

<b>Item No.</b> 14.	<b>Classification</b> Open	<b>Date:</b> 6 December 2022	<b>Meeting name:</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Indicative Rent Setting and Budget Report 2023-24	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Members:</b>		Councillor Darren Merrill, Council Homes and Homelessness; Councillor Stephanie Cryan, Communities, Equalities and Finance	

**FOREWORD FROM COUNCILLOR DARREN MERRILL, CABINET MEMBER FOR COUNCIL HOMES AND HOMELESSNESS AND COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR COMMUNITIES, EQUALITIES AND FINANCE.**

This report sets out the challenges we have during this cost of living crisis and the financial constraints we are under. We are proud to be one of the largest social landlords in the country. Consisting of 55,000 rented, leaseholder and freeholder homes across the borough. This brings its challenges and with the rent cap brings added pressure to an already over stretched budget. It is clear that during the cost of living crisis that we as a council need to do all we can to protect our residents by providing a good housing service. The money we use to do this sits within the Housing Revenue Account (HRA), which is made up of rent and service charges paid by tenants and homeowners and other services that brings in additional revenue funds for the budget.

This report sets out an indicative budget for next year's HRA (2023-24). We are seeking tenants and homeowners views on this before final approval is agreed in January 2023. The cost of living and the inflationary pressure we have seen over the past 6 months have huge ramifications for our tenants and homeowners, but also on the ability for the council to control cost pressures. We have the new Building Safety Bill which has gone through Parliament and as one of the largest landlords with over 170 high-rise blocks, this is an added pressure. However, this administration is committed to provide a high standard of service and to make sure all homes are safe, warm and in good condition for those that live in them. It should also be noted on a provisional basis the proposed one-off match funding for discretionary housing payments (DHP) for 2023-24, which will help those that are on the borderline and struggling to make ends meet.

Whilst we continue to see greater demand on the HRA, we are pleased to recommend this budget to the Cabinet.

**RECOMMENDATIONS**

1. Cabinet notes on a provisional basis a capped rent increase of 7% for all directly and tenant managed (TMO) housing stock within the Housing Revenue Account (HRA) (including estate voids, sheltered housing and hostels), with effect from 3

April 2023. This is the maximum permitted under the government's temporary rent cap for 2023-24.

2. Cabinet notes on a provisional basis the proposed voluntary commitment to cap rent increases at 7% for the council's shared ownership properties in line with the council's other housing stock, as set out at paragraph 17 with effect from 3 April 2023.
3. Cabinet notes on a provisional basis the changes to tenant service charges, comprising estate cleaning, grounds maintenance, communal lighting and door entry maintenance as set out in paragraphs 34-35 with effect from 3 April 2023.
4. Cabinet notes on a provisional basis the proposed changes to sheltered housing service charges as set out in paragraphs 36-38 with effect from 3 April 2023.
5. Cabinet notes on a provisional basis the proposed changes to charges for garages and other non-residential facilities as set out in paragraphs 39-40 with effect from 3 April 2023.
6. Cabinet notes on a provisional basis the proposed change to district heating and hot water charges, including metered charges as set out in paragraphs 41-58 with effect from 3 April 2023.
7. Cabinet notes on a provisional basis the proposed one-off match funding for discretionary housing payments (DHP) for 2023-24, as set out in paragraph 70.
8. Cabinet notes on a provisional basis the proposed budget movements for 2023-24 as set out in appendices C to E.
9. Cabinet reaffirms its commitment to ensure that savings proposals are primarily based on efficiencies, and where staffing reductions form part of any savings proposal, that due consultation and process is followed with trade unions.
10. Cabinet instructs officers to provide a final report on Rent Setting and the HRA Budget for 2023-24, following consultation with residents, for final consideration at their meeting on 17 January 2023.

## **BACKGROUND INFORMATION**

### **Statutory Framework**

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

12. 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 Ministry of Housing Communities and Local Government (MHCLG) announced that national rent policy would revert to CPI+1% for a period of five years from 2020-21 to 2024-25. A rent policy statement followed from government reaffirming this in September 2018.
13. In February 2019, following consultation, the government issued a direction on the Rent Standard from 1 April 2020 to the Regulator of Social Housing. The Regulator is required to take into account the government commitment to a five-year settlement of rent increases using the September CPI+1%. This direction also for the first time brought local authority registered providers within the scope of the Regulator's Rent Standard.
14. On 31 August 2022, the government opened a consultation on a proposal to introduce a revised and temporary rent cap for 2023-24. The current policy of CPI +1% was set at a time when inflation was around 2%. However, CPI for September 2022 was 10.1%, which under the current rules would permit social housing rent increases of 11.1%. The government sought views on a temporary amendment to the CPI +1% policy for one year to protect tenants. The draft direction was based on setting a cap of 5%, but views were also sought for setting a cap of 3% or 7%. The council responded to the consultation, supporting action to protect tenants with their rents, but with the proviso that the loss of rental income be fully reimbursed by government.
15. The Chancellor in his Autumn Statement on 17 November 2022, set out the government's fiscal plan and accompanying analysis from the Office for Budget Responsibility (OBR), and confirmed that a maximum rent cap of 7% would apply for 2023-24. This being designed to strike an appropriate balance between protecting social tenants from particularly high rent increases and ensuring that social landlords can continue to invest in new and existing social housing and provide decent homes and services to tenants. Whilst those sentiments are commendable, there was no assurance received regarding the resources forgone by a rent increase below the level of inflation, thereby transferring the budget risk to local authorities. For planning purposes, the budget is predicated on a rent increase of 7%, the maximum permissible for 2023-24, in order to sustain critical landlord services and deliver on council priorities.
16. One exclusion announced in the Autumn Statement to the rent cap was in relation to supported housing which was exempted from the 7% cap in recognition of its specialist nature, the higher costs associated with the provision of this type of accommodation and the significant additional support needs of the clientele. This accommodation specifically falls outside the policy statement on rents for social housing, which came into effect on 1 April 2020. The council currently provides specialist facilities at Wren, Keyworth and Northcott, which will continue to be subject to rent increases at CPI +1% (i.e. 11.1%) from 3 April 2023.
17. On 25 November 2022, the Department for Levelling Up, Housing and Communities (DLUHC) wrote to council's with shared ownership stock, in relation to the proposed rent increase for 2023-24. Shared ownership properties are not

covered by the 7% cap, but are generally permitted (by virtue of the lease agreement), to increase rents in line with the Retail Price Index (RPI) plus 0.5%, which would imply an increase of 13.1% based on the September 2022 rate. Given the circumstances, the department is seeking a voluntary commitment from local authorities to limit the increase to 7% in line with other tenures. It is reported that housing associations responsible for 80% of shared ownership homes have voluntarily committed to limit rent increases to no more than this level, and in recognition of the cost of living crisis, it is proposed that the council comply with the request for 2023-24.

