

<b>Item No.</b> 11.	<b>Classification</b> Open	<b>Date:</b> 27 January 2016	<b>MEETING NAME</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Final Rent Setting and Budget Report 2016/17	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Richard Livingstone, Housing	

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

In December, the cabinet agreed to consult on an indicative budget for the Housing Revenue Account (HRA), based on the 1% rent cut that government has imposed on all social landlords. This report asks cabinet to take decisions on the level of rents and the HRA following that consultation and developments that have followed the December report. The average council rent would therefore reduce to £100.24 per week from April. It is proposed to keep other HRA-wide service charges frozen at their current levels.

The consequence of the year-on-year rent decreases imposed by government will be that by 2019/20 the council is projected to collect £28m less than in 2015/16: across the four-year period, that is a cumulative loss of £62.5m income to the HRA compared to our business plan assumptions regarding rents. Addressing this budget gap requires some difficult choices, as shown in the report. We will ensure that as much of these savings as are possible are made through efficiencies rather than charges in service, although we have already had to announce a longer period for our cycle of major works as a consequence.

At the Tenants' Council meeting on 4 January, the meeting asked to work with the council to examine these savings in greater detail, and we have agreed to take this work forward with them through their 'task and finish' group. This work may therefore result in some revisions of savings as set out in this report, but not to the overall budget nor to the level of rents and service charges. The work of the task and finish group will be important in helping inform our HRA business plan for 2016/17 and beyond.

## **RECOMMENDATIONS**

1. Cabinet agrees 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 will be £100.24 per week (a fall of £1.01 per week on average). Paragraphs 18 and 19 contain further detail.
2. Cabinet further 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 agrees that no change be made to tenant service charges, comprising the estate cleaning, grounds maintenance, communal lighting and door entry maintenance charges as set out in paragraph 24 with effect from 4 April 2016.
4. Cabinet agrees that no increase be made to sheltered housing service charges as set out in paragraph 25 with effect from 4 April 2016.
5. Cabinet agrees that direct charges for garages, store sheds and parking bays remain at the same level as 2015/16 as set out in paragraph 26 with effect from 4 April 2016.
6. Cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 27 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 28, 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 made are primarily based on efficiencies, and where staffing reductions form part of any said savings, that due consultation and process is followed with trade unions.
9. Cabinet notes the decision of Tenant Council on 4 January 2016 to establish a 'task and finish' group to examine the proposed 2016/17 savings in more detail as set out in paragraph 38 and therefore also notes that the revised HRA budget for 2016/17 may be subject to revision within the envelope set out in Appendix A.

## **BACKGROUND INFORMATION**

### **Indicative HRA budget (8 December report)**

10. Cabinet on 8 December 2015 considered the indicative HRA rent-setting and budget position for 2016/17. 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, Homeowner Council, Southwark TMO Committee and area housing forums at the cabinet meeting.
11. 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 9 above.

### **Statutory framework**

12. The HRA reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, homeowner service charges and other

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

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 the December report formed the basis of early consultation with the bodies listed in paragraph 10 above. This process commenced before Christmas 2015, and continued throughout January 2016.
14. 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 2015/16 and 2016/17, predicated on the basis of a rent reduction of 1% and any other proposed changes to charges.

## **KEY ISSUES FOR CONSIDERATION**

### **Financial context**

15. Whilst self-financing provided financial freedoms, it also brought 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 2016/17 specifically.
16. Budgeted expenditure and income for 2016/17 is represented in bubble map form in Appendix C; Appendix D indicates the revised budget for 2015/16 and the base for 2016/17 incorporating the changes identified in Appendix A. This is further analysed to a divisional level in Appendix E.

