

Item No. 13.	Classification Open	Date: 8 December 2015	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Indicative Rent Setting and Budget Report 2016/17	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Richard Livingstone, Housing	

FOREWORD – COUNCILLOR RICHARD LIVINGSTONE, CABINET MEMBER FOR HOUSING

Each year, cabinet agrees an indicative budget for Southwark’s Housing Revenue Account, together with indicative rent levels, for the forthcoming year before sharing these with tenants’ and residents’ representatives for consultation. The report also considers what the appropriate charges should be for a variety of housing services. Final decisions will be taken by cabinet on 26 January 2016.

This year’s budget is faced with a significant new challenge. In July’s budget, the Chancellor of the Exchequer announced that he would be forcing councils and housing associations to cut their rents by one per cent year-on-year for the next four years and this change now forms part of the Welfare Reform and Work Bill. In Southwark, this means that the council will lose a cumulative £62.5m over those four years, creating a significant hole in our previous financial plans for housing.

This indicative budget therefore considers carefully how the council can mitigate this deficit in our funding and proposes savings and new income generation to bridge the gap. As stated in the report, the emphasis will very much be on making efficiency savings where we can to minimise the impact on frontline services received by tenants and residents.

I am therefore asking cabinet to consider the recommendations in this report and then allow consultation on its proposals before we take our final decisions in January.

RECOMMENDATIONS

1. Cabinet notes on a provisional basis a rent decrease of 1.0% for all HRA dwellings (including estate voids and hostels) with effect from 4 April 2016. This is in accordance with the provisions of the Welfare Reform and Work Bill currently passing through Parliament, and is contrary to previous council policy regarding rents. The average dwelling rent in 2016/17 under such a reduction would be £100.24 per week (a fall of £1.01 per week on average).
2. Cabinet notes that the rental base will reduce by c. £28 million over the next four years from that previously predicated in the HRA business plan. The compound effect of the rent reduction and loss of resources over the same period is c. £62 million, which has necessitated changes to the business plan model going forward.
3. With regard to other HRA-wide charges, cabinet notes on a provisional basis no change to tenant service charges, comprising the estate cleaning, grounds

maintenance, communal lighting and door entry maintenance charges as set out in paragraphs 50 – 51 with effect from 4 April 2016.

4. Cabinet notes on a provisional basis no increase to sheltered housing service charges as set out in paragraph 52 with effect from 4 April 2016.
5. Cabinet notes on a provisional basis no increase in direct charges for garages, store sheds and parking bays, and the proposals of the Garages Working Party regarding the introduction of fixed service charges for qualifying units as set out in paragraphs 53 – 54, and recommends to the Leader of the Council that any decision regarding the introduction of these charges is delegated to the Cabinet Member for Housing.
6. Cabinet notes on a provisional basis no increase to district heating and hot water charges as set out in paragraphs 55 – 56 with effect from 4 April 2016.
7. Cabinet notes that water and sewerage charges levied by Thames Water are liable to an inflationary uplift as set out at paragraph 57, but as yet the council has not been informed by Thames Water of what that increase will be.
8. Cabinet reaffirms its commitment to ensure that savings proposals are primarily based on efficiencies, and where staffing reductions form part of any savings proposal, that due consultation and process is followed with trade unions, as paragraph 42 notes.
9. Cabinet instructs officers to provide a final report on Rent Setting and the HRA Budget for 2016/17 after due consultation processes with residents have been followed for consideration at their meeting on 26 January 2016.

BACKGROUND INFORMATION

Statutory framework

10. 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, homeowner service charges and other income. The council has a statutory responsibility to set a balanced HRA budget (i.e. all budgeted expenditure must be matched by income).
11. The Welfare Reform and Work Bill and the Housing and Planning Bill, both currently going through Parliament, make specific and significant provision for changes to the law affecting social housing providers from both April 2016 and April 2017.