## **KEY ISSUES FOR CONSIDERATION**

### **Impact of the National Rent Reduction Policy**

18. 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. Southwark's rents remain over 8% lower than the government's assumed target, though the "straight-to-target" policy, (which is now a requirement of the Rent Standard 2020), stipulates that all new property lettings are to be let at target rent. This has and continues to gradually close the gap to target overall, but will not be fully achieved for many years. Council rents remain in the lower quartile of the 29 London Boroughs with retained housing stock.

### **Impact of the Proposed Cap on Rents for 2023-24**

19. As stated above, September 2022 CPI was 10.1%, which, under the current national rent policy would result in a rent increase of 11.1% for 2023-24 and generate much needed resources for the maintenance of existing services and take-on of new burdens. Government's proposals to cap rents at a maximum of 7% results in a loss of £9m in rental income (compared to an uplift at CPI +1%), but this loss would be significantly greater at 5% or 3% (i.e. losses of £13.4m and £17.8m respectively). Crucially, the impact is compounded in subsequent years, as the rental baseline for future increases is lower than it would otherwise be which over the life of the thirty-year business plan runs in to hundreds of millions of income foregone.

### **HRA Budget History**

20. The table below illustrates the extent of the cost pressures and commitments (over £140m) arising since the financial year prior to the self-financing regime came into effect in April 2012 and the HRA became entirely reliant on generating and managing its own resources. As referenced elsewhere in this report, the identification and delivery of service efficiencies and rationalisation measures are critical to balancing the budget. To date they have contributed around 52.4% to offset additional costs, whilst rents and other income streams have contributed around 47.6% over the period.

	Types of Expenditure		Types of Income			
	General inflation	Commitments	Rent and charges	Home-owners charges	Fees and charges	Efficiency Savings
	£'000	£'000	£'000	£'000	£'000	£'000
<b>2011-12</b>	1,600	19,784	(12,143)	–	–	(9,241)
<b>2012-13</b>	1,400	16,695	(15,298)	3,900	(300)	(6,397)
<b>2013-14</b>	1,978	15,663	(11,614)	–	5	(6,032)
<b>2014-15</b>	2,805	11,349	(2,738)	(4,970)	(553)	(5,893)
<b>2015-16</b>	2,384	11,826	(3,348)	(5,000)	(400)	(5,462)
<b>2016-17</b>	2,446	9,242	77	(1,036)	(402)	(10,327)
<b>2017-18</b>	1,938	3,246	2,192	(219)	(211)	(6,946)
<b>2018-19</b>	1,660	(4,734)	1,171	4,870	(279)	(2,688)
<b>2019-20</b>	2,447	2,363	421	(200)	(478)	(4,553)
<b>2020-21</b>	2,570	9,595	(5,344)	(1,000)	(923)	(4,898)
<b>2021-22</b>	2,020	7,705	(3,137)	(1,500)	(180)	(4,908)
<b>2022-23</b>	2,844	11,179	(6,722)	(965)	(252)	(6,084)
<b>Total</b>	<b>26,092</b>	<b>113,913</b>	<b>(56,483)</b>	<b>(6,120)</b>	<b>(3,973)</b>	<b>(73,429)</b>
<b>Total Expenditure</b>			<b>140,005</b>		<b>Total Income</b>	
					<b>(140,005)</b>	

### Budget Framework and Key Issues for 2023-24

21. Whilst the funding regimes for the HRA and the council's general fund are different, the budget principles are aligned. However, the timeline for setting rents is abridged such that consultation with residents can be undertaken between the December and January Cabinet meetings, and ensure that notification of changes in rents and charges can be served in line with the statutory deadline, 28 days in advance of the changes becoming effective. Each year budgets undergo close scrutiny to ensure that ongoing efficiencies are delivered and resources (both new and existing) are directed to areas of highest priority in order to support and enhance the provision of landlord services. Although there has been substantial recovery following the effects of the Covid-19 pandemic, the cost of living crisis has now created significant financial uncertainty. On the income side, recovery procedures resumed post the pandemic but arrears of rents are still recovering and there is concern that the impact of the cost of living crisis will create new income collection challenges.
22. Tender prices for the new homes and major works programmes are running up to 30% higher than a year ago as general building industry inflation rises above the CPI rate and shows no sign of abating. Along with rising interest rates and unprecedented growth in the council's borrowing requirement to finance the new homes programme, the scope to manage existing and new demands, never mind exceptional budget events that arise from time to time, is significantly diminished.
23. One of the most challenging and enduring budget pressures is the repair and maintenance of the housing stock, which consumes the greatest proportion of operational resources, requiring rigorous management of high value/high volume contract budgets. Savings predicated in the original business plan to in-source

works deferred from previous budget rounds (largely due to the pandemic), are again deferred for a further year as productivity is not yet at the level that would enable savings to be made at this point. However, progress is being made and the housing repairs improvement plan is critical to delivering better performance and improving the financial viability of the in-house repairs service.

24. The onerous responsibilities conferred by the Building Safety Act 2022 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 over 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 of moderate or low 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 and the cost of remediation works arising from the surveys, which is currently an unknown, but potentially significant. For 2023-24, further resources of £6.3m are earmarked within the Asset Management budget to meet a range of cost pressures and new service commitments as set out at appendix C.
25. The council is currently undertaking a wholesale review of its asset management strategy to subsume new requirements into its business planning, which will be at the expense of other less-essential programmes over the medium-term. As previously reported, capital resources are also under extreme pressure and borrowing to support the new homes programmes continues to rise at an unprecedented rate with a consequent revenue financing impact on the HRA, which must be contained within a prudent debt-financing limit that remains sustainable over the longer-term. In addition, interest rates, which have been at historic lows for a prolonged period, have risen and are currently around 3.7% (at November 2022) and will potentially rise higher given the current economic uncertainty. This will translate into higher debt financing costs to the HRA requiring greater budgetary provision for next year (£2.4m) and continuing over the medium-term. The council will be presenting a full and refreshed capital programme, including the Housing Investment Programme (HIP) to Council Assembly in February 2023, which will rationalise and re-align programme priorities within the available resources.
26. Indicative budget proposals for 2023-24 are predicated on a number of known and anticipated budget pressures/commitments and assumptions around inflation and demand/activity changes totalling £25.5m (net of savings), offset by a capped rent increase of 7%, which raises £15.4m net. Other income streams comprising tenant and homeowner service charges, garage charges, commercial property rents and miscellaneous fees and charges contribute a further £10.1m, which are sufficient to deliver a balanced budget for next year as required by statute. Appendices A and B set out the indicative revenue budget movements at summary level as they relate to 2023-24.