### **HRA reserves and financing**

17. The 8 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 (as updated).

### **Current legislative issues**

18. As set out in the indicative budget report, there are two major pieces of legislation currently passing through parliament; both with significant impact on the financing of social housing. The first, the Welfare Reform and Work Bill, seeks to implement a cut of 1% in local authority rents for each of the financial years from 2016/17 to 2019/20. Further amendments to the Bill make it clear that the annual cut is to be "at least" 1%, but given the impact in resource terms as set out in the previous report, it is recommended that this be minimised by sticking to the 1% reduction level.
19. Figures identified in the previous report of an immediate budget shortfall of £3.8 million, with a cumulative impact of c. £62 million over the four years, and a reduction in the rent base of c. £28 million by 2019/20 are unchanged. It is unclear what government intentions are regarding social rents for April 2020 onward.

20. The second legislative item – the Housing and Planning Bill – contains several elements which will impact directly on the financing of social housing in future years. These include enforcement of the “pay to stay” policy for high income tenants; the enforced sale of high value void properties, and the ending of automatic secure tenancies for new tenants.
21. Mandatory application of the high income tenants rent policy (commonly referred to as ‘pay-to-stay’) is presently intended to become law from April 2017. The trigger point of £40,000 in London (£30,000 elsewhere) has been set out, but a formal definition of “income” for the purposes of application of this policy has not as yet. Whilst on the face of it this would increase the rent debit due from tenants (other things being equal), government intend that surplus monies be remitted directly to HM Treasury, meaning that the administrative costs of the system (which are expected to be substantial) will fall upon the HRA, and none of the benefits. The policy is not to be made mandatory for housing associations, though they are encouraged to continue with voluntary application.
22. The detail of the high value void sale requirement is subject to the issue of as yet unpublished regulations from central government. However as the Bill stands it appears that the intention is for a hypothetical figure for each local authority to be calculated centrally, and for that amount to be demanded annually by central government. The LA may finance the payment of this amount how it wishes; however it is likely to be of sufficient magnitude such that the only practical solution would be to do so by the sale of council properties above and beyond that covered by the right-to-buy scheme. This has implications for the council’s investment programme, as there is a base level of void receipts already assumed to part-fund the new-build programme.
23. Since the indicative report was considered, government published amendments to the Housing and Planning Bill intended to make fundamental changes to the issuing of tenancies to new tenants, and also around the succession of existing tenancies to other family members. The intention is that secure tenancies would no longer be available to new tenants, and fixed terms of between two – five years provided instead. This policy will not apply to housing associations. The only exemption originally set out was that secure tenancies would remain available to tenants moving as a result of regeneration decants (which also happens to form an exemption from the council’s own target rents policy). However at Report stage, the government confirmed that tenants who are asked to move by their council will be able to take their security of tenure with them. Tenants who apply for a transfer will also be able to have a new secure tenancy when they move if their council agrees. The budget implications of this change are as yet unclear, beyond additional administrative costs of implementing a policy of review and/or renewal of fixed tenancies.

### Tenant service charges

24. As set out in more detail in the 8 December report, the council intends to keep tenant service charges for 2016/17 at the same level as the previous year. Charges were re-based in 2015/16, and there has been a negligible impact in terms of inflation on these costs in the twelve months since. The individual charges are set out in the table below.

	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%
<b>Total</b>	<b>7.71</b>	<b>7.71</b>	<b>0.0%</b>

### Sheltered housing service charges

25. It is not proposed to vary charges for the provision of a sheltered housing service from their levels in 2015/16. Charging policy for this sector is currently undergoing a more general review and will be subject to direct consultation during the course of 2016.

### Non-residential rents and charges

26. The council intends to follow the recommendation of the Garages Working Party in September 2015 and keep non-residential rents and charges at the same level as 2015/16. This covers garages, parking bays, storage facilities and sheds. A recommendation from the working party regarding the establishment of service charges for this sector has been delegated to the Cabinet Member for Housing for further consideration.

### District heating charges

27. 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 for tenants can be held at existing levels once again for 2016/17. Homeowners pay on an actual consumption basis plus the cost of repairs and maintenance, which prevents direct comparison with tenants fixed charges.

