

Item No. 8.	Classification Open	Date: 22 January 2019	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2019-20	
Ward(s) or groups affected:		All	
Cabinet Members:		Councillor Stephanie Cryan, Housing Management and Modernisation and Councillor Victoria Mills, Finance, Performance and Brexit	

FOREWORD – COUNCILLOR STEPHANIE CRYAN, HOUSING MANAGEMENT AND MODERNISATION AND COUNCILLOR VICTORIA MILLS, FINANCE, PERFORMANCE AND BREXIT

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

The budget for 2019-20 factors in the national rent reduction of 1% that was introduced as part of the Welfare Reform and Work Act 2016 and this continues to have a significant impact on the finances within the Housing Revenue Account. This is the last year of the reduction although the impacts of the last four years of rent reductions will continue for the foreseeable future.

The report sets out the council's position not to increase sheltered housing, district heating or hot water charges for the financial year. However there are recommendations to increase estate cleaning and grounds maintenance charges to cover the underlying contract costs. It is also recommended that we increase garage charges.

We remain committed to our Quality Home Investment Programme, the delivery of new kitchens and bathrooms to our tenants, updating our district heating networks and our ongoing day to day housing management despite the continued financial restraints and pressures on the Housing Revenue Account.

The report also notes the recent Government announcement to lift the HRA borrowing cap which will help to deliver on our Council Plan commitment to build new council homes across the borough and to help residents on our waiting list who desperately need a place to call home.

We recommend that cabinet approve the report and note the proposed savings and income generation in the appendices along with the comments from the consultation.

RECOMMENDATIONS

1. That Cabinet agrees a rent decrease of 1.0% for all directly and tenant managed (TMO) housing stock within the Housing Revenue Account (HRA) (including estate voids, sheltered and hostels) with effect from 1 April 2019. This is in accordance with the provisions of the Welfare Reform and Work Act 2016.

2. That with regard to other HRA-wide charges, cabinet agrees that tenant service charges, comprising estate cleaning, grounds maintenance, communal lighting and door entry maintenance be increased as set out in paragraph 18 with effect from 1 April 2019.
3. That Cabinet agrees that no increase be made to sheltered housing service charges as set out in paragraph 19 with effect from 1 April 2019.
4. That Cabinet agrees that charges for garages and other non-residential facilities be increased as set out in paragraphs 20 and 21 with effect from 1 April 2019.
5. That Cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 22 with effect from 1 April 2019.
6. That Cabinet agrees the HRA budget proposals set out in this report and notes these changes ensure a balanced budget is set as required by statute.
7. That Cabinet reaffirms the commitments made last month 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 (11 December report)

8. Cabinet on 11 December 2018 considered the indicative HRA rent-setting and budget position for 2019-20. 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. Any resolutions or comments arising from the consultation process will be reported to cabinet on the night.
9. 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 7 above.

Statutory framework

10. 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.
11. 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 consultation with Tenant Council, area housing forums, Homeowner Council and Southwark TMO Liaison Committee.
12. 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 2018-19 and 2019-20, predicated on the basis of a rent reduction of 1% and other proposed changes to charges and budget movements.

KEY ISSUES FOR CONSIDERATION

Financial context

13. 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 A sets out budget movements for 2019-20 specifically.

HRA reserves and financing

14. In accordance with the Fairer Future Medium-Term Financial Strategy and in common with the general fund, the HRA holds specific reserves to manage demand, to fulfil future commitments made and mitigate the risk of exceptional or catastrophic events. The level of reserves and working balances at 31 March 2018 stood at £19.9m, up from £14.3m the previous year which represents a positive achievement and reversal of the downward trajectory in previous years. However, given the size and complexity of the HRA and Housing Investment Programme (HIP), this is still considered to be below the optimal level required and it remains a priority to establish a more prudent reserve position when resources permit.

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 Ministry for Housing, Communities and Local Government (MHCLG) has indicated that rent levels will revert to September CPI + 1% increases for five years post 2020.
16. The second legislative item – the Housing and Planning Act 2016 – contained several elements impacting directly on the financing of social housing in future years. However, as the 11 December report noted, these are either in abeyance or have been formally abandoned by the government. The HRA budget for 2019-20 as set out in this report does not therefore provide for any direct impact of the policies either awaiting formal abolition or in suspension.

Tenant service charges

17. As set out in the 11 December report estate cleaning and grounds maintenance service charges are contract based, and the underlying increase in contract costs is itself primarily employee based (around 90%). Whilst the nationally determined pay award for 2019-20 is 2% for most grades, realignment of pay spines and higher increases applied at the lower end of the pay scale, disproportionately impacts the cost base for these contracts by around 5.5% on average and hence service charge rates. On a positive note, there is no anticipated increase in the underlying cost base for communal lighting and door entry maintenance service charges, and these will remain unchanged for 2019-20.