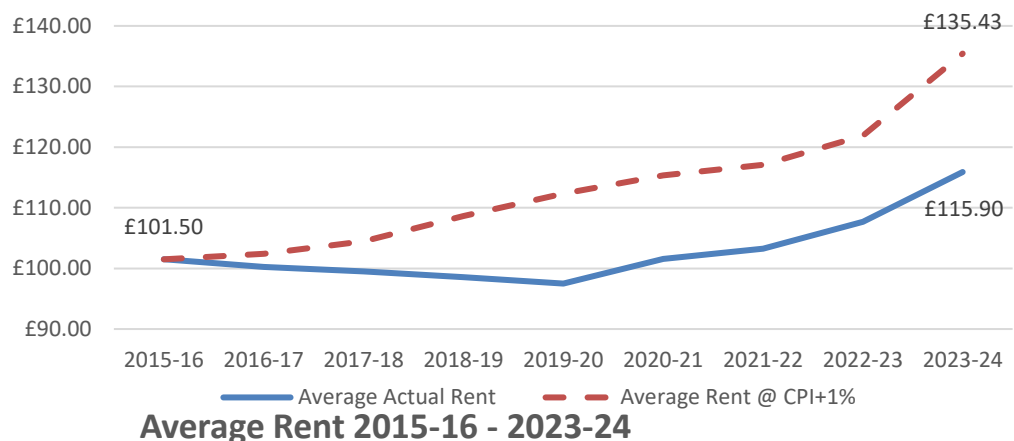
## Average Rent Levels

27. The table below compares the average rent by bed size for 2022-23 (updated to reflect the mid-year stock position), against the average rent for 2023-24. The uplift comprises the government's prescribed maximum rent increase, capped at 7%, plus the marginal effect of stock movements over the period arising from properties falling out of the stock, the addition of new build properties coming on stream and the effect of the 'straight-to-target' rent policy for new lets (which became mandatory under the Rent Standard 2020).

Number of Bedrooms	Revised Average Rent £ per week 2022-23	Average Rent £ per week 2023-24	Increase £ per week	Increase £ per annum
0	85.37	91.34	5.97	310.44
1	97.95	104.80	6.85	356.20
2	108.16	115.73	7.57	393.64
3	118.40	126.69	8.29	431.08
4	128.26	137.24	8.98	466.96
5	142.26	152.22	9.96	517.92
6+	154.52	165.33	10.81	562.12
<b>Overall Average</b>	<b>108.32</b>	<b>115.90</b>		

*Note. 2022-23 figures updated to reflect the mid-year stock position to ensure greater accuracy.*

28. 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 the four years, rents 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 broadly to the point they were at when the reduction process commenced four years earlier (April 2016), a time lag that remains to the present day. The proposed rent cap below the rate of inflation for 2023-24, serves to widen the gap between average actual rents and the government's prescribed CPI +1% measure. The gap in 2023-24 between the two lines represents the equivalent of £19.53 per week on average.



## HRA Financing

29. The self-financing settlement assumed that residual debt would be extinguished over the thirty-year life of the business plan, taking no account of further borrowing requirements. Whilst there is no statutory requirement for a minimum repayment set-aside for the HRA (unlike the general fund), around £55m has been repaid since 2012. This would have been higher were it not for the enforced rent reduction which necessitated re-prioritising service provision over debt repayment. However, given the council's ambitious new homes programme, there is no prospect of a further reduction in the council's residual housing residual debt.
30. There has always been an implicit rule that new borrowing would be reserved for new homes, with funding for the existing stock being financed primarily from revenue sources, capital receipts and grants (where available). As part of the financial modelling underpinning the new homes programme, it was estimated that the council could prudently afford to borrow an estimated £900m linked to rental streams continuing to rise in line with CPI +1% going forward. Since 2017-18, £201m has been borrowed to finance the programme and that requirement continues to grow rapidly with a further requirement of circa £230m in the current year based on recent forecasts.
31. However, it will come as no surprise, that the economic outlook has worsened considerably with rampant inflationary pressure (particularly in the construction industry), rising interest rates and rent capping, creating a perfect storm in terms of being able to deliver the programme as originally planned and costed. Tender prices for construction are running at up to 30% higher than a year ago and industry capacity is stretched. The rates at which the council borrows have ranged from around 2.2% in April 2022 and peaked at 5.5% in October 2022, but have fallen back to around 3.7% at the time of writing. Notwithstanding this welcome drop, it represents a significant additional cost to the HRA in revenue financing costs, which are fixed for up to fifty years. Therefore, in line with other local authorities, these exceptional economic conditions have warranted a fundamental review of the programme and the capacity within the HRA to support the additional revenue financing costs of borrowing at this scale and pace. Whilst the council's programme of schemes on site and in contract will continue, the forward pipeline of schemes in development and not currently in contract are paused until economic conditions substantially improve or alternative and sustainable funding becomes available.
32. Cabinet is reminded that 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 (CIPFA) 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.



## HRA Reserves

33. 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. Whilst some reserves are earmarked for specific purposes, the remainder are held as contingency against exceptional or catastrophic events and are generally applied to meet in-year budget shortfalls. The level of reserves and working balances at 31 March 2022 stood at £26.1m, down from £28.3m the previous year. This was a reversal of the gradual replenishment of reserves that had taken place over recent years, and the downward trend is forecast to show a marked deterioration in 2022-23 to offset district heating costs and funding for the major works programme. Given the size of the council's HRA and HIP, (c. £500m to £600m per annum), it is considered to be below the level required and presents a growing risk that needs to be addressed as a priority going forward through regular planned contributions.

## Tenant Service Charges

34. Tenant service charges (TSC) originated from the government's rent restructuring regime in 2002-03 with the intention of engendering greater consistency and transparency between local authority and Registered Social Landlord (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.
35. The principle underpinning the calculation of charges is that they are set at a level to recover the 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 now subject to annual rebasing and the existing and proposed rates are set out below. Crucially they remain eligible for welfare benefit support.

<b>Tenant Service Charges</b>	<b>2022-23 £ per week</b>	<b>2023-24 £ per week</b>	<b>Increase £ per week</b>	<b>Increase £ per annum</b>
Estate Cleaning	6.32	6.73	0.41	21.32
Grounds Maintenance	1.45	1.51	0.06	3.12
Communal Lighting	1.81	2.06	0.25	13.00
Door Entry	0.71	0.78	0.07	3.64
<b>Total</b>	<b>10.29</b>	<b>11.08</b>	<b>0.79</b>	<b>41.08</b>

## Sheltered Housing Service Charges

36. 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, it was proposed to markedly increase rates to reflect and fully recover the cost of provision. However, in order to mitigate any 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).