KEY ISSUES FOR CONSIDERATION

Self-Financing and the Emergency Budget (8 July 2015)

12. As reported to cabinet in previous years, 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.

13. Changes in government policy since 2012 have impeded the council's position in relation to the realisation of rental income to the levels originally expected. In January 2015 cabinet resolved to follow future guidance under the 2014 Spending Review, and limit rent increases to September CPI plus 1% for the next four years. Accordingly, the rent rise for 2015/16 was set at September CPI + 1%, which was 2.2%.
14. Notwithstanding policy changes already effected by the Department for Communities and Local Government (CLG) since the commencement of self-financing, such as 'Reinvigorating the Right-to-Buy', the Emergency Budget of the new government in July 2015 contained three elements directly relevant to the provision of social housing, and which significantly shift the parameters of HRA business planning:
 - The imposition of a reduction in rents over the next four years (since proposed as part of the Welfare Reform and Work Bill);
 - The introduction of the "pay-to-stay" policy regarding high earning tenants (now part of the Housing and Planning Bill); and
 - An indication that the status of lifetime tenancies is to be looked into.
15. Finally, a brief run-through of proposals regarding the forced sale of high value void properties will follow, as this also formed part of the Housing and Planning Bill published in October 2015.

National rent reduction

16. For the first time in many years the government intends to legislate regarding social rents, by the inclusion of a clause within the Welfare Reform and Work Bill instructing councils and housing associations to reduce rents by 1% each year from April 2016 to April 2019 inclusive (i.e. 2016/17 to 2019/20). The rent reduction is to be calculated against a base rent figure applicable on 8 July 2015, and provision is to be made for tenancies which commence during the four-year period to also benefit from this decision.
17. At the moment, there is no provision to be made to compensate social housing providers for the loss of income incurred by the imposition of this new legal requirement, which comes only a year after the setting of rent levels for a ten-year period by central government within the 2014 Spending Review.
18. It has been Southwark policy for a number of years to keep rent rises low (in accordance with government guidance/expectations), and as previously advised, Southwark's rents remain c.10% lower than the government's assumed target and rank 7th lowest of the 29 London Boroughs with retained housing stock. Whilst the imposition of a rent reduction can be seen as good for tenants, it needs to be seen in the context of the reduction in available resources to the council's HRA and the potential impact on service provision, debt repayment and the council's ability to support its investment programme and direct delivery aspirations. Appendices A and B set out Southwark's actual and target rents in relation to other stock-holding London boroughs.

19. Under previous government policy, the rent rise at CPI + 1% for the next ten years had been guaranteed, enabling councils to plan their resources accordingly. For Southwark, the working assumption had been that given historically low inflation levels at present, the resultant rent increases should be assumed to be accordingly low, at 1% per annum for the next four years, in tune with the previous commitment under the Spending Review. Converting this 1% increase into a 1% shortfall has the following resource implications:

Timescale	Cumulative Resource Shortfall	% of Gross Exp 2015/16
1 year	£3.8 million	1.34%
4 years	£62.5 million	21.97%

20. Whilst the initial (year one) impact can be contained within the existing parameters of the HRA (£3.8 million represents 1.34% of gross HRA expenditure in 2015/16), the effect of four years of enforced reductions is more significant requiring re-profiling and re-prioritisation of budget plans in order to preserve the statutory requirement to set a balanced budget, with the impact falling broadly as follows:
- An increased level of HRA-related savings beyond those already programmed under the originally anticipated rent level;
 - A reduction in revenue support to the investment programme; and
 - A re-evaluation (and extension) in the profile of debt repayment.
21. These changes have been reflected in the business plan which is subject to continuous review to ensure that the key budget drivers are accurate, up to date and aligned with the council's fairer future policy priorities.

