

## APPENDIX 3

<b>Item No.</b> 8.	<b>Classification</b> Open	<b>Date:</b> 18 January 2022	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Final Rent-Setting and Budget Report 2022-23	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Members:</b>		Councillor Rebecca Lury, Finance, Performance and Democracy Councillor Stephanie Cryan, Council Homes and Homelessness	

### **FOREWORD – COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE, PERFORMANCE AND DEMOCRACY AND COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR CONCIL HOMES AND HOMELESSNESS**

We are committed to ensuring the council's 55,000 rented, leasehold and freehold homes are well maintained and managed. The money we use to do this sits within our Housing Revenue Account (HRA). Tenants and homeowners pay their rents and service charges into the HRA and this money is then used to fund all the activity needed to ensure our homes and estates are well run and in good condition.

As this money comes from our tenants and homeowners we are committed to consulting them on how it is spent so it is always used in ways that best meet their needs and improve their homes. This year we have consulted with residents online through the Consultation Hub and held an online meeting on 13 January. The results of these consultations are set out in Appendix F of this report.

This report sets out a final budget for next year's HRA and also considers what the appropriate charges should be for a variety of housing services. Whilst this year sees the second year of rent increases following four years of forced reductions under the National Rent Reduction of the Welfare Reform and Work Act 2016, the council is continuing to claw back an estimated £62.5m cumulative reduction in the annual HRA budget, all while our financial planning has been hit further by the impact of the Covid-19 pandemic. Southwark's rents will still remain the 8<sup>th</sup> lowest in London and the proposed rent increase for the 2022-23 financial year is 4.1%.

As well as managing our existing homes, the council also uses the HRA to build new council homes at council rents as part of our commitment to build 11,000 new council homes. The HRA is also used to invest in building and fire safety works, repairs and major works and to upgrade and carbonise our district heating networks.

As in all years the call on the HRA is enormous but we have been able to set a balanced budget and we recommend this for approval.

## **RECOMMENDATIONS**

1. Cabinet agrees a rent increase of 4.1% for all directly and tenant managed (TMO) housing stock within the HRA (including estate voids, sheltered housing and any residual hostels) with effect from 4 April 2022. This is the maximum permitted under the Rent Standard 2020.
2. 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 paragraphs 26 to 28 with effect from 4 April 2022.
3. Cabinet agrees the proposed changes to sheltered housing service charges as set out in paragraphs 29 and 30 with effect from 4 April 2022.
4. Cabinet agrees the changes to charges for garages and other non-residential facilities as set out in paragraphs 31 and 32 with effect from 4 April 2022.
5. Cabinet agrees the changes to district heating and hot water charges as set out in paragraphs 33 to 39 with effect from 4 April 2022.
6. Cabinet agrees to establish a pilot project to explore ways in which additional pandemic-driven support may be provided as set out in paragraphs 45 and 46.
7. 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.
8. 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 rent-setting and budget 2022-23 (7 December 2021 cabinet report)**

9. Cabinet on 7 December 2021 considered the indicative HRA rent-setting and budget position for 2022-23. This report contained all of the background information necessary to consider the reasons behind the proposals for rents and other charges. Where further and updated information has been received that is germane to this process it is included below. The appendices to the report have also been updated as necessary and set out the detail behind the various categories of year-on-year budget movement. Any resolutions or comments arising from the consultation process are included within Appendix F.
10. The purpose of this final report is to seek formal approval of the recommendations in respect of rents and other charges outlined at paragraphs 1 to 7 above.

## **Statutory framework**

11. The HRA reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, homeowner service charges and other income. The HRA forms a specific part of the council's accounts separate from the council's general fund. 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 2021-22 and 2022-23, predicated on the basis of a rent increase of 4.1% and other proposed changes to charges and budget movements.