18. The existing and proposed rates are set out below. For a tenant in receipt of all four services, it represents an increase of 3.4%, which is the same as the underlying rent inflation figure (September CPI + 1%).

	2018-19 per week	2019-20 per week	Change pence per week
Estate Cleaning	£5.52	£5.78	26p
Grounds Maintenance	£1.22	£1.26	4p
Communal Lighting	£1.30	£1.30	nil
Door Entry System Maintenance	£0.63	£0.63	nil
Total	£8.67	£8.97	30p

Sheltered housing service charges

19. 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. As reported to cabinet last year it had previously been the government's intention to review the funding of this area of service provision on a national basis; however this is no longer taking place, and since the council intends to take this forward independently during 2019-20 it is proposed to retain charges at their existing level for the forthcoming year.

Garages and other non-residential charges

20. Garage assets provide a valuable revenue stream to the HRA and modest charge increases and an increase in the number of lettable units help to ameliorate the budget gap.
21. Benchmarking shows that Southwark's rents are competitive in the market place, although higher than a number of other local authorities across London, most likely due to the borough's central location. However, the budget situation dictates that all sources of income are closely examined and it is proposed to apply a standard CPI uplift of 2.4% to garages, garage service charges and other miscellaneous non-dwelling facilities from 1 April 2019 (subject to a de-minimis value of 5p). The existing and proposed garage charge rates are set out below. The £5.00 concessionary charge reduction for elderly and Blue Badge holders is preserved under these proposals.

	2018-19 £ per week	2019-20 £ per week	Change £ per week
Standard charge	20.20	20.70	0.50
Concessionary rate (£5 reduction)	15.20	15.70	0.50
Small sites rate	10.80	11.00	0.20
Private sector rate	33.50	34.50	1.00
Additional charges:			
Larger than average garage	5.15	5.30	0.15
Additional parking	5.15	5.30	0.15
Water supply	0.50	0.50	–
Additional security	1.00	1.00	–

District heating charges

22. Council-wide utility contracts have and continue to deliver savings for gas and electricity and charges remain lower on average than retail market prices. Periodic review of the budget is necessary to align the anticipated cost and income during the forthcoming year arising from fluctuating prices, spikes in demand due to poor weather and changes in the recoverable stock base. Energy costs are pooled and standardised 'fuel only' charges set on a borough-wide basis for tenants, depending on the number of bedrooms and type of heating installation. On-going investment in the infrastructure to increase energy efficiency/reduce consumption also contributes to the financial sustainability of the heating account which has enabled charges to remain static over an extended period and can be held at existing levels once again for 2019-20. Homeowners are charged actual costs, comprising energy and repairs and maintenance as determined by their lease.

Commitments and savings

23. The 11 December report set out likely budget pressures and commitments for 2019-20. These included general inflation at £2.4m, specific service commitments of £2.4m and rent loss due to the combined effect of the statutory rent reduction and stock losses of £1.4m. As noted in the appendices below, savings at £4.5m and further additional rent and charge proposals of £1.7m have also been identified, enabling a balanced budget to be set for 2019-20.
24. To place this in context, paragraph 22 of the indicative HRA budget report indicated that savings of £43.5m have been identified since the introduction of self-financing in 2012. This has been to address the gap between committed expenditure and resources within the HRA budget, which over the same time period totalled £54.0m, with the balance being bridged by additional income of £10.5m. Further detail on the 2019-20 figures in particular is contained in the appendices to this report, and also in paragraphs 21 – 28 of the 11 December report.

Community impact statement

25. The department undertakes equality analysis/screening on its budget proposals, which helps to understand the potential effects that the proposals may have on different groups and whether there may be unintended consequences and how such issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and council-wide impacts.
26. In line with our public sector equality duty contained within section 149 of the Equality Act 2010, 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 and where necessary, consultation will be undertaken alongside mitigating action.
27. As specific proposals are brought forward and at each stage of implementation thereafter, the impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
28. Information on the equality analysis is shared with relevant cabinet members so as to enable it to be considered when decisions are taken. To date no cumulative impacts have been identified.