Pay-to-stay

22. The second major proposal within the Emergency Budget was the announcement that the government intends to implement a compulsory version of the so-called "pay-to-stay" policy, whereby higher-earning tenants are automatically charged a higher rent (whether at market or "affordable" levels), and provision is made within the Housing and Planning Bill to this purpose. As yet there is little detail available regarding the collection of earnings income, any possible exemptions, or dynamic effects, such as those self-employed tenants who might be periodic high-earners, as this part of the Bill is somewhat reliant on regulations to be issued post-enactment by CLG.
23. The introduction of the policy is also expected to lead to increased right-to-buy sales of council housing and add further rent loss to the HRA business plan. The Association of Retained Council Housing (ARCH) has observed that the costs of administering the policy will effectively mean the introduction of "means-testing" every tenant to assess their household income – a significant additional administrative burden.
24. Government has consulted on versions of this policy on two previous occasions, and the council responded with detailed submissions both times. In the Emergency Budget statement, the Chancellor indicated that a further consultation would be undertaken, and this took place during October/November

2015. A particular change to the previous position is the tightening of the trigger-point for household qualification in London from £60,000 to £40,000. This is likely to cover a considerably greater proportion of the current Southwark tenant population than was previously the case.

25. It should also be borne in mind that it is the intention of central government to have any additional rent income occasioned by this policy remitted directly to HM Treasury, removing any local benefit or incentive for its accurate or timely operation.

Lifetime tenancies

26. The Emergency Budget made no concrete proposals regarding lifetime tenancies other than to say that it was the intention of the government to examine their appropriateness and application in due course. It should be noted that there was also no provision within the Housing and Planning Bill published in October 2015 in this regard. However, there have been some press reports that the government is considering limiting new tenancies to a five-year maximum period, but at the time of writing, this has not been confirmed (or denied) by CLG.

High-value void property sales

27. The Housing and Planning Bill contains clauses setting out the government's intention to require local authorities to remit sums to them equivalent to the value of sales of high value void properties. CLG intend to estimate this figure in advance and therefore local authorities could, if they were able, finance this by other means than void property sales. To all practical terms however, the sums involved are likely to be so great that only void sales could meaningfully realise them. It is the government's intention to part-fund the extension of right-to-buy to housing association tenants by this route.
28. Earlier in 2015 a possible matrix of trigger points by bed-size and region beyond which the definition of "high value" would apply was published for exemplification purposes. For London this ranged from £340,000 – £1.205 million. A key technical issue for authorities is the mechanism by which the current value of individual void properties is to be arrived at, as research by London Councils and other sector groups has found LA stock data to be very value-sensitive.
29. It is difficult to see how this policy will work without being to the detriment of stock-owning authorities, given that those that have already divested their stock will not be in a position to contribute. Also, as the Mayor of London has already observed, without suitable regional protection it is very likely that there will be a net outflow of resources from the capital as a consequence of the policy.
30. As with other aspects of government policy detailed above, the consequence of the forced sale of high value voids will be further deviation from the stock and rental income assumptions underpinning the self-financing settlement in 2012.

Challenging the 2012 self-financing debt settlement

31. Section 169 of the Localism Act 2011 made provision for settlements to be reconsidered at the discretion of the secretary of state by means of further payments to or from the LA and CLG, and it is likely that a local authority-driven request for this would have to be actioned by means of a judicial review of any

refusal to exercise this power. Whilst this course has some attractions on the basis of Southwark's individual rent income circumstances being substantially less than that originally modelled (as Appendix C sets out), caution is advised; since the debt settlement was in essence predicated on a notional national HRA, and unless significant additional government support were to be included as a pre-condition, there would likely be significant losers as well as gainers from a re-examination of the assumptions and outcomes of the model. It is by no means guaranteed that Southwark would end up a net "winner" at the conclusion of the process.

32. Conversely, the housing regulator is to be given powers to assist or exempt housing associations where viability can be proven to be an issue under the Welfare Reform and Work Bill, and it appears that this proviso is intended to apply to the LA sector as well. However, the terms for this are entirely at the direction of the secretary of state, and direct intervention may have unintended consequences for any individual local authority.
33. Appendix C sets out in chart form the anticipated annual rent debit under the original self-financing model from PricewaterhouseCoopers for CLG, the current HRA business plan, and the revised model incorporating the rent reduction. It can be seen that the self-financing model's assumptions regarding rent inflation for its first few years at 3.5% p.a. were an underestimate in 2012/13 due to the pressures of rent convergence, but have been overestimates for the last three years (including the national rent reduction for 2016/17). However, the rapid divergence between the model and the business plan is because of other central government assumptions regarding rent convergence by 2015/16 and the application of the "Reinvigorating the Right-to-Buy" policy. The table below sets out these divergent figures.