## **KEY ISSUES FOR CONSIDERATION**

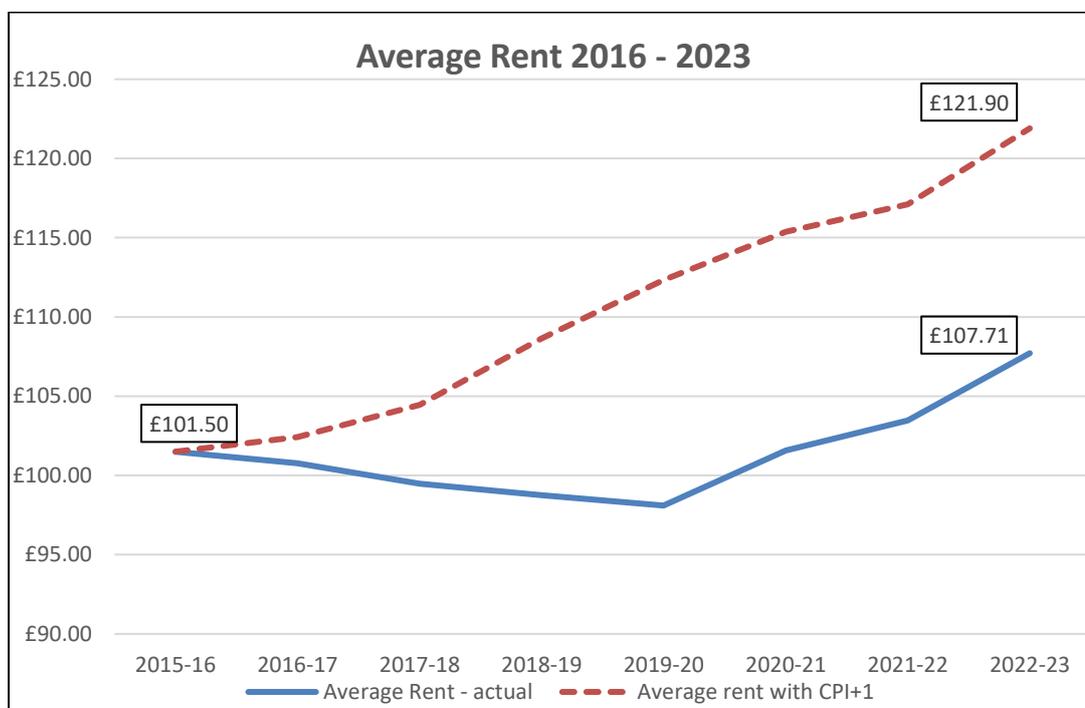
### **Dwelling rents**

12. Cabinet will recall that the Welfare Reform and Work Act 2016 compelled councils and housing associations to reduce rents by 1% each year for the financial years 2016-17 to 2019-20. In October 2017 the former Ministry for Housing, Communities and Local Government issued by a rent policy statement affirming that rent increase levels would revert to September CPI+1% increases for five years post-2020. Simultaneously they extended the remit of the Regulator for Social Housing to cover the local authority sector, and directed the Regulator to issue a new Rent Standard to reflect those extended responsibilities. Under the Rent Standard the maximum rent increase for 2022-23 is set at 4.1% (being September 2021 CPI +1%). The 7 December 2021 report indicated that this is the level of rent increase likely to be adopted by the council.
13. Southwark has a history of low or inflation-linked rent rises, and has always adhered to the government's rent formula when setting rents, with the single exception to agree a lower rent increase in 2014-15, equivalent to CPI for that year, as the implied national increase was considered to be too high. Southwark's rents remain between 8% – 9% lower than the government's assumed target and rank 8<sup>th</sup> lowest of the 29 London Boroughs with retained housing stock.
14. In terms of rent levels for 2022-23, the table below sets out the current average rent by bed-size and the average rent after the proposed increase (using the actual/projected mid-year stock figure as appropriate).

Bedrooms	Average weekly rent 2021-22	Average weekly rent 2022-23	Increase per week
0	£81.63	£84.98	£3.35
1	£93.63	£97.47	£3.84
2	£103.45	£107.69	£4.24
3	£113.16	£117.80	£4.64
4	£122.29	£127.30	£5.01
5	£134.12	£139.62	£5.50
6+	£147.86	£153.92	£6.06
<b>Overall</b>	<b>£103.47</b>	<b>£107.71</b>	<b>£4.24</b>

*Note: figures for 2021-22 are based on the mid-year stock position to ensure greater accuracy.*

15. The chart below shows actual average rents for Southwark since the introduction of national rent reductions under the Welfare Reform and Work Act 2016. Over four years, rents were reduced by 1% each year, before reverting to the current government guideline increase of CPI + 1%. The dotted line shows what the average rent would have been had CPI+1% been applicable throughout. It can be seen that inflation in 2020-21 returned average rents roughly to the point they were at when the reduction process commenced four years earlier, a time-lag that remains to the present day – the proposed increase for 2022-23 still only brings average rents back to the level that they would otherwise have been in 2018-19. The gap in 2022-23 between the two lines is the equivalent of £14.19 per week on average.