### Thames Water

28. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2016. In line with the Water Act 2014, the water regulator Ofwat has new powers to issue rules on the five-year charging schemes that water companies use to charge customers (such as the council's tenants) for water supply and sewerage services. This replaces the previous system under which Ofwat annually approved Thames Water's (and other water companies)

charging schemes on an individual basis. Notification of the 2016 increase is likely to be advised during January/February by Thames Water, on whose behalf the council act as agent for billing and collection.

### Commitments and savings

29. The 8 December report set out recommended contributions and commitments for 2016/17. These included general inflation at £2.5 million, financing at £1.0 million and specific service commitments of £3.7 million. As noted in the earlier report, savings at £10.3 million were initially modelled against the structure of the previous housing and community services department, which was reconfigured as housing and modernisation from 1 October 2015. Further work on disaggregating the divisions within the new department has now been completed, and as a result the sub-totals for savings in Appendix B and the expenditure and income figures set out in later appendices are slightly different from those cited in December. The overall envelope remains constant (pending consultation outcomes).
30. Proposed 2016/17 savings, together with those relating to previous years are summarised in the table below, which places them in a divisional context from 2012/13 onward. As noted above, the structure of the housing and modernisation department changed during 2015/16, and so savings figures for that year are set out according to both the new structure and that previously employed for the housing and community services department. Further detail on the 2016/17 figures is contained in Appendix B, and in the 8 December budget report.

	2012/13 £m	2013/14 £m	2014/15 £m	2015/16 £m	2016/17 £m
<b>Housing and Community Services:</b>					
<i>Customer Experience</i>	(0.1)	–	(0.1)	–	
<i>Community Engagement</i>	(0.2)	–	(0.1)	(0.1)	
<i>Specialist Housing Services</i>	(0.1)	(0.7)	(0.2)	(0.1)	
<i>Maintenance and Compliance</i>	(3.1)	(0.1)	(1.4)	(2.4)	
<i>Operations</i>	(2.1)	(0.8)	(0.9)	(0.7)	
<i>Major Works and New Homes Delivery</i>	(0.5)	–	–	–	
<i>Support Costs</i>	(0.3)	(4.3)	(3.2)	(2.1)	
<i>Chief Executive's</i>	–	(0.1)	(0.1)	–	
<b>Total</b>	<b>(6.4)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(5.4)</b>	
<b>Housing and Modernisation:</b>					
Customer Experience				(0.1)	(0.2)
Central Functions				(2.1)	(4.0)
Communities				(0.1)	(0.2)
Resident Services				(0.7)	(0.9)
Asset Management				(2.4)	(5.0)
Modernisation				–	–
<b>Total</b>				<b>(5.4)</b>	<b>(10.3)</b>
<b>Total HRA</b>	<b>(6.4)</b>	<b>(6.0)</b>	<b>(6.0)</b>	<b>(5.4)</b>	<b>(10.3)</b>

31. Expenditure and income for both former and current structures for 2015/16 are set out below for ease of reference.

<b>HRA 2015/16 Revised Budget</b>			
	<b>Expenditure £'000</b>	<b>Income £'000</b>	<b>Net Exp. £'000</b>
<b>Housing and Community Services:</b>			
<i>Customer Experience</i>	2,172	(75)	<b>2,097</b>
<i>Community Engagement</i>	9,272	(15,098)	<b>(5,826)</b>
<i>Specialist Housing Services</i>	18,430	(57,372)	<b>(38,942)</b>
<i>Maintenance and Compliance</i>	53,173	(4,745)	<b>48,428</b>
<i>Operations</i>	35,101	(209,322)	<b>(174,221)</b>
<i>Major Works and New Homes Delivery</i>	4,426	(1,996)	<b>2,430</b>
<i>Support Costs</i>	161,214	4,204	<b>165,418</b>
<i>Chief Executive</i>	669	(53)	<b>616</b>
<b>Total</b>	<b>284,457</b>	<b>(284,457)</b>	<b>-</b>
<b>Housing and Modernisation:</b>			
<i>Customer Experience</i>	6,399	(6,511)	<b>(112)</b>
<i>Central Functions</i>	172,851	(241,836)	<b>(68,985)</b>
<i>Communities</i>	9,422	(15,098)	<b>(5,676)</b>
<i>Resident Services</i>	35,643	(7,512)	<b>28,131</b>
<i>Asset Management</i>	58,839	(6,794)	<b>52,045</b>
<i>Modernisation</i>	1,303	(6,706)	<b>(5,403)</b>
<b>Total</b>	<b>284,457</b>	<b>(284,457)</b>	<b>-</b>