37. The cap was also partly intended to retain a phasing element of the move towards full cost recovery, and in 2022-23, rates were subject to the second stage uplift to £34.75 per week, which was slightly lower than had previously been estimated. The proposal for 2023-24 is to raise charges to £35.93 per week (an increase of £1.18 per week), which will generate an additional £42k.
38. Service charges like rents are eligible for welfare benefits and currently around 83% of 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

39. The garage portfolio remains a valuable asset within the HRA and provides an income stream that contributes to the wider provision of housing management services. A planned programme of refurbishment and enhancement has been successful and continues, including bringing obsolete stock and closed underground garages back into use, installing secure garage doors, resurfacing garage areas, roof renewals and improved lighting, signage and security. However, this has slowed as resources have become more constrained and policy priorities for garage sites have shifted towards the provision of new homes, and where appropriate and financially viable, more affordable business/creative work space.
40. Charges are determined by reference to inner London quartile rates, demand and stock availability. For 2022-23 the standard garage charge was increased on average by 3% and the private sector rent by 5%. For 2023-24, it is proposed that charges increase similarly, partly in recognition of the current cost of living crisis and to protect the income stream, which may otherwise be at risk of garage tenants terminating their licenses due to affordability. The resultant charges are set out in the table below and are estimated to generate additional income of around £178k.

Garage Charges	2022-23 £ per week	2023-24 £ per week	Increase (%)	Increase £ per week	Increase £ per annum
<b>Standard charge</b>	<b>22.40</b>	<b>23.10</b>	<b>3.13%</b>	<b>0.70</b>	<b>36.40</b>
Concessionary rate (£5 reduction)	17.40	£18.10	4.02%	0.70	36.40
Small sites rate	12.00	£12.50	4.17%	0.50	26.00
Private sector rate	39.20	£41.20	5.10%	2.00	104.00

<b>Garage Charges</b>	<b>2022-23 £ per week</b>	<b>2023-24 £ per week</b>	<b>Increase (%)</b>	<b>Increase £ per week</b>	<b>Increase £ per annum</b>
Additional charges:					
Larger than average garage	5.60	£5.80	3.50%	0.20	10.40
Additional parking	5.60	£5.80	3.50%	0.20	10.40
Water supply	0.50	£0.50	–	–	–
Additional security	1.00	£1.00	–	–	–

*Note. The private sector charge is inclusive of VAT at the standard rate.*

## **District Heating Charges**

41. The council's pooled charging policy for district heating and hot water commenced in 1995 with the establishment of the ring-fenced district heating account. The purpose was to smooth-out the impact of energy price fluctuations and changes in usage caused by severe weather, mitigate any deficit periods where costs exceed income and minimise the requirement for frequent charge movements.
42. The council's procurement strategy for the purchase of gas (predominantly) 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. Unit costs have consistently been lower than retail market rates and this has enabled tenant's pooled heating charges to be maintained at the same level for a number of years, with the recent exception of an increase of 4.1% from April 2022 (see paragraph 46). However, notwithstanding the advantage of this arrangement, utility prices remain subject to market fluctuations over which the council has no control.
43. 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 has also contributed to the financial stability of the heating account. For tenants, the cost of heating system repairs and maintenance is included in the basic rent.
44. 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. Given the exceptionally high-energy prices currently being experienced, homeowners will see this reflected in their revenue service charge bills.

45. The LASER framework means that the council's requirement for gas and electricity is pooled with around 100 local authorities and other public bodies that enables access to the wholesale markets. They can purchase energy requirements up to four years in advance at any time, which generally assists in smoothing spikes in the market. However, global events beyond our control have created unprecedented disruption in energy markets leading to huge price rises for customers across the board including those on the district heat network who already benefit from lower rates than those residents with individual heating systems do. For reference, our housing estates are currently paying around 5.5 p/kWh plus standing charges, whereas commercial and domestic caps are around 7.5 p/kWh and 10.5 p/kWh respectively.
46. The majority of gas on Southwark estates (around three quarters) is used between October and March, meaning any April price increase will be for the coming summer period, where consumption is at its lowest and therefore have the least cost impact. At this time last year when charges were being reviewed, there was significant energy market volatility and uncertainty as to what would happen to prices, albeit some expectation that the market would stabilise over time. After much deliberation, Cabinet took the decision to manage the short-term exposure and uplifted charges in line with the national guideline rent increase of 4.1%. Whilst this presented a degree of risk, the provision was made to keep the position under review and consider a further increase in charges during the year.
47. However, the situation in Ukraine has significantly exacerbated the position and led to historic energy price inflation not seen before and far beyond earlier predictions. Given rates were set in January 2022, the exceptional circumstances that have emerged subsequently, could not have been foreseen at the time. The corollary is that energy costs are running around £7.2m higher than budget in 2022-23 and that the current charge rates are significantly below the level required to cover the additional cost, requiring an increase of the order of 70% from 3 April 2023. In the short-term, the earmarked reserve will be used to mitigate some of the in-year overspend, but the heating account will fall into deficit by year-end and need to be managed back into balance over a period of 2 to 3 years.
48. Given the continued uncertainty in energy markets, prices are likely to remain volatile and are forecast to increase further during 2023-24, with a consequent knock-on impact for district heating charges. Going forward, charges will be reviewed on a more frequent basis and amended as necessary during the year to ensure they more accurately reflect actual contract costs.
49. The current and proposed weekly charges for district heating are set out in the table below.

	Number of Bedrooms	2022-23 £ per wk	2023-24 £ per wk	Increase £ per wk	Increase £ p/annum
<b>Central Heating and Hot Water</b>	0	8.96	15.24	6.28	326.56
	1	12.59	21.40	8.81	458.12

	Number of Bedrooms	2022-23 £ per wk	2023-24 £ per wk	Increase £ per wk	Increase £ p/annum
	2	15.58	26.49	10.91	567.32
	3	18.65	31.71	13.06	679.12
	4+	20.13	34.23	14.10	733.20
<b>Weatherfoil Heating and Hot Water</b>					
	0	7.55	12.83	5.28	274.56
	1	10.83	18.40	7.57	393.64
	2	13.52	22.99	9.47	492.44
	3	16.18	27.50	11.32	588.64
	4+	17.54	29.82	12.28	638.56
<b>Weatherfoil Heating only</b>					
	0	5.69	9.68	3.99	207.48
	1	7.06	12.00	4.94	256.88
	2	8.50	14.45	5.95	309.40
	3	9.92	16.87	6.95	361.40
	4+	11.34	19.27	7.93	412.36
<b>Central Heating only</b>					
	0	7.01	11.91	4.90	254.80
	1	8.81	14.97	6.16	320.32
	2	10.57	17.96	7.39	384.28
	4+	13.22	22.48	9.26	481.52
<b>Hot Water only</b>					
	1	2.39	4.07	1.68	87.36
	2	5.05	8.58	3.53	183.56
	3	6.25	10.62	4.37	227.24
<b>LRB Heating</b>					
	0	6.08	10.34	4.26	221.52
	1	9.07	15.41	6.34	329.68
	2	9.82	16.69	6.87	357.24
	3	10.60	18.02	7.42	385.84
<b>Partial Heating</b>					
	0	4.77	8.11	3.34	173.68
	1	5.85	9.95	4.10	213.20
<b>Underfloor Heating</b>					
	0	7.15	12.16	5.01	260.52
	1	7.93	13.49	5.56	289.12
	2	8.72	14.83	6.11	317.72
	3	9.50	16.60	7.10	369.20

### Metered District Heating Charges

50. Whilst the vast majority of properties on the district heating network are charged at the pooled rates (tenants), and bedroom-weighted annual service charges (homeowners), a growing number now have individual heat meters. Most of these

are new build blocks that had meters installed at the point of construction, but a number of older blocks are also now having heat meters fitted retrospectively in accordance with government regulation.