## HRA budget framework and issues

16. Whilst the funding regimes for the HRA and the council's general fund are different, the budget principles are aligned, whereas the timeline for setting rents is abridged such that notification of changes in rents and charges can be served in line with the statutory deadline 28 days in advance of the rent increase becoming effective.
17. The budget framework for next year remains substantially the same as in previous years with the focus being on finding further savings through efficiencies and directing greater resources (both new and existing), to areas of highest priority in order to support and enhance the provision of housing services to residents. The worst effects of the pandemic are hopefully behind us from a budgetary standpoint, and whilst there is still uncertainty, service provision is largely back on track and staff are working hard to recover lost ground in terms of repairs and capital works projects that stalled during the pandemic. Income recovery procedures that were suspended to assist residents during this challenging period, have now resumed but not unexpectedly, arrears have been adversely impacted. However, the position is showing improvement and the expectation remains that this trend will continue but will take time to normalise to pre-pandemic levels. Similarly, for HRA commercial properties and garages which saw a downturn in lettings activity, but are showing signs of recovery but are not expected to provide any real income growth for 2022-23, other than increased charge rates for garages. Consequently, it is again anticipated that budget provisions set-aside for bad debts will be fully utilised in-year thereby minimising any scope to off-set pressures elsewhere within the HRA.
18. One of the most enduring budget pressures is the repair and maintenance of the housing stock, which consumes the greatest proportion of operational resources, requiring stringent management of high value/high volume contract budgets. The successful implementation of the housing repairs improvement plan is key to improving the performance and financial viability of the Southwark Repairs service going forward and further resources of £1m are being committed as part of this budget round, negating any savings previously assumed through performance and productivity gains which are being deferred to 2023-24. In addition, further resources of £1.4m are being earmarked within Asset Management for district heating, disrepair and leaks from above.
19. The onerous responsibilities conferred by the Building Safety Bill and Fire Safety Act 2021 on local authorities and private sector landlords represents a seismic endeavour and requires significant financial commitment given the unique size and nature of the council's housing stock. Southwark has 170 in-scope high-rise buildings (the highest number in the country) which are the immediate priority, along with a significant number of buildings that require further surveys, but which are considered to be of low or moderate risk outside the scope of the legislation. Notwithstanding the critical importance of these new duties to augment residents' safety, they create a substantial additional financial pressure on already constrained resources, particularly capital, both for the initial surveying programme, but moreover the cost of remediation works arising, which is an unknown, but potentially significant. For 2022-23 new revenue and capital

funding commitments totalling £7.1m are included in the budget proposals to address these needs.

20. In light of these new pressures, the council is currently undertaking a wholesale review of its asset management strategy to subsume these new requirements into its business planning, which is likely to be at the expense of other less-essential programmes over the medium-term. As previously reported, capital resources are under extreme pressure and borrowing to support the QHIP and New Homes programmes continues to rise at an unprecedented rate with a consequent revenue financing impact on the HRA, which cannot be sustained over the long-term. Close monitoring and scrutiny of key budget drivers and performance indicators provide opportunity to realign and rationalise budgets to more closely reflect demand and activity changes and correct any budget anomalies that may have arisen over time. With rent policy constrained to CPI+1%, the reality is that resources will never fully match the needs of the housing stock. This is particularly true for both the HRA and the housing investment programme (HIP), and requires the prioritisation and re-profiling of works programmes in order to achieve best value and ensure long-term financial sustainability.

### Budget movement schedules

21. Further detail on the composition of the HRA budget movements by category: budget pressures and commitments, income generation, and efficiency savings is contained in the appendices to this report.

Summary of Movements		Gross Exp. £'000	Gross Inc. £'000	Net Exp. £'000
<b>2021-22 Revised Budget</b>		<b>274,405</b>	<b>-274,405</b>	<b>-</b>
Commitments	App. C	14,023	-	<b>14,023</b>
Income generation	App. D	-	-12,869	<b>-12,869</b>
Efficiency savings	App. E	-1,154	-	<b>-1,154</b>
<b>2022-23 Base Budget</b>		<b>287,274</b>	<b>-287,274</b>	<b>-</b>

22. As the summary table above sets out, the HRA budget for 2022-23 is predicated on a number of known and anticipated budget pressures/commitments and assumptions around demand/activity changes totalling £14.0m and a rent increase at September 2021 CPI+1% (4.1%) which raises £5.4m net. Other income streams and capitalisation contribute a further £7.5m and budget efficiencies and rationalisation measures delivers £1.1m. These proposals are sufficient to deliver a balanced budget for 2022-23 as required by statute. Appendices A to E refer.

