

Item No. 9.	Classification Open	Date: 24 January 2017	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2017-18	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for Housing	

FOREWORD – COUNCILLOR STEPHANIE CRYAN, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING

In December cabinet approved the indicative rent setting and budget report for the Housing Revenue Account. This report went out to consultation with Tenants Council and the final report is now being presented for approval.

The budget for 2017-18 factors in the national rent reduction of 1% that was introduced as part of the Welfare Reform and Work Act 2016 and we are beginning to feel the impact of this since it was introduced last year.

The report sets out the council's position not to increase sheltered housing, district heating or hot water charges for the financial year.

There will be an increase to tenant service charges and to the direct charges for garages, store sheds and parking bays and this increase is rebalancing the decision made in previous years not to raise these charges.

In a time when we are receiving less income into the Housing Revenue Account as a result of Government policy we need to ensure that savings are generated in the main through efficiencies and we remain committed to our Quality Housing Investment Programme and delivering new kitchens and bathrooms to our tenants despite the financial pressures we currently face.

I recommend that cabinet approve the report and note the proposed savings and income generation in the appendices.

RECOMMENDATIONS

1. That cabinet agrees a rent decrease of 1.0% for all HRA dwellings (including estate voids and hostels) with effect from 3 April 2017. This is in accordance with the provisions of the Welfare Reform and Work Act 2016. The average dwelling rent in 2017-18 under such a reduction will be £99.48 per week. Paragraphs 15 and 16 contain further detail.
2. That with regard to other HRA-wide charges, cabinet agrees that tenant service charges, comprising the estate cleaning, grounds maintenance, communal lighting and door entry maintenance charges be increased as set out in paragraph 21 with effect from 3 April 2017.
3. That cabinet agrees that no increase be made to sheltered housing service charges as set out in paragraph 22 with effect from 3 April 2017.

4. That cabinet agrees that direct charges for garages, store sheds and parking bays be increased as set out in paragraph 23 with effect from 3 April 2017.
5. That cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 24 with effect from 3 April 2017.
6. That cabinet reaffirms the commitments made last month not to introduce the voluntary provisions of the Housing and Planning Act 2016 with regard to higher income social tenants ('pay-to-stay') and to ensure that savings made are primarily based on efficiencies, and where staffing reductions form part of any said savings, that due consultation and process is followed with trade unions.

BACKGROUND INFORMATION

Indicative HRA budget (13 December report)

7. On 13 December 2016 the cabinet considered the indicative HRA rent-setting and budget position for 2017-18. 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.
8. 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 6 above.

Statutory framework

9. 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.
10. 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 7 above. This process commenced before Christmas 2016, and continued throughout January 2017.
11. 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 2016-17 and 2017-18, predicated on the basis of a rent reduction of 1% and any other proposed changes to charges.

KEY ISSUES FOR CONSIDERATION

Financial context

12. 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 2012-13. Appendix B sets out savings and income generation for 2017-18 specifically. Commitments are listed as Appendix C.
13. Budgeted expenditure and income for 2017-18 is represented in bubble map form in Appendix D; Appendix E indicates the revised budget for 2016-17 and the base for 2017-18 incorporating the changes identified in Appendix A. This is further analysed to a divisional level in Appendix F.

HRA reserves and financing

14. The 13 December 2016 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 Fairer Future Medium-Term Financial Strategy 2016-17 to 2019-20.

Current legislative issues

15. As set out in the indicative budget report, two major pieces of legislation were enacted by parliament recently; both with significant impact on the financing of social housing. The first, the Welfare Reform and Work Act 2016, implements a cut of at least 1% in local authority rents for each of the financial years from 2016-17 to 2019-20. The Act contains provision for the reduction to exceed 1%, but given the ongoing impact in resource terms as set out in both the previous report for 2017-18 and in the corresponding budget report for 2016-17, it is recommended that this be minimised by adhering to the 1% reduction level.
16. It remains unclear what government intentions are regarding social rents for April 2020 onward.
17. The second legislative item – the Housing and Planning Act 2016 – contained several elements impacting 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 higher-value void properties, and the ending of automatic secure tenancies for new tenants.
18. In December 2016 the government announced that it no longer intended to press on with the mandatory application of the high income tenants rent policy (commonly referred to as ‘pay-to-stay’), which had previously been timetabled to become law from April 2017. Whilst the government has stressed that it is still available for social housing providers to apply on a voluntary basis, it has never been the policy of Southwark Council, and cabinet formally rejected its application in December 2016.
19. The detail of the higher-value void sale requirement remains subject to the issue of as yet unpublished regulations from central government. However, the current understanding is that the implementation of this policy is not imminent as the practical implications of the vote to leave the European Union in June 2016 are addressed. The

council's investment programme already contains assumptions as to a base level of void receipts to part-fund the new-build programme.