51. Heat metered properties pay for their individual consumption according to a set tariff. Tariffs have been set at the point of occupation, to reflect the specific gas price paid for that block. While the LASER bulk purchase provides competitive rates across the board, rates vary slightly depending on the size of the block and number of properties served.
52. While gas prices remained stable, heat meter tariffs could also remain stable but as explained above, gas rates have increased significantly and it is now therefore necessary to increase heat tariffs to cover the council's costs in running its metered networks.
53. A heat metering policy paper will be coming to Cabinet in January 2023 following consultation on the draft heat metering policy between August to October 2022. However, that paper deals with the principles and policies relating to heat metering (such as whether the council runs its own in-house billing system rather than using an external provider and the benefits of credit billed systems over pre-payment) rather than the specific tariffs and charges which are best dealt with as part of budget setting.
54. The table below shows the current and proposed tariffs for district heating properties with heat meters (all figures are exclusive of VAT, charged at the reduced rate, currently 5%).

Scheme	Number of bedrms	Current tariffs		Proposed tariffs	
		Standing charge (p/day)	Variable charge (p/kWh)	Standing charge (p/day)	Variable charge (p/kWh)
Alfred Fagon	1	37.34	11.62	49.03	11.01
	2	40.84		53.35	
	3	44.35		57.05	
Cezanne House	1	53.00	4.28	49.03	11.01
	2	58.00		53.35	
	3	63.00		57.05	
Lilac House	1	34.61	4.27	49.03	11.01
	2	37.56		53.35	
	3	40.52		57.05	
Sumner Road	1	47.00	4.81	49.03	11.01
	2	50.00		53.35	
	3	53.00		57.05	
Sylvan Grove	1	48.00	4.36	49.03	11.01
	2	51.00		53.35	
	3	55.00		57.05	
	1	82.00	3.29	49.03	11.01

<b>William Cuffay</b>	2	93.00		53.35	
	3	103.00		57.05	

55. As can be seen, the proposed tariffs standardise what is charged between different new build schemes. Historically, differences have emerged due to the energy prices available when the tariffs were originally calculated. (It should be noted that Alfred Fagon's tariffs were set post April 2022 so already reflect current high-energy prices). The proposed standardised tariff for all heat-metered tenants is expanded in the table below to demonstrate an equivalent weekly charge for average and highest users. Since each property will pay an individual bill, which reflects their consumption, these are a guide only based upon past average and 90th percentile consumption.

<b>Number of bedrooms</b>	<b>Standing charge (p/day)</b>	<b>Variable charge (p/kWh)</b>	<b>Equivalent weekly charge for average user (£)</b>	<b>Equivalent weekly charge for highest users (£)</b>
1	49.03	11.01	9.54	19.32
2	53.35		11.46	21.13
3	57.05		18.93	24.39

56. With the exception of Alfred Fagon (whose tariffs already reflected 2022 gas price rises), the other schemes will see an overall rise in heating costs of around 70% for an average user. Although the variable element will increase by more than this, the service charge increase is less.
57. The variable charge of 11.01 p/kWh is less than domestic customers with a 90% efficient gas combi boiler would pay for heat, under the government's energy price guarantee scheme.
58. The last two columns of the table show expected overall heating costs for average users and highest users, shown as a weekly equivalent. Although charges through the current metering arrangements change from week to week for properties with heat meters (unlike unmetered customers), the values shown are the average across a whole year. It should be noted that even the highest users are likely to pay less than unmetered properties served with central heating and hot water. This is largely because new buildings are better insulated and therefore require less heat to keep them warm.

### **Government Energy Price Support for Residents**

59. In response to the global spike in energy costs, the government has implemented a number of market interventions as outlined below:
- Energy Price Guarantee – a cap on gas and electricity prices paid by domestic customers. Gas is capped at around 10.5p/kWh in London. The council has no involvement in administering this and generally is not relevant to district heating customers.

- Energy Bill Relief Scheme – a cap on wholesale gas and electricity prices paid by corporate customers (including the council). Gas is capped at around 7.5p/kWh for the wholesale element. Despite the council's LASER-procured gas rates rising significantly, they are still well below the capped rate, meaning our district heating charges will also be proportionally better.
  - Energy Bill Support Scheme – a £400 payment to all domestic customers (including district heating). Paid in six equal instalments over the period October 2022 to March 2023. The council has no involvement in administering this, as the payments are made directly to customers through their electricity provider.
  - Alternative Fuel Payments – a £100 payment to domestic customers with non-mains gas heating. This was originally going to apply to heat network customers, but this was removed during the Autumn Statement, so will only apply to customers using fuels such as oil and liquid petroleum gas for heating.
60. While the council never wishes to increase district heating charges to residents, it is useful to note that the energy support schemes outlined above, have been brought in by the government in response to the unprecedented energy price spikes and should go some way to ameliorating the impact of these increases. A customer living on one of our district heating estates, while facing a charge increase of 70% from 6 February 2023, will receive support totalling £400 this winter (through the Energy Bill Support Scheme).

### **Southwark Council Support for Residents**

61. Support available for residents is outlined on the Council's website – the information can be accessed by clicking on the 'Here to HElp' logo on the front page.
- From 1 December, a new Southwark Energy Savers will be available for residents struggling with their energy bills. The energy savers service is a partnership between the Council and Citizens Advice Southwark delivered by Citizens Advice Southwark. The new service is available face-to-face, by phone and online.
  - This winter, the Southwark Council Cost of Living Fund (SCCOLF) will provide extra support for those at risk of hardship or falling into fuel poverty this winter. From January 2023, any resident struggling to pay higher energy bills can apply to the fund for extra help.
  - Residents claiming some benefits including Universal Credit, Pension Credit, Employment Support Allowance (ESA), and Working Tax Credit will receive extra help with bills from the Government this winter including a one-off payment of £324 payable in November and December. This support will be paid automatically to those who are entitled. If a resident receives one of these benefits, they will not need to apply for the extra *Cost of Living*



*Payment.* The extra payment will be made to the same bank account used to pay the benefits the resident receives.