	Original Debt Settlement model	Actual Data
Rent Inflation		
2012/13	3.5%	7.96%
2013/14	3.5%	4.85%
2014/15	3.5%	2.70%
2015/16	3.5%	2.20%
2016/17 (proposed)	3.5%	(1.00%)
Over five years	18.77%	17.62%
Guideline v actual rent	<i>Guideline</i>	<i>Actual</i>
2012/13	£96.82	£91.94
2013/14	£101.83	£96.40
2014/15	£107.07	£99.07
2015/16 (= target rent)	£112.56*	£101.25
Right-to-Buy sales		
2012/13	40	94
2013/14	46	250
2014/15	52	304
2015/16 (estimated)	54	300
Over four years	192	948
Stock assumption/actual		(mid-year)
2012/13	38,807	38,888
2013/14	38,581	38,518
2014/15	38,358	38,085
2015/16 (LBS estimate)	38,148	37,593

* Actual target rent in 2015/16 = £110.95, rather than the model's estimate of £112.56.

Target Rents for New Lets

34. As part of last year's HRA budget consideration, and in line with CLG expectations, cabinet resolved to adopt the proposed "straight to target" policy for new lets, with a set of exemption criteria to reflect specific circumstances. In the first six months of 2015/16 832 void properties have been let, of which 647 were straight to target, and 185 exempted, broadly in line with expectations.
35. As noted last year, any exemption criteria will not apply to new build council stock since (notwithstanding the changes to national rent policy outlined above) the financial viability of the direct delivery programme is in a large-part dependent on the realisation of target rent levels.
36. Initial drafts of the Welfare Reform and Work Bill did not address this area in terms of a statutory rent reduction over four years, meaning that the policy might not be workable post-April 2016; however, later clauses and schedules inserted by the government at the Committee stage of the Bill indicated that a re-let property should have the rent reduction applied at either the rent applicable on the designated day under the Bill (8 July 2015) or at the target rent for that property, if it had been subsequently let at that level.

Savings and service development

37. For reference, the table below sets out the principal budget movements in the HRA over the last five years.

	Inflation £'000	Financing & Rents £'000	Commitments/ Redistribution £'000	Efficiency & Other Savings £'000	Net Change £'000
2011/12	1,600	(5,443)	13,084	(9,241)	-
2012/13	1,400	856	4,100	(6,356)	-
2013/14	1,978	(6,609)	10,663	(6,032)	-
2014/15	1,704	135	4,054	(5,893)	-
2015/16	2,384	(5,029)	8,107	(5,462)	-
Total	9,066	(16,090)	40,008	(32,984)	-

38. Whilst the funding regimes for the HRA and the Council's General Fund are different, the budget principles are aligned. The HRA continually strives to become more efficient, particularly with regard to back-office and departmental and corporate overhead functions in order to protect front-line services. As the table above shows, £33.0 million of efficiency savings and budget rationalisation measures have been successfully delivered in the HRA, whilst maintaining and improving the quality of services to residents. Alongside this, more robust contract management and control of high value/high volume budgets continue to deliver better value for money and it is these factors that have been instrumental in mitigating the initial impact of self-financing and subsequent reductions in the resource base introduced by government, which continues to provide a sound budget platform going forward.
39. Notwithstanding this, the process of budget review and rationalisation is a continuous one, particularly against the backdrop of the imposition of a national rent reduction, rising service demands, an increasing cost base and the commitment to the council's fairer future promises, which were updated in July 2014. In 2015 the council plan expanded on this, adding six key themes.

Appendix D sets out in full the theme most directly linked to the HRA, 'Quality Affordable Homes'. Financial management of the HRA is a key aspect in ensuring the council continues to improve housing standards, build more homes of every kind, make all council homes warm, dry and safe and start the roll-out of the quality kitchen and bathroom guarantee.