20. The relevant provisions of the Housing and Planning Act 2016, when brought in force, will also make fundamental changes to the issuing of tenancies to new tenants, and also around the succession of existing tenancies to other family members. "Lifetime" secure tenancies will no longer be available to new tenants, and 'new style' secure tenancies for fixed terms of between two – ten years provided instead. This policy will not apply to housing associations. There are some exemptions written into legislation, including 'old style' secure tenancies remaining available to qualifying tenants moving as a result of regeneration decants (which also happens to form an exemption from the council's own target rents policy). Also, tenants who are asked to move by their council will be able to take their security of tenure with them and those who apply for a transfer will also be able to have an 'old style' 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 and the costs of appeal processes.

Tenant service charges

21. As set out in the 13 December report, the council intends to vary tenant service charges for 2017-18 in order to fully re-align the income receivable to the cost of service provision (the table below refers). For a tenant in receipt of all four services, it represents an increase of 8.9%, but this follows a freeze for several years and then a below cost increase in 2015-16, which was capped at CPI +1% in line with rents. For comparison, service charges will have increased by a relatively modest 12% over the course of the last eight years (2010-11 – 2017-18).

	2016-17 per week	2017-18 per week	Change pence per week
Estate Cleaning	£4.70	£5.21	51p
Grounds Maintenance	£1.11	£1.16	5p
Communal Lighting	£1.20	£1.33	13p
Door Entry System Maintenance	£0.70	£0.70	nil
Total	£7.71	£8.40	69p

Sheltered housing service charges

22. Service charges for sheltered residents were first introduced in 2013-14 to meet the cost of enhanced housing management provision not covered by the base rent. Notwithstanding inflationary pressures over the period, costs have been able to be contained at broadly similar levels through restructuring and rationalisation and the number of sheltered and extra care places available have increased, such that the impact is broadly neutral. It is therefore not proposed to vary charges from their existing level.

Non-residential rents and charges

23. Garage and associated non-residential charges were last subject to change in 2012-13, and small-scale service charges were introduced during the current year. Tenant Council and Homeowner Council have been consulted on the proposed increase for 2017-18, as set out in the table below. Following recent benchmarking, the proposed charge levels remain reasonably competitive in comparison to other providers and offers value for

money, particularly with regards to the provision of storage. The proposed increase will generate additional income of £448,000 in a full year (assuming occupancy levels remain stable) and assist in mitigating the need to find greater savings in other more critical budget areas impacting residents, such as repairs. The £5.00 concessionary charge reduction for elderly and Blue Badge holders is preserved under these proposals.

	2016-17 £ per week	2017-18 £ per week	Change £ per week
Standard charge	18.62	20.50	1.88
Concessionary charge	13.62	15.50	1.88
Small sites	10.00	11.00	1.00
Non-resident charge	27.50	30.25	2.75

District heating charges

24. 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; these contracts delivered substantial savings compared to retail market prices. Alongside this, 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. Together with the potential use of accrued balances, this means that charges for tenants can be held at existing levels once again for 2017-18. Homeowners pay on an actual consumption basis plus the cost of repairs and maintenance, which prevents direct comparison with tenants' fixed charges.

Thames Water

25. As reported to cabinet on 1 November 2016, from April 2017 the council will no longer be responsible for the billing and collection of water charges from tenants as the water provider (Thames Water) gave notice of termination of this contract earlier in 2016. The council is currently working closely with Thames Water in order to facilitate the smooth transition to direct billing for tenants, particularly those with vulnerabilities.