### **Community impact statement**

32. 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.
33. 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.
34. There is a statutory requirement to set a balanced HRA budget. Extensive consultation previously undertaken incorporated savings proposals totalling £23.8 million over the period 2012/13 to 2015/16, which have all been delivered. For 2016/17 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 D and E. An assessment to ascertain their potential impact has been undertaken and concluded there is no differential effect for any community or protected group.

35. 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 2016/17 remains under review, pending confirmation of additional funding from the Department of Work and Pensions (DWP).

### **Consultation and notification**

36. 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 2016/17.
37. Tenant Council met on 4 January 2016 to consider the December report, and to refer it on to area housing forums. They reconvened on 25 January 2016 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. Homeowner Council are unable to make recommendations in the matter of tenant rents and service charges, but may do so in terms of any proposals regarding non-dwellings 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 9 December 2015. 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 20 January 2016.
38. At the 4 January meeting, Tenant Council expressed a desire to examine the proposed savings in the December report in more detail, and resolved to establish a 'task and finish' group to that end. It is intended for this group to meet and consider proposals with housing and modernisation senior staff during January and February 2016. To facilitate this, cabinet is recommended to note the HRA budget as presented in this report, with the acknowledgement that Appendix B – the detail comprising the savings total of £10.3 million may be amended by the Strategic Director of Housing and Modernisation in light of the group's discussions. The HRA budget itself will remain in balance, as any amendments must be in the context of the overarching savings total quoted in the various appendices to this report.

### **Statutory and Contractual Notifications**

39. 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 Law and Democracy

40. 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.
41. 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.
42. 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.
43. 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 has taken place in compliance with this term.
44. 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.
45. As noted at paragraph 32 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.
46. 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.
47. 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 32 – 35 of this report.

### Strategic Director of Finance and Governance

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

### BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
HRA Indicative Rent-Setting and Budget 2016/17	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
<b>Link:</b> <a href="http://moderngov.southwark.gov.uk/documents/s58408/Report%20HRA%20Budget%202016-17.pdf">http://moderngov.southwark.gov.uk/documents/s58408/Report%20HRA%20Budget%202016-17.pdf</a>		
Medium-Term Resources Strategy 2014/15 – 2016/17	160 Tooley Street London SE1 2QH	Jennifer Seeley Director of Finance 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 2015/16 to 2016/17
Appendix B	HRA Summary Proposed Savings and Income Generation Schedule 2016/17
Appendix C	HRA Expenditure and Income Budget 2016/17 Bubble Maps
Appendix D	HRA Revised Budget 2015/16 and Base Budget 2016/17
Appendix E	HRA Base Budget 2016/17 by Division
Appendix F	Results of consultation. <b>To follow as a separate document</b>

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Richard Livingstone, Housing	
<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Ian Young, Departmental Finance Manager, Housing and Modernisation	
<b>Version</b>	Final	
<b>Dated</b>	13 January 2016	
<b>Key Decision?</b>	Yes	
<b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments Included</b>
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
<b>Cabinet Member</b>	Yes	Yes
<b>Date final report sent to Constitutional Team</b>	14 January 2016	