40. £10.5 million of savings have been predicated as part of setting a balanced budget for 2016/17. Whilst these are predominantly of an efficiency nature, it is becoming increasingly difficult to realise savings without impacting on service delivery to some extent. Resources are unlikely to ever fully match the needs of the housing stock, particularly the level of capital investment required, which will inevitably require the prioritisation, rationalisation and re-profiling of works programmes going forward. Appendices E, F and G set out the indicative revenue budget movements as they relate to 2016/17, including a list of savings, proposed service changes and income generation measures.
41. The proposed savings list in Appendix G includes £2.3 million identified as a reduction in service level agreement (SLA) costs (commonly referred to as support cost recharges (SCRs)). This amount relates to savings of a corporate nature generated in the General Fund, a proportion of which applies to the HRA. A further reduction of £1.0 million in bad debt provisions is also included following review of collection performance.
42. Arising from the savings proposals, and consequential to the restructuring of the council as a whole (see the 'Council restructuring' section below), there is likely to be some staffing impact as services are reviewed and rationalised. Detailed restructuring proposals are still being formulated and will be managed in accordance with the council's consultative procedures.
43. As in previous years, setting a balanced budget for the HRA also entails consideration as to any additional support for the council's investment programme, and as Appendix E notes, some £4.5 million has been set-aside for this purpose. It is unfortunate that the reduction in rents has meant that the previously intended level of support for the capital programme has had to be curtailed as a consequence.

Commitments/unavoidable demands

44. General inflation – as with assumptions for the General Fund, employee-related inflation has been assumed at 2.0% overall, 1% for national pay award and a further 1% for other incremental and contractual uplifts. There is a general inflation rate of zero to 2% applicable across HRA operational budgets, depending on the nature of the expenditure, with the exception of works/service contracts that are tied to CPI/RPI or industry-specific rates. The total is estimated at £2.5 million.
45. Budget commitments are estimated at £3.7 million for 2016/17 as follows:
 - £0.1 million, comprising three items related to compulsory charges imposed by central government for the housing ombudsman service and enhanced digital survey requirements;
 - £0.7 million for additional buildings insurance costs (recoverable from homeowners) and expansion of the cash incentive scheme, for which government funding has been made available;

- £0.7 million relating to the removal of any grace period for the levying of council tax on void properties, additional cleaning and support for hoarding cases and specialist support specific to HRA business planning; and
- £2.2m comprising: additional funding required for the enhanced void standard, the transfer of the stair-lift maintenance function into the HRA and the cost of repair and maintenance of emergency lighting installations following the large-scale fire risk assessment programme.

HRA financing

46. The self-financing settlement assumed that residual debt would be extinguished over the thirty-year life of the HRA business plan. Whilst there is no statutory requirement for a minimum prepayment set-aside (unlike the General Fund), £55.1 million has been repaid since 2012 and the HRA continues to make prudent provision for debt repayment, providing greater budget flexibility and increasing the council's HRA borrowing headroom, which is a critical element in financing the investment programme. This remains subject to review in light of available resources.
47. As reported in previous budget reports, local authorities are now required to adopt a component-based approach to calculate depreciation. Transitional arrangements have been agreed with CIPFA across the sector to permit a continued major repairs allowance-based approach, and the council is moving towards a fully componentised methodology with full implementation due by 2017/18. To achieve this, it has been necessary to prepare by way of an incremental uplift through the budget planning process which commenced in 2015/16. Whilst the revenue impact is acknowledged, the corollary is an increase in capital resources to support the Investment Programme. The impact in terms of the 2016/17 budget is an additional contribution of £1.0 million for financing purposes.

HRA reserves

48. In common with other local authorities and the council's General Fund, the HRA holds reserves, together with general balances for cash-flow purposes. In accordance with the medium term resource strategy (MTRS), the council has adopted a structured approach to the maintenance and replenishment of balances over the last few years. It is appropriate to keep reserves under periodic review and maintained at a level to mitigate future risks, fulfil future commitments already made and enable the transformation and modernisation of services going forward.
49. Reserves and working balances at 31 March 2015 stand at £25.9 million, albeit around three-quarters are earmarked for pre-determined purposes. Any surplus (or deficit) generated during the year will continue to be applied to, or met from reserves in the normal way.