## **HRA financing and reserves**

23. The self-financing settlement assumed that residual debt would be extinguished over the thirty-year life of the business plan. Whilst there is no statutory requirement for a minimum repayment set-aside (unlike the general fund), £55.1m has been repaid since 2012. This would have been higher were it not for the enforced rent reduction which necessitated re-prioritising service delivery over debt repayment. Up until recently, it has not been necessary to borrow additionally to fund the capital programme, but that position is no longer feasible; borrowing will increase exponentially as the building and fire safety, heat network, high-needs estates and new homes programmes ramp-up. Whilst the relaxation of local authority borrowing controls is welcome and market interest rates are currently low, it is not a panacea for unfettered borrowing as the revenue financing costs of new debt need to be sustainable over the long-term (thirty to fifty years).
24. Borrowing remains subject to the provisions of the Local Government Act 2003 which requires the local authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities 2011 when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that decisions are taken in accordance with good professional practice. The council's treasury management strategy is regularly reviewed and reported to council assembly twice a year.
25. In accordance with the Fairer Futures Medium Term Financial Strategy (FFMTFS) and in common with other local authorities and the council's general fund, the HRA holds reserves to manage demand volatility, fulfil future commitments and mitigate budget risk. The level of reserves and working balances at 31 March 2021 stood at £28.3m, up from £23.0m the previous year. This is a continuation of the gradual replenishment of reserves following the downward trajectory experienced in prior years. It should be noted that around 74% is earmarked for specific purposes, with the remainder held as a contingency against exceptional or catastrophic events. Given the size of the HRA and HIP, this is still considered to be below the optimal level required and it remains a priority to build a more prudent reserve position as resources permit.

## **Tenant service charges**

26. Tenant service charges originated from the government's rent restructuring regime in 2002-03 with the intention of engendering greater consistency and transparency between local authority and RSL sectors. They were first de-pooled from rents (i.e. rents were reduced by an equivalent amount as the cost of the service charges) in Southwark in 2003-04 and have been rebased on several occasions since.
27. The principle underpinning the calculation of charges is that they are set at a level to recover the estimated cost of providing the service; borough-wide costs are pooled in order to moderate any area cost differentials and divided by the estimated number of service recipients to derive a standard charge. In order to

ensure that costs and charges remain aligned, they are subject to annual rebasing and the existing and proposed rates are set out below. Crucially they remain eligible for welfare benefit support.

28. The existing and proposed rates for tenant service charges are set out below.

<b>Tenant service charges</b>	<b>2021-22 £ per week</b>	<b>2022-23 £ per week</b>	<b>Change £ per week</b>
Estate Cleaning	6.13	6.32	19p
Grounds Maintenance	1.42	1.45	3p
Communal Lighting	1.46	1.81	35p
Door Entry	0.66	0.71	5p
<b>Total</b>	<b>9.67</b>	<b>10.29</b>	<b>62p</b>

### **Sheltered housing service charges**

29. Sheltered housing service charges were first implemented in 2013-14 and reflect the cost of enhanced housing management services provided to residents. Whilst core service provision had largely remained unaltered over the period, charge rates had not kept pace with costs. Following a rebasing exercise during 2020-21, charge rates were proposed to increase markedly to fully reflect the cost of provision. However, in order to mitigate potential hardship for clients, cabinet resolved to cap the charge for 2021-22 at £33.20 per week (as opposed to £34.69 per week).
30. The cap was also partly intended to retain a phasing element of the move towards full cost recovery, and last year's cabinet reports indicated that its impact in terms of the likely level for 2022-23 would result in a weekly charge of £35.38. Updated inflationary pressures on these costs means that the actual recommended amount is slightly less than this original figure, at £34.75. Service charges like rents are eligible for welfare benefits and currently around 80% of all residents are in receipt of full or partial support or receive transitional funding from Adult Social Care, a long-standing agreement emanating from the Supporting People funding regime, which is gradually falling out as residents leave sheltered care.