- Pension-age residents will receive a bigger winter fuel allowance this year - £500 instead of £200 – in November or December. Households receiving some types of disability benefits should already have received an extra £150. Again, no application is required and payments will be made to the same account used to pay the state pension or disability benefits.

### **Other HRA Income Streams**

62. Whilst tenant rents and service charges constitute over three-quarters of HRA income; the remainder comprise homeowner service charges, commercial property rents, interest receivable, recharges, costs recovered, capitalised expenditure and discretionary and mandatory fees and charges.
63. Homeowner revenue service charges are the second-largest income stream to the HRA and represent the actual cost of services provided to homeowners that are recoverable under the terms of the lease. Whilst right-to-buy activity remains low, price and volume increases across a range of recoverable services are forecast; the base budget needs to be realigned for 2023-24 to reflect this. Overall, this is net neutral to the HRA. Capital works service charges are determined by the scale and delivery of investment in the stock and the extent to which it pertains to leasehold property (external and communal works). The base budget is based on a relatively prudent expectation of income in order to avoid frequent budgetary fluctuations due to the variable nature of the works programme. There is no realistic expectation of budget growth in this area for 2023-24.
64. A modest increase in income derived from miscellaneous mandatory and discretionary fees and charges has been budgeted for in line with the provisions of the council's Medium-Term Financial Strategy, which covers both the HRA and General Fund services.
65. As noted in the section above on financing, the HRA will have an additional commitment relating to building safety surveys from 2022-23 onwards. It is proposed to fund the immediate costs of this through capitalising the cost via the investment programme.

### **Consultation and Statutory Notification Requirements**

66. 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 normally commences with this interim scene-setting report to cabinet in December 2022 setting out the indicative budget and implications for rents and other charges in order that information can be disseminated to residents before Christmas.
67. Following extensive consultation, the council adopted the new Resident Participation Framework in 2020, reforming its consultative bodies and

procedures, with the intention that HRA budget and rent setting consultation be conducted in line with the new arrangements. Homeowner representatives are unable to make recommendations in the matter of tenant rents and service charges, but may do so in respect of proposals regarding garage charges and in terms of any budget proposals pertinent to the calculation of their service charges.

68. Arrangements are currently being put in place to consult with tenants and homeowners on the proposals outlined in this report, the results of which will be collated and reported to cabinet at the meeting on 17 January 2023. Subsequent to the approval of the final report, either as set out or as amended by cabinet, and the passing of the necessary date for its implementation, the council will issue the statutory and contractual notification of variation in rents and other charges to all tenants, not less than 28 days prior to the effective date of 3 April 2023 for commencement of the new rent year.

## **Community, Equalities (including Socio-economic) and Health Impacts**

### **Community Impact Statement**

69. The purpose of this report is specifically to set tenant rents and associated charges (which can 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 government was that annual rent increases should revert to September CPI+1%, as specified under the provisions of the Rent Standard 2020. However, given the current cost of living crisis, government have sought to mitigate the impact for 2023-24 by introducing a temporary rent cap of 7% for 2023-24.
70. 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. In addition, both government and the council have put in place financial support mechanisms to mitigate the wider cost of living crisis and specifically energy costs, along with resources to support tenancy sustainment. Financial assistance is also available through the provision of Discretionary Housing Payments (DHP) of £817k for 2022-23, (the allocation being some 30% lower than the previous year), and will be fully spent by year-end. No announcement has yet been made in respect of next year's allocation. However, the council is committed to providing support to the most financially disadvantaged and proposes to match-fund next year's DHP allocation on a one-off basis from reserves.

### **Equalities (including Socio-economic) Impact Statement**

71. 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. 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**

72. 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.
73. 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, contains advice on accessing welfare 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**

74. At its meeting of 18 July 2022, Cabinet agreed the annual progress report on the climate emergency and made changes to the climate action plan strategy. A smart action dashboard is published on the council's website, which highlights the extent of delivery across the council but also the significant funding, resource and expertise gap in achieving net zero by 2030. The reports under consideration today and post-consultation are principally concerned with the financing and delivery of the council's responsibilities as a social landlord. Section E of the revised action plan relates directly to the decarbonisation programme for council housing. Progress is detailed for the following programmes:-

- Raise the energy efficiency of social housing with an EPC rating of D or lower.
- Replace gas with low-carbon heat technologies.
- Make all of our future council home projects net zero.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Governance**

75. The report sets out an Indicative Budget for the Housing Revenue Account (HRA) for 2023-24. Members are invited to approve officer recommendations for:
  - Capped rent increases for existing directly managed, council shared ownership and TMO managed tenancies;
  - An increase in tenant service charges;
  - An increase in sheltered housing service charges;

- An increase in charges for garages and other non-residential facilities dependent on the status of the customer; and,
  - An increase in district heating and hot water charges.
  - Consultation
76. The financial and budgetary considerations underpinning the recommendations are explained in the body of the report and its annexes.

## **Policy and Legislative Context**

77. The Local Government and Housing Act 1989 (“the 1989 Act”) sets out legal requirements in relation to housing finance, in particular a duty under Section 74 of the Act to maintain a Housing Revenue Account (“HRA”). The 1989 Act provisions include a duty, under Section 76 to budget to prevent a debit balance on the HRA and to implement and review the budget.
78. The Housing Act 1985 (“the 1985 Act”) section 24 gives the council power to “make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses”. The council is additionally required by Section 24 of the 1985 Act, from time to time, to review rents and make such changes as circumstances may require.
79. Up to 1 April 2020, the discretion as to rents and charges was subject to restrictions arising from the provisions of the Welfare Reform and Work Act 2016 (‘the 2016 Act’). The Act and supporting regulations required the council to ensure (subject to limited exceptions) that for each relevant year the rents (excluding charges made for services) payable by its social tenants reduced by at least 1% year on year from a 2015-16 baseline, for a period of four years. The Act also made provision, for a period of four years commencing 2016, for the maximum levels of rent for social tenancies commencing after 8 July 2015; these provisions applied to tenancies of new homes and re-lets to a new tenant, but not the grant of a new tenancy to an existing tenant.
80. Following consultation by the Ministry of Communities, Housing and Local Government with Registered Providers and Local Authorities, from 1 April 2020 the council must set rents in accordance with the Rent Standard April 2020 (“the 2020 Standard”). This is issued by the Regulator of Social Housing under direction (the Rent Standard Direction 2019) of the Secretary of State for Housing, Communities and Local Government pursuant to powers given under the Housing and Regeneration Act 2008 Section 197. Government policy in this respect is set out in the “Policy Statement of Rents for Social Housing”.
81. Under the 2020 Rent Standard, the council may apply annual rent increases, over a five-year period, of up to 1% above the general index of consumer prices CPI. Though, as explained in this report, the Chancellor has recently announced a limit on annual rent increases for 2023-24 representing a cap of 7% on social rent increases.
82. The council must comply with the rules contained in the 2020 Standard; Housing and Regeneration Act 2008 section 194(2A) and with all the requirements and

expectations in the Policy Statement on Rents for Social Housing. 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**