Tenant service charges

50. Tenant service charges were de-pooled from rent as part of the government's rent restructuring regime in 2003/04. This was to enable greater consistency and transparency between local authority and RSL sectors. After a freeze of

several years, charges were re-based in 2015/16 and increased by 2.2%, which was the same level as the dwelling rent increase (September CPI + 1%).

51. Since the base costs have not materially altered since 2015/16 it is therefore proposed to freeze tenant services at their 2015/16 levels. However, the council reserves the right to continue to review these charges annually, and changes to the cost base may mean that the future three years of dwelling rent reductions cannot continue to be mirrored in this way.

	2015/16 £ per week	2016/17 £ per week	Percentage change
Estate Cleaning	4.70	4.70	0.0%
Grounds Maintenance	1.11	1.11	0.0%
Communal Lighting	1.20	1.20	0.0%
Door Entry System Maintenance	0.70	0.70	0.0%
Total	7.71	7.71	0.0%

52. The council is currently reviewing the level and scope of services covered by the sheltered housing service charge, and following separate consultation with users will bring forward any proposals for change during 2016/17. On that basis, cabinet is recommended to leave the base charge unchanged for the commencement of 2016/17.

Garage rents

53. Garage rents were last subject to change in 2012/13. Generally, demand for garages is strong, particularly in the north of the borough, and the council has embarked upon a programme of refurbishment designed to bring under-utilised stock back into use, which in turn generates rental growth. When consulted during 2015, the Garages Working Party proposed that rents themselves (and any concessions granted) remain unchanged for 2016/17 pending review, but that a set of service charges relating to the non-dwelling stock be introduced. Four charges were considered by the working party, relating to water supply, larger-sized units, additional parking space and additional security.
54. As the total sum likely to be raised is relatively minor (£54,000) it is recommended that cabinet note these proposals, and pending further discussions, the Leader of the Council delegate any decision as to the introduction of these charges to the Cabinet Member for Housing, as part of the separate fees and charges report.

District heating charges

55. 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. On-going 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.
56. Energy costs are pooled across the dwelling stock and standardised charges are set on a borough-wide basis for tenants, depending on the number of bedrooms and type of heating installation. Homeowners are charged actual costs, comprising energy and repairs and maintenance as determined in their lease. The application of greater efficiencies in terms of gas consumption gives

rise to a reduction in cost. Together with the potential use of accrued balances, this means that charges can be held at existing levels once again for 2016/17.

Thames Water

57. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2016. Thames Water calculates individual property charges and notification of the increase will be advised in due course. The council acts as agent for the billing and collection of charges, but has no influence over the charges set by Thames Water, which is an independent commercial entity regulated by Ofwat. In 2015/16 the actual increase was 1.53%. For 2016/17 an increase of 2% has been assumed for budget planning purposes, which includes an adjustment for stockloss.

Homeowner and other income streams

58. Tenant rents and service charges constitute 72% of HRA income, the remainder comprising homeowner revenue and capital service charges, commercial property rents, interest, commission and capitalised/recharged costs.
59. Homeowner contributions represent the actual costs incurred within the HRA that are recoverable under the terms of the lease. The budget for revenue service charges has been reviewed and revised to reflect current activity and expected future growth in right-to-buy sales, together with an increase in buildings insurance premiums, and as the council achieves full cost recovery.
60. Capital works charges are determined by the scale and delivery of investment in the stock overall and the extent to which it pertains to leasehold property. The base budget contains a relatively prudent expectation of income in order to avoid frequent budgetary fluctuations due to the variable nature of the works programme. Following a review, it is not proposed to alter the income expectations in this area for 2016/17.
61. Other contributory elements include a net increase in the rental stream from the commercial property portfolio and higher capitalised sales costs and fee income arising from the upturn in right-to-buy activity, totalling £5.4 million overall.