### **Garage and non-residential charges**

31. Garage are a valuable asset within the HRA and provide an income stream that helps maintain service provision. Charges are determined by reference to inner London quartile rates, demand and stock availability. A limited programme of renewal and refurbishment to bring obsolete garages back into use continues, but this is likely to slow or cease as resources become more constrained and policy priorities for garage sites shift towards the provision of new homes and where appropriate and financially viable, more affordable business/creative work space.
32. Following a review of the garage portfolio and charging regime it is recommended that standard charges for council residents (secure tenants, resident leaseholders/ freeholders) are increased by 3.1%; and by 5% for private sector renters. The resultant charges are set out in the table below.

<b>Garage charges</b>	<b>2021-22 £ per week</b>	<b>2022-23 £ per week</b>	<b>Increase (%)</b>	<b>Change £ per week</b>
<b>Standard charge</b>	<b>21.75</b>	<b>22.40</b>	<b>2.99%</b>	<b>0.65</b>
Concessionary rate (£5 reduction)	16.75	17.40	3.88%	0.65
Small sites rate	11.50	12.00	4.35%	0.50
Private sector rate	37.30	39.20	5.09%	1.90
Additional charges:				
Larger than average garage	5.40	5.60	3.70%	0.20
Additional parking	5.40	5.60	3.70%	0.20
Water supply	0.50	0.50	–	–
Additional security	1.00	1.00	–	–

*N.B. the private sector charge is inclusive of VAT at the standard rate*

### **District heating charges**

33. The council's procurement strategy for the purchase of gas and electricity for the district heating network is provided through the LASER purchasing consortium that has over a sustained period delivered very competitive utility prices, primarily gas. This contract was renewed in September 2020 to cover the period to March 2025. This has enabled pooled charges to tenants to be maintained at the same level for a number of years and on average, these are lower than retail market rates. However, notwithstanding the advantage of this arrangement, utility prices remain subject to market fluctuations over which the council has no control.
34. The council's pooled charging policy for district heating and hot water commenced in 1995 with the establishment of the district heating account, with the purpose to smooth-out the impact of price fluctuations over an extended period, mitigate any deficit periods and minimise the requirement for frequent charge movements. In terms of future developments, cabinet agreed a wide-ranging report on the heat networks strategy and associated statutory requirements on 14 September 2021. Officers will come back during 2022 with worked-up proposals around implementation, including billing implications.
35. Review takes place annually as part of HRA budget setting to align the anticipated cost and income for the forthcoming year, taking into account price and consumption, adverse weather and changes in the recoverable tenanted 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. This ensures equilibrium between tenants across the piece regardless of the age and condition of the heating system to which they are connected. On-going investment in energy efficiency measures to reduce consumption also contributes to the financial stability of the heating account. For tenants, the cost of repairs and maintenance is integral in their rent.

36. For homeowners connected to the district heating network, the situation is different as under the terms of the lease they become liable for the actual energy costs incurred and will experience fluctuations in their charges year to year. In addition, and in line with other communal services, they are liable for a proportion of the actual cost of repairs and maintenance to the heating system in the block/estate in which they reside.
37. The Laser framework means that council requirements for gas and electricity are pooled with around 100 or so other local authorities, police etc. which enables them to access the wholesale markets directly. They can purchase energy requirements up to four years in advance at any time, so this helps smooth any sudden spikes in the market. Having said that, this is of course an unprecedented time in the energy markets and so price rises are inevitable with the wholesale market rising significantly this year. Housing estates are currently paying around 1.8ppkWh plus standing charges, whereas the wholesale market currently sits at around 6ppkWh, with residential customers being offered around 8ppkWh by suppliers.
38. The majority of gas on Southwark estates (around 70%) is used between October and March, meaning any April price increases will be for the summer portion of gas. This gives us some certainty with regard to the in-year costs for the remainder of 2021-22. The expectation is that the market will settle down again before next winter's buying period, and Laser will continue to monitor the markets and purchase at strategic points to ensure the best possible value. It should be stressed, that even with price volatility, the consortium continues to ensure that the council pays an extremely attractive price for the energy supplies under this contract and we are not as exposed as other consumers to the adverse market conditions. The proposed 2022-23 increase is intended to manage short-term exposure to the exceptional market volatility currently being experienced with a capped increase in district heating charges to match the rent increase at 4.1%. This should allow time for markets to stabilise, but clearly there can be no guarantee and in the event that costs remain above the budgeted income level, then the heating account reserve will be used to mitigate the short-term impact, and further consideration of charge rates may be necessary during 2022-23.
39. The Office of Gas and Energy Markets (Ofgem) is currently consulting on the potential impact of increased wholesale price volatility on their default tariff cap, and the increase proposed by the council is mindful of this on-going process. Ofgem have had the legal power to design and enforce the cap since 2018, but recognise that current circumstances demand reconsideration as to how it reflects the costs, risks and uncertainties that energy suppliers face. The cap has already been increased by c.12% earlier this year (August 2021, effective from October).