83. Changes in rent and other charges are excluded from the statutory consultation requirements on matters of “housing management” in respect of which local authorities are required to consult their tenants secure, introductory and demoted tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996. The Council however has undertaken in its tenancy conditions to consult with the Tenant Council before seeking to change rent and other charges. The report indicates that consultation will take place in order to comply with this term.
84. The council is required, by Section 103 of the Housing Act 1985 in relation to its secure tenancies and by Section 111A of the Housing Act 1985 in respect of its introductory tenancies, and further to the council’s agreement with its tenants, to notify tenants of variations of rent and other charges. The council will need to serve a notice of variation, at least 28 days before the variation takes effect.

### **Equalities Impact**

85. In making a decision the cabinet must have due regard to the council’s equalities duties set out in the Equalities Act 2010, specifically the need to:
  - Eliminate discrimination, harassment, victimisation or other prohibited conduct;
  - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not; and
  - Foster good relationships between those who share relevant characteristics and those who do not.
86. The report includes a community impact statement that sets out consideration given to the equality duties in the Equality Act to which members must have regard

### **Strategic Director of Finance & Governance**

87. The financial implications arising from the proposals in respect of budget changes to meet cost pressures and commitments arising from existing and new burdens, along with proposals for changes in rents and charges are fully addressed in the report. The proposals as set out will satisfy the statutory requirement to set a balanced HRA budget for 2023-24.

## Reasons for Urgency

88. The council is committed to publishing budget proposals and changes in rents and charges at the earliest opportunity to ensure they are available for consultation with tenants and homeowners in advance of the final report being considered by Cabinet on 17 January 2023. It is critical that decisions are made in good time to facilitate rent letter production and ensure that the 28-day statutory notification period can be complied with, such that the changes can be implemented and become effective from 3 April 2023.

## Reasons for Lateness

89. The report was delayed due to the timing of the Chancellor's Autumn Statement. As outlined previously, government have undertaken consultation on rent capping to mitigate the worst effects of the cost of living crisis. Responses were sought by the 12 October 2022 and the decision to set a maximum rent cap of 7% for 2023-24 was confirmed on 17 November 2022. Following which subsequent analysis of the impact and the need to take into account the latest updates from round 2 of the budget challenge process which only commenced on 28 November 2022

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
HRA Indicative Budget Challenge schedules comprising budget pressures, commitments and income generation proposals. Autumn Statement proposals in respect of rent capping.	160 Tooley Street London SE1 2QH	Paula Thornton, Constitutional Team

## APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2023-24
Appendix B	HRA Summary Revised Budget 2022-23 and Indicative Base Budget 2023-24
Appendix C	HRA Budget Pressures and Commitments 2023-24
Appendix D	HRA Income Generation 2023-24
Appendix E	HRA Savings, Efficiencies and Improved Use of Resources 2023-24

## AUDIT TRAIL

<b>Cabinet Members</b>	Councillor Stephanie Cryan - Cabinet Member for Communities, Equalities and Finance Councillor Darren Merrill - Cabinet Member for 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 - Departmental Finance Manager, Housing and Modernisation		
<b>Version</b>	Final		
<b>Dated</b>	1 December 2022		
<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 Governance		Yes	Yes
Strategic Director of Finance and Governance		n/a	n/a
<b>Date final report sent to Constitutional Team</b>			2 December 2022

## APPENDIX A – SUMMARY OF HRA BUDGET MOVEMENTS 2023-24

	Budget Movements  £000
<b>Budget Pressures and Commitments (Appendix C)</b>	
General Inflation	8,161
Service Commitments	17,364
<b>Sub-total</b>	<b>25,525</b>
<b>Income Generation (Appendix D)</b>	
Tenant's Rent	-15,414
Tenant Service Charges	-615
Sheltered Housing Service Charges	-42
District Heating Charges	-7,200
Commercial Property Rents	-200
Fees, Charges and Third Party Income	-35
Garage and Non-Residential Charges	-178
Homeowner Service Charges	-1,714
<b>Sub-total</b>	<b>-25,398</b>
<b>Savings, Efficiencies and Improved Use of Resources (Appendix E)</b>	
Savings and Efficiencies	-127
<b>Sub-total</b>	<b>-127</b>
<b>HRA TOTAL</b>	<b>0</b>



**APPENDIX B – HRA SUMMARY REVISED BUDGET 2022-23 AND INDICATIVE BASE BUDGET 2023-24**

	<b>2022-23 Budget</b>	<b>2023-24 Budget</b>
	<b>£m</b>	<b>£m</b>
Employees	42.5	44.8
Operational running costs	40.7	50.6
Estate cleaning and grounds maintenance	18.7	19.6
Repairs and maintenance	52.1	58.4
Contributions to investment programme, great estates and major projects	27.1	30.1
Corporate support costs	11.1	11.5
Depreciation	53.0	53.0
Financing costs	30.6	33.0
Tenant management organisations (TMO's)	7.1	7.4
<b>HRA Expenditure</b>	<b>282.9</b>	<b>308.4</b>
Dwelling rents	-202.6	-218.0
Non-dwelling rents	-6.4	-6.6
Heating and hot water charges	-8.2	-15.4
Tenant service charges	-16.8	-17.5
Homeowners - major works	-11.0	-11.0
Homeowners - service charges	-22.3	-24.0
Interest on balances	-0.7	-0.7
Commercial property rents	-8.3	-8.5
Fees, charges and third party income	-3.3	-3.4
Recharges and capitalisation	-3.3	-3.3
<b>HRA Income</b>	<b>-282.9</b>	<b>-308.4</b>
<b>HRA Total</b>	<b>0.0</b>	<b>0.0</b>

## APPENDIX C – HRA BUDGET PRESSURES AND COMMITMENTS 2023-24

Division	Ref.	Cabinet Member	Description	2023-24 £000	Comments on Context
Central Services	HRA301	Cllr. Merrill	General and contract specific inflation uplift	8,161	Indicative annual inflation provision to meet cost increases across a broad range of budget heads, including employees, operational running costs and works contracts comprising repairs and maintenance, mechanical and electrical engineering and heating plant.
Central Services	HRA302	Cllr. Merrill	District Heating Network – Energy Costs	7,200	Energy costs for the district heating network are forecast to be around £7.2m higher than budget in 2022-23 and current charge rates are significantly below the level required to cover the shortfall requiring an increase in charges of 70%. Notwithstanding the scale of the increase, it is worth noting that tenants on district heating have and continue to benefit from the LASER contract arrangements that enable gas and electricity to be purchased at wholesale prices, which are considerably lower than domestic consumer prices. Given the continuing situation in Ukraine, it is anticipated that further charge increases will be necessary during 2023-24 to meet further energy cost increases.
Exchequer Services	HRA303	Cllr. Merrill	Homeowners Building Insurance Contract	250	Contract subject to retendering for 2023-24 - price currently unknown but provisional inflationary increase assumed in line with RICS guidance. Assumes full cost recovery from homeowners as part of their revenue service charges.