29. The purpose of this report is specifically to set tenant rents and associated charges (which can also impact homeowners), and set a balanced budget as required by statute. The analysis has established there is no differential effect for any community or protected group. It should be noted that rent policy from 2016-17 to 2019-20 is determined nationally and requires authorities to reduce rents by 1% per annum. However, it is recognised that in normal circumstances a rent increase may present particular difficulties for people on low incomes, although rents and tenant service charges remain eligible for housing benefit/universal credit.
30. The wider impact of welfare reform changes have been considered and measures to mitigate the effects on the community have been implemented together with the identification of resources to support tenancy sustainment and financial assistance through the provision of Discretionary Housing Payments (DHP). Formal notification of the council's allocation for 2019-20 has yet to be announced, but expectations are that it will be similar to the current year, around £1.3m.

Consultation and notification

31. 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 11 December report was labelled 'indicative' and figures therein were subject to change. However since then there have been no changes in the figures or the recommendations.
32. Tenant Council met on 7 January 2019 to consider the December report, and to refer it on to area housing forums. They reconvened on 21 January 2019 to consider any recommendations arising from the area forum consultation and make consolidated recommendations to cabinet, which due to time constraints are reported under separate cover 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 charges and in terms of the rest of the HRA budget and considered the report at their meeting of 9 January 2019. Any such comments are reported to cabinet alongside those of Tenant Council. Similarly, the December report was also the subject of formal consultation with Southwark TMO Liaison Committee at their meeting on 16 January 2019.

Statutory and Contractual Notifications

33. Subsequent to the approval of the final report on 22 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

34. 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.
35. 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 2016 Act').

36. The Welfare Reform and Work Act and regulations require (subject to limited exceptions) a 1% annual reduction from a frozen 2015-16 baseline, to the rent payable by social tenants for a period of four years. The Act also makes provision, for a period of four years commencing 2016, for the maximum levels of rent for social tenancies commencing after the 8 July 2015; these provisions 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.
37. For social rent properties, the rent reduction requirement applies to the rent element of the charge under the tenancy agreement and not to charges made for services.
38. 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.
39. Sections 103 (relating to secure tenancies) and 111A (relating to introductory tenancies) of the Housing Act 1985, and the council's agreement with its tenants, require that tenants be notified of variation of rent and other charges, by service of a notice of variation, at least 28 days before the variation takes effect.
40. In making a decision the cabinet must have due regard to its equalities duties set out in the Equalities Act 2010 and specifically the need to:
 - Eliminate discrimination, harassment, victimisation or other prohibited conduct;
 - Advance quality of opportunity between persons who share a relevant protected characteristic and those who do not. The protected characteristics covered by the equality duty are age, disability, gender reassignment, pregnancy and maternity, race, religion, sex and sexual orientation. The duty also includes marriage and civil partnerships in respect of eliminating unlawful discrimination;
 - Foster good relationships between those who share relevant characteristics and those who do not.
41. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act. Cabinet must consider the report author's reference to equalities considerations at paragraphs 25 – 30 of this report.

Strategic Director of Finance and Governance

42. 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 Budget and Rent-Setting 2019-20	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team
Link (please copy and paste into your browser): http://modern.gov.southwark.gov.uk/documents/s79129/Report%20Housing%20Revenue%20Account%20Indicative%20Rent%20Setting%20and%20Budget%20Report%202019-20.pdf		
Fairer Future Medium-Term Financial Strategy and Integrated Efficiency Plan	160 Tooley Street London SE1 2QH	Ian Young Interim Director of Finance
Link (please copy and paste into your browser): http://www.southwark.gov.uk/assets/attach/3858/Appendix%20A%20Updated%20Fairer%20Future%20Medium%20Term%20Financial%20Strategy%20and%20Integrated%20Efficiency%20Plan.pdf		

APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2019-20
Appendix B	HRA Budget Pressures and Commitments 2019-20
Appendix C	HRA Income Generation 2019-20
Appendix D	HRA Efficiencies and Improved Use of Resources 2019-20
Appendix E	HRA Savings Impacting on Services 2019-20
Appendix F	HRA Subjective Expenditure and Income Bubble Charts
Appendix G	Objective Analysis of HRA Expenditure 2019-20 by Division
Appendix H	Results of consultation - to follow

AUDIT TRAIL

Cabinet Members	Councillor Stephanie Cryan, Housing Management and Modernisation and Councillor Victoria Mills, Finance, Performance and Brexit	
Lead Officers	Duncan Whitfield, Strategic Director of Finance and Governance Michael Scorer, Strategic Director of Housing and Modernisation	
Report Author	Ian Young, Acting Director of Finance and Departmental Finance Manager, Housing and Modernisation	
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Key Decision?	Yes	
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	Yes	Yes
Date final report sent to Constitutional Team		10 January 2019