	<b>Bedrooms</b>	<b>2021-22 £ per week</b>	<b>2022-23 £ per week</b>
<b>Central Heating and Hot Water</b>	0	8.61	8.96
	1	12.09	12.59
	2	14.97	15.58
	3	17.92	18.65
	4+	19.34	20.13
<b>Weatherfoil Heating and Hot Water</b>	0	7.25	7.55
	1	10.40	10.83
	2	12.99	13.52
	3	15.54	16.18
	4+	16.85	17.54
<b>Weatherfoil Heating only</b>	0	5.47	5.69
	1	6.78	7.06
	2	8.17	8.50
	3	9.53	9.92
	4+	10.89	11.34
<b>Central Heating only</b>	0	6.73	7.01
	1	8.46	8.81
	2	10.15	10.57
	4+	12.70	13.22
<b>Hot Water only</b>	1	2.30	2.39
	2	4.85	5.05
	3	6.00	6.25
<b>LRB Heating</b>	0	5.84	6.08
	1	8.71	9.07
	2	9.43	9.82
	3	10.18	10.60
<b>Partial Heating</b>	0	4.58	4.77
	1	5.62	5.85
<b>Underfloor Heating</b>	0	6.87	7.15
	1	7.62	7.93
	2	8.38	8.72
	3	9.13	9.50

## **Consultation and notification**

40. Unlike matters of direct housing management there is no statutory requirement to consult on rent and other charges; however the council remains committed to engaging with residents under the terms of the Tenancy Agreement. Specific consultation commenced with the agreement of the indicative HRA rent-setting and budget report by cabinet in December 2021, which set out the budget, implications for rents and proposed changes to other charges in order that this information could enter the public domain before Christmas.
41. In December Cabinet instructed officers to follow due consultation processes with residents, and to that end a borough-wide joint meeting of tenants and homeowners was arranged for Thursday 13 January 2022. This process is broadly similar to that adopted in previous years; however given the rapidity of change occasioned by the pandemic and evolving central government instructions on the matter of public gatherings it is not likely to be held face-to-face, but remotely in tandem with the Consultation Hub. Consultation outcomes will be reported as Appendix F, which given the timescales involved is to be circulated at the cabinet on Tuesday 18 January 2022 and published retrospectively.

## **Community, equalities (including socio-economic) and health impacts**

### **Community impact statement**

42. 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. Analysis has established there is no differential effect for any community or protected group. From 2020-21 the intention of central government is that rents should increase by up to CPI+1% under the provisions of the Rent Standard 2020. It is recognised that any increase may present particular difficulties for people on low incomes. However, rents and tenant service charges remain eligible for housing benefit/universal credit.
43. The wider impact of welfare reform changes has 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 and financial assistance through the provision of Discretionary Housing Payments (DHP). For 2021-22 the allocation was £1.15m. The provision of further support is subject to annual confirmation from central government, but is expected to be of the same order and to provide support for tenants affected by the “bedroom tax” and “benefit cap” for example.
44. There are existing financial support streams, including the existing hardship fund, the newer and more substantial vulnerable renters fund (£1.1m), and the recently announced household support fund (£2.7m) that will provide exceptional support this winter in recognition of the unprecedented impacts of the pandemic. The former will provide extra help for vulnerable individuals at risk of losing their home. The latter will help vulnerable, low-income households with the cost of food, fuel, and other essentials this winter (November 2021 – March 2022). The council has

decided that help for low-income households affected by the end of the universal credit uplift and changes to the statutory energy price cap will be a priority. Eligible households will be identified from benefit data held by the council, or by referral from community partners. Additional support will be provided for families of children attending Southwark schools and receiving free school meals.

45. The council established a residents' working party during 2021 in order to examine the effects of the pandemic on (amongst other things) rent arrears and benefits take-up. The review has made draft recommendations aimed at supporting and enhancing the current approach, and the council is now considering the most effective means of implementation. To commence that process, the council wishes to develop proposals around a new service linking specialist advice to tenancy sustainment (including income maximisation and debt advice). The relevant recommendation of the working party is reproduced below:

*“Recommendation 19: The unique nature of COVID debt requires new approaches to managing it. The Council should be innovative when dealing with the most vulnerable problem debtors with negative budgets – possibly through an expanded or enhanced Hardship Scheme. The Council should test new approaches, starting with small-scale pilots. Access to enhanced support would require willingness on the part of a debtor to engage with advice and agreement of a sustainable repayment plan.”*

46. The initial costs of these proposals will be funded from within HRA reserves, and a more detailed way forward will form part of future submissions for Cabinet's consideration.