Commitments and savings

26. The 13 December 2016 report set out recommended budget pressures and commitments for 2017-18. These included general inflation at £1.9m, specific service commitments of £3.3m (including £2.3m loss of commission receivable from Thames Water) and rent loss due to the statutory rent reduction of £3.1m. As noted in the appendices below, savings at £6.8m and further income generation proposals of £0.2m have also been identified, enabling a balanced budget to be set for 2017-18.
27. To place this in context, paragraph 28 of the indicative HRA budget report indicated that savings of £34.1m have been identified over the last five years. This has been to address the gap between committed expenditure and resources within the HRA budget, which over the same time period totalled £45.1m, with the balance being bridged by additional income of £11.0m. Further detail on the 2017-18 figures in particular is contained in Appendix B, and also in paragraphs 30 – 35 of the 13 December report.
28. In line with other local authorities, during 2017-18 the council intends to phase out the use of the 0800 number for repairs calls, which will save in the region of £65,000 per

year. This number, (which already incurs costs for the user depending on the mobile network used) will be replaced with an 0300 number which will cost no more than a national rate call and is included in any inclusive minutes packages from any type of line including mobile, BT, other fixed line or payphone. Calls from landlines are typically charged up to 10p per minute; calls from mobiles typically cost between 3p and 40p per minute. The average customer calls the repairs line seven times per year. The old number will be phased out over several months.

Community impact statement

29. 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.
30. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2017-18 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts more detailed analysis is being carried out.
31. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts.
32. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
33. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. To date no cumulative impacts have been identified through the analysis.

Consultation and notification

34. 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 13 December 2016 report was labelled 'indicative' and all figures therein were 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 2017-18.
35. Tenant Council met on 3 January 2017 to consider the December report, and to refer it on to area housing forums. They reconvened on 23 January 2017 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 G

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 considered the report at their meeting of 11 January 2017. 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 18 January 2017.

Statutory and contractual notifications

36. Subsequent to the approval of the final report on 24 January 2017, 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

37. 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.
38. 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, is subject to further restrictions arising from the provisions of the Welfare Reform and Work Act 2016 ('the Act') which received royal assent on 16 March 2016.
39. Section 23 of the 2016 Act introduces for a period of four years, a 1% annual reduction to the rent payable by social tenants. Schedule 2 of the Act introduces, for a period of four years commencing 2016, requirements about the maximum levels of rent for social tenancies beginning after the beginning of 8 July 2015; these requirements apply to tenancies of new homes and re-lets to a new tenant, but not the grant of a new tenancy to an existing tenant. Regulations made in 2016 set out exceptions to and circumstances in which exemptions may be given from the rent regime otherwise applicable and make alternative provision for certain exempt categories. For social rent properties, the reduction applies to the rent element and not to service charges.
40. Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council before seeking to change rent and other charges. The report indicates consultation has taken place in order to comply with this term.
41. 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.

42. As noted at paragraph 33 of this 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.

43. 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.

44. 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 29 –33 of this report.

Strategic Director of Finance and Governance

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

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Thames Water – Historic Water Resale Case Update and Next Steps	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s64602/Report%20Thames%20Water%20His%20toric%20Water%20Resale%20Case%20Update%20and%20Next%20Steps.pdf		
HRA Indicative Rent-Setting and Budget 2017-18	As above	As above
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s65505/Report%20Housing%20Revenue%20Account%20-%20Indicative%20Rent%20Setting%20and%20Budget%20Report%202017-18.pdf		
Fairer Future Medium-Term Financial Strategy 2016-17 – 2019-20	As above	Jennifer Seeley Director of Finance 020 7525 0695
Link: (copy and paste into browser) http://moderngov.southwark.gov.uk/documents/s63776/Report%20Policy%20and%20resources%20strategy.pdf		

APPENDICES

No.	Title
Appendix A	HRA Budget Movements 2016-17 to 2017-18
Appendix B	HRA Summary Proposed Savings and Income Generation Schedule 2017-18
Appendix C	HRA Summary Commitments Schedule 2017-18
Appendix D	HRA Expenditure and Income Budget 2017-18 Bubble Maps
Appendix E	HRA Revised Budget 2016-17 and Base Budget 2017-18
Appendix F	HRA Base Budget 2017-18 by Division
Appendix G	Results of consultation – to be circulated as a separate document

AUDIT TRAIL

Cabinet Member	Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for 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			
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