Council restructuring

62. As at 1 October 2015 the council's departmental structures changed significantly, with the former Housing and Community Services (HCS) department becoming Housing and Modernisation (HM). As the HRA is a ring-fenced account, this has no net impact upon its overarching income and expenditure budgets, but the practice in previous HRA budget reports has been to include an analysis by division, and this breakdown has been revised to match the new structure.
63. The table below sets out the existing 2015/16 HRA budget under the old HCS divisions compared to the new H&M structure; Appendices H and I have been recast to match the new HM divisional responsibilities. For ease of reference, Appendix I also lists out General Fund responsibilities by new division.

HRA 2015/16 Revised Budget			
	Expenditure £'000	Income £'000	Net £'000
<i>Customer Experience</i>	2,172	(75)	2,097
<i>Community Engagement</i>	9,272	(15,098)	(5,826)
<i>Specialist Housing Services</i>	18,430	(57,372)	(38,942)
<i>Maintenance and Compliance</i>	53,173	(4,745)	48,428
<i>Operations</i>	35,101	(209,322)	(174,221)
<i>Major Works and New Homes Delivery</i>	4,426	(1,996)	2,430
<i>Support Costs</i>	161,214	4,204	165,418
<i>Chief Executive</i>	669	(53)	616
Housing and Community Services	284,457	(284,457)	-
Customer Experience	6,399	(6,511)	(112)
Central Functions	172,851	(256,870)	(84,019)
Communities	9,422	(64)	9,358
Resident Services	35,643	(7,512)	28,131
Asset Management	58,839	(6,794)	52,045
Modernisation	1,303	(6,706)	(5,403)
Housing and Modernisation	284,457	(284,457)	-

Consultation and notification

64. Whilst there is no statutory requirement to consult, the council is committed to engaging with residents, particularly under the terms of the Tenancy Agreement. This process commences with an interim scene-setting report to cabinet on 8 December 2015 setting out the indicative budget and implications for rents and other charges in order that consultation with residents can commence before Christmas. This report will be presented to Tenant Council, area housing forums, TMO Liaison Committee and Homeowner Council (HOC) during January 2016. HOC are unable to make recommendations in the matter of tenant rents and service charges, but may do so in respect of proposals regarding non-residential rents and other charges and in terms of the budget proposals pertinent to the calculation of their service charges.
65. Cabinet will consider the final rent setting and HRA budget report at their meeting on 26 January 2016. As normal, the results of the consultation processes will be reported to cabinet at that meeting for their consideration.
66. As previously noted, the revised HRA budget for 2015/16 and indicative budget for 2016/17 is summarised in Appendix H, and set out by division in Appendix I.

Statutory and contractual notifications

67. Subsequent to the approval of the final report on 26 January 2016, 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 operative date (4 April 2016) for the commencement of the new rents and charges referred to above.

Community impact statement

68. Transparency and fairness form part of the seven budget principles and are an underlying principle in the council plan. As with previous budgets, each division undertakes equality analysis on its budget options.