### **Equalities (including socio-economic) impact statement**

47. In line with our Public Sector Equality Duty contained within section 149 of the Equality Act 2010, 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 in the event, how such issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and council-wide impacts. To date no cumulative impacts have been identified.
48. Information on the equality analysis is shared with cabinet to enable it to be considered when decisions are taken. Changes to services will be implemented in such a way to not impact disproportionately on any specific section or group in our community or staff cohort, and where necessary, consultation will be undertaken alongside mitigating action.

### **Health impact statement**

49. The council is committed as part of the Fairer Futures – Homes for All theme, to maintaining the highest standards so that all our homes are clean, safe and cared for. Proposals within this budget contribute directly to continuing our long-term homebuilding programme and also investing in and improving our estates, which will contribute to providing health benefits for Southwark residents.

50. There is an established link between financial concerns being a driver/cause of poor mental health. The council recognises this issue, and strives to support tenants and homeowners by retaining and encouraging a focus on tenancy sustainability. Housing officers provide practical advice and help to tenants, whilst the statutory rent letter mail-out, amongst other communications, normally contains additional advice on benefits. During the pandemic, the council also suspended interventionist policies with regard to arrears recovery and eviction procedures in order to recognise the additional pressures both financially and mentally that the situation had placed on Southwark's residents.

### **Climate change implications**

51. At its meeting of 7 July 2021 cabinet adopted Southwark's formal climate change strategy, and for a number of years the council has been committed to achieving carbon neutrality by 2030. The budget reports under consideration in December and today are principally concerned with the financing and delivery of the council's responsibilities as a social landlord, so it is not proposed to reproduce the entire strategy here. However, Section E of the Action Plan on **Priority 1 – Greener Buildings** within the strategy relates directly to the council's dwelling stock, and a link to that report is provided below.
52. In addition, the report on the heat networks strategy in September 2021 also spoke extensively to this area, both in terms of the anticipated reduction in carbon emissions that the new network would facilitate, and with regard to additional thermal energy efficiency measures to ameliorate potential upward charging pressures. Issues around heat metering, charging pressures and associated new statutory requirements formed part of this report, which is also linked below.

### **Statutory and contractual notifications**

53. Subsequent to the approval of this final report on 18 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 Governance**

54. The report sets out a Final Budget for the Housing Revenue Account (HRA) for 2022-23. Members are invited to approve:
- A rent increase for existing directly managed and TMO managed tenancies
  - An increase made in tenant service charges
  - An increase made in charges for garages and other non-residential facilities

- An increase made to charges for sheltered housing service charges
  - An increase in district heating and hot water charges; and
  - The HRA budget proposals in the report.
55. This is a key decision in accordance with the council's constitution.
56. The financial and budgetary considerations underpinning officer recommendations are explained in the body of the report and its annexes.

### **Policy and Legislative Context**

57. The Local Government and Housing Act 1989 ("the 1989 Act") sets out legal requirements the council must comply with in relation to housing finance. In particular, Section 74 of the 1989 Act places a duty on the council to maintain a Housing Revenue Account ("HRA"). Under Section 76 of the 1989 Act the council has a duty to budget to prevent a debit balance on the HRA, and to implement and review the budget.
58. Section 76 of the 1989 Act includes a requirement for the Council in the January or February preceding the relevant year to formulate proposals relating to its houses and property regarding:
- (a) income from rents and other charges; and
  - (b) the expenditure on repairs, maintenance, supervision and management of its houses.
59. Section 21 of the Housing Act 1985 ("the 1985 Act") provides the Council with powers for the general management, regulation and control of its dwelling stock. Section 24 ("the 1985 Act") makes provision for the council to "*make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses*" with the requirement from time to time, to review rents and make such changes as circumstances may require. In exercising its power under this section, the Council is required to have regard in particular to any relevant standards provided under section 194 of the Housing and Regeneration Act 2008 requiring it to comply with specified rules about levels of rent (and the rules may, in particular, include provision for minimum or maximum levels of rent or levels of increase or decrease of rent).
60. The provisions of the 1985 Act conferring discretion as to rents and charges made to occupiers within the scope of the HRA has also been subject to restrictions arising from the provisions of the Welfare Reform and Work Act 2016 ('the 2016 Act').
61. The 2016 Act, and Social Housing Rents (Exceptions and Miscellaneous Provisions) Regulations required the council to reduce rents year on year (with limited exceptions). During the financial years beginning in April 2016, 2017, 2018

and 2019, the rents payable had to be at least 1% less than the rent payable in the preceding year.

