agenda, 9 December 2014 (item 9)	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s50449/Report%20HRA%20Budget%202015-16%20Indicative.pdf">http://moderngov.southwark.gov.uk/documents/s50449/Report%20HRA%20Budget%202015-16%20Indicative.pdf</a>		
Cabinet agenda, 9 December 2014 (item 8)	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=4865&amp;Ver=4">http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&amp;MId=4865&amp;Ver=4</a>		
Medium-Term Resources Strategy 2014/15 – 2016/17	160 Tooley Street London SE1 2QH	Jennifer Seeley Deputy Director of Finance and Corporate Services 020 7525 0695
<b>Link:</b> <a href="http://www.southwark.gov.uk/download/downloads/id/10058/medium_term_resources_strategy_2014-15_to_2016-17">http://www.southwark.gov.uk/download/downloads/id/10058/medium_term_resources_strategy_2014-15_to_2016-17</a>		

## APPENDICES

No.	Title
Appendix A	HRA Budget Movements 2014/15 to 2015/16
Appendix B	HRA Summary Savings and Income Generation Schedule 2015/16
Appendix C	HRA Expenditure and Income Budget 2015/16 Bubble Maps
Appendix D	HRA Revised Budget 2014/15 and Base Budget 2015/16
Appendix E	HRA Base Budget 2015/16 by Division
Appendix F	Results of consultation. To follow as separate document

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Richard Livingstone, Cabinet Member for Housing	
<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
<b>Report Author</b>	Ian Young, Departmental 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>	<b>Comments included</b>
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	N/a	N/a
<b>Date final report sent to Constitutional Team</b>		15 January 2015