69. This will help the council to understand the potential effects that the HRA budget proposals may have on different groups. The analysis will also consider if there may be any unintended consequences and about how these issues can be mitigated. Analysis will also be undertaken to consider any cross-cutting and organisation-wide impacts.
70. The equality analysis undertaken will build on work done within previous HRA budget-setting. The council is committed to conducting a rigorous equalities assessment for budget proposals and the equality analysis is underway at this early stage to ensure that it informs decision-making at each stage of the process.
71. Screening templates/reports are being completed for each budget proposal or group of proposals within the proposed HRA budget. The screening templates use a risk matrix that assesses whether the potential impact of the proposal is high, medium or low. A high level requires that a full equality analysis is undertaken.
72. The screening templates/reports are being collated centrally and an overarching analysis undertaken to ensure that there are no cumulative impacts on one or more of the protected characteristics in the Equalities Act.
73. All equality screening reports and or full equality analyses will be shared with cabinet members to allow decision-makers to consider equality issues when making their budget proposals and making their decisions. All cabinet members have also been briefed on equality issues and decision-making and the responsibilities that the council has under equalities and human rights legislation.
74. To date no cumulative impacts have been identified through the divisional analysis. However, this process will be completed in time to be reported on in the Final HRA Budget report in January 2016. Any potential impacts on staff will also have equality analysis undertaken at each stage of implementation to assess their potential impact on different categories of staff in accordance with the council's policies on reorganisation.
75. This approach to equalities screening and analysis has been shared with Southwark's Equalities and Human Rights Panel (FEHRS) who have agreed it is a robust approach and the cross council analysis will be shared with the Panel when complete so that they can challenge the analysis.
76. 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, and advance equality of opportunity and foster good relations between different groups.
77. This report is primarily to set rents and associated charges and the scoping exercise noted above established there is no differential effect for any community or protected group. It should be noted that 2016/17 to 2019/20 will cover nationally-set rent reductions; it is recognised that in other circumstances a rent increase may present particular difficulties for people on low incomes, although rents and tenant service charges remain eligible for housing benefit.

78. There is a statutory requirement to set a balanced HRA budget. Extensive consultation previously undertaken incorporated savings proposals totalling £33.0 million over the period 2011/12 to 2015/16, which have all been delivered. For 2016/17 the extent and composition of savings proposed (£10.5 million) are detailed as part of Appendix G.
79. There are wider issues impacting both nationally and locally in terms of the government's on-going welfare reforms and associated housing benefit changes. 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, including assistance through the provision of Discretionary Housing Payments (DHP) from the HRA, for which Southwark has sought and received governmental approval. The provision of further DHP support nationally is subject to annual confirmation from central government.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

80. 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.
81. 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. This provision conferring discretion as to rents and charges made to occupiers, effectively limited by the above HRA provision, will be subject to further restrictions arising from the provisions of the Welfare Reform and Work Bill ('the bill'), when brought into force.
82. The bill is in the latter (House of Lords) stages of the law-making process and is subject to amendment during these stages. The final version of the bill is expected to become law in early 2016. As indicated in the report, the bill provides a mechanism through which social landlords will be required to ensure that rents payable by tenants reduces by 1% each year between 2016 and 2019. It is envisaged the first reduction will take place in April 2016. As to service charges, the bill provides that such charges made in respect of some classes of social housing will and some will not be included in the rent reduction provision. The terms that identify the social housing that does or does not fall to be included in the relevant provision have not yet been defined; definitions will be provided by regulation after the bill becomes law. Guidance relating to other legislation and the explanatory notes to the bill suggest that Southwark's current housing lettings are unlikely to be caught by the provision that requires services charges to be reduced.
83. 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 rent and other charges, except for water charges which are set by the water provider. The report indicates consultation will take place in order to comply with this term.

84. 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.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Housing Revenue Account – Final Rent Setting report, Cabinet 2015	160 Tooley Street London SE1 2QH	Paula Thornton, Constitutional Team
Link: http://moderngov.southwark.gov.uk/documents/s51225/Report%20HRA%20Budget%202015-16.pdf		

APPENDICES

No.	Title
Appendix A	Average Rents across London Boroughs 2015/16 – Table
Appendix B	Actual and Target Rents by London Borough 2015/16 – Chart
Appendix C	Change in Anticipated Rental Streams within HRA Business Plan
Appendix D	The 'Quality Affordable Homes' Priority Theme
Appendix E	HRA Indicative Budget Movements 2015/16 – 2016/17
Appendix F	HRA Revised Base 2015/16 and Indicative Budget 2016/17
Appendix G	HRA Summary Savings/Income Generation Schedule 2016/17
Appendix H	HRA Revised 2015/16 and Indicative Budget 2016/17
Appendix I	HRA Indicative Base Budget 2016/17 by Division

AUDIT TRAIL

Cabinet Member	Councillor Richard Livingstone, Housing	
Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Ian Young, Departmental Finance Manager, Housing and Modernisation	
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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
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