62. For social rent properties, the rent reduction requirement applied to the rent element of the charge under the tenancy agreement and not to charges made for services.
63. The period of enforced rent reductions came to an end on 31 March 2020 and from April 2020 local authorities have been able to increase rents again.
64. From 1 April 2020 the council is obliged to set rents in accordance with the Rent Standard 2020 (“the 2020 Standard”) issued by the Regulator of Social Housing on the direction of the Secretary of State for Housing, Communities and Local Government using powers granted by the Housing and Regeneration Act 2008 Section 197.
65. The 2020 Standard allows the council to apply annual rent increases, over a five year period, of up to 1% above the general index of consumer prices; CPI. The 2020 Standard sets out the formula to be applied to social and affordable rents for existing tenants, to fair rents and for tenants moving between different types of rent.
66. The council must comply with the rules contained in the 2020 Rent Standard (Housing and Regeneration Act 2008 section 194(2A)). There is additionally a requirement to provide information to the Regulator of Social Housing when required and a duty to report non-compliance or potential non-compliance.

### **Consultation**

67. 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 for secure tenants and Sections 137 of the Housing Act 1996 for introductory tenants.
68. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant and Homeowner Forum before seeking to change rent and other charges. The report confirms that representative groups have been consulted in order to comply with this term.
69. The council is required, by:
  - (a) Section 103 of the Housing Act 1985 in relation to its secure tenancies and;
  - (b) Section 111A of the Housing Act 1985 in respect of its introductory tenancies and;
  - (c) The council’s agreement with its tenants

to notify tenants of variations of rent and other charges, by service of a notice of variation, at least 28 days before the variation takes effect. The requirement to serve a preliminary notice on tenants affords an opportunity for tenants to comment on what is proposed.

## Equalities (including socio-economic) impact

70. In making a decision the cabinet must have due regard to community, equalities (including socio-economic) and health impacts of the decision and the council's 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.
71. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act.

## Strategic Director of Finance and Governance

72. 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 2022-23 <b>Link (copy and paste into browser):</b> <a href="https://moderngov.southwark.gov.uk/document/s/s103398/Report%20HRA%20Indicative%20Budget%202022-23.pdf">https://moderngov.southwark.gov.uk/document/s/s103398/Report%20HRA%20Indicative%20Budget%202022-23.pdf</a>	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team
Climate Change Strategy <b>Link (copy and paste into browser):</b> <a href="https://moderngov.southwark.gov.uk/document/s/s99897/Report%20Climate%20Change%20Strategy.pdf">https://moderngov.southwark.gov.uk/document/s/s99897/Report%20Climate%20Change%20Strategy.pdf</a>	as above	as above
Heat Networks Strategy <b>Link (copy and paste into browser):</b>	as above	as above

Background Papers	Held At	Contact
<a href="https://moderngov.southwark.gov.uk/document/s/s101251/Report%20Heat%20networks%20strategy.pdf">https://moderngov.southwark.gov.uk/document/s/s101251/Report%20Heat%20networks%20strategy.pdf</a>		

## APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2022-23
Appendix B	HRA Summary Revised Budget 2021-22 and Base Budget 2022-23
Appendix C	HRA Budget Pressures and Commitments 2022-23
Appendix D	HRA Income Generation 2022-23
Appendix E	HRA Efficiencies and Improved Use of Resources 2022-23
Appendix F	Results of Consultation (to follow)

## AUDIT TRAIL

<b>Cabinet Members</b>	Councillor Rebecca Lury, Finance, Performance and Democracy Councillor Stephanie Cryan, Council Homes and Homelessness	
<b>Lead Officers</b>	Duncan Whitfield, Strategic Director of Finance and Governance Michael Scorer, Strategic Director of Housing and Modernisation	
<b>Report Author</b>	Ian Young, Acting Director of Finance and Departmental Finance Manager, Housing and Modernisation	
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<b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
<b>Date final report sent to Constitutional Team</b>		6 January 2022