Asset Management	HRA304	Cllr. Merrill	Building Safety - dedicated team (year 2 tranche)	640	Building Safety - staffing requirement is 37 posts (including 2 x project management officers), phased recruitment/ implementation.
Asset Management	HRA305	Cllr. Merrill	Building Safety - additional compliance works	275	Phased increase in compliance budget to meet additional costs arising from building safety inspections. £500k committed for 2022-23, of which £75k allocated for ventilation works and £150k for lift maintenance.
Asset Management	HRA306	Cllr. Merrill	District Heating Team (year 2 tranche)	350	District heating team to devise, plan and deliver works programme to heat network infrastructure. Phased implementation over 2 years. Proportion of costs to be capitalised as works programme commences.

Division	Ref.	Cabinet Member	Description	2023-24 £000	Comments on Context
Asset Management	HRA307	Cllr. Merrill	Leaks From Above Team	96	Increase in staffing resources to support the team and address capacity issues.
Asset Management	HRA309	Cllr. Merrill	Electrical Installation Condition Report (EICR) rolling programme	900	The purpose of an EICR is to determine, so far as is reasonably practicable, whether the electrical installation is in a satisfactory condition for continued service. The recommendation of the electrical wiring regulations BS7671 ("Requirements for Electrical Installations" IET Wiring Regulations), is that these are tested every 5 years (or less depending on the condition of the installation)
Asset Management	HRA310	Cllr. Merrill	Fire Door Inspections	520	All fire doors (front entrances, communal doors etc.) will need to be inspected annually from January 2023 onwards. Both sides of the doors need to be inspected so new team will be 10 x Hay 8, 1 x Hay 10 to manage and 1 x Hay 7 to make appointments.
Asset Management	HRA311	Cllr. Merrill	Disrepair Caseload	377	The team continue to close a high volume of cases per month building on the record volume of 495 claims closed last year, which was a 74% increase to the volume closed in 2020-21. This also represents a 173% increase in the volume of claims closed compared to that 4 years ago.
Asset Management	HRA312	Cllr. Merrill	Damp & Mould Team	306	Dedicated team to respond to reports of damp, in line with the Ombudsman Spotlight Report and damp & mould strategy recommendations. This will improve our building compliance for Housing Health and Safety Rating System (HHSRS) & help prevent legal disrepair claims/complaints. Resources will be spread across Southwark Repairs operatives and officers to deliver the service.

Division	Ref.	Cabinet Member	Description	2023-24 £000	Comments on Context
Resident Services	HRA313	Cllr. Merrill	Estate Management	251	The number of new build properties coming on stream has created capacity issues in terms of patch sizes and the increasing demands of the building safety regime requires significant input from the Resident Services Team. The intention is to recruit a new team comprising four Resident Service Officers and one Resident Service Manager to alleviate this pressure.
Resident Services	HRA314	Cllr. Merrill	Cator Street 2 Extra Care Unit	94	The council is building a new Extra Care Unit (50 units, which will require an additional post to manage the unit). The new unit will have concierge cover with costs rechargeable to service users. The second post is required to cover needs of Fire Risk Assessments (FRA), which requires staff to be available 24/7 to aid with any required evacuation in the event of fire.
Resident Services	HRA315	Cllr. Merrill	Great Estates programme	335	Discretionary funding to enable continuation/expansion of popular Great Estates programme, including more gardening and food growing on estates.
Resident Services	HRA317	Cllr. Merrill	Social Regulation Act	117	The inevitable increase in complaints due to the Social Regulation Act requires additional administrative and project management support to address the new obligations arising from the Act and enable the council to be ready for inspection.
Central Services	HRA320	Cllr. Merrill	Revenue contribution to support the Housing Investment Programme	3,000	Increase in revenue funding to supplement the existing resources for the council's capital programme, specifically the major works programme focussed on the council's existing housing stock.

Division	Ref.	Cabinet Member	Description	2023-24 £000	Comments on Context
Central Services	HRA321	Cllr. Merrill	Debt Financing	2,400	Increase in budget provision to meet additional revenue financing costs arising from the council's new homes programme. Cumulative programme borrowing up to 31.3.22 is £201m with a further £230m estimated requirement for 2022-23. The cost of the programme has escalated substantially with rampant construction industry inflation and tender prices running at 30% higher than a year ago. This is compounded by rises in interest rates, the revenue impact of which falls as a long-term fixed cost to the HRA (generally 50 years) and consumes a greater proportion of HRA operating resources.
Customer Services	HRA318	Cllr. Cryan	Complaints Handling	123	Increase in establishment to address capacity shortfall in dealing with complaints and address IT issues pending implementation of an automated solution to systems configuration currently requiring manual intervention.
Customer Services	HRA319	Cllr. Cryan	Housing Ombudsman Fees	130	The Housing Ombudsman fee has risen from £116k to £246k for 2022-23 as the 'per property' rate has increased from £2.16 to £4.60, requiring an uplift in the base budget to meet the revised cost. No further increase is anticipated for 2023-24.
				<b>25,525</b>	

## APPENDIX D – HRA INCOME GENERATION 2023-24

Division	Ref.	Cabinet Member	Description	2023/24 £000	Comments on Context
Resident Services	HRA102	Cllr. Merrill	Sheltered Housing Service Charges	(42)	Annual rebasing of sheltered service charges to ensure full cost recovery for the provision of enhanced housing management services provided to clients.
Exchequer Services	HRA104	Cllr. Merrill	Garage Rents and Non-Residential Charges	(178)	Increase in standard garage charge rate of 3% and differential rate of 5% for private sector renters. Need to protect the income stream, which may otherwise be at risk of tenants terminating their leases due to affordability.
Exchequer Services	HRA105	Cllr. Merrill	Homeowner Revenue Service Charges and Mandatory and Discretionary Fees	(1,464)	Annual rebasing of revenue service charge budget to reflect current/anticipated volumes, activity and inflationary cost pressures. This to ensure full cost recovery from homeowners under the terms of their lease and prevent cross-subsidy by tenants. Estimate includes uplift in mandatory and discretionary fees and charges for provision of specific services and rebasing of budget to reflect lower activity.
Central Services	HRA106	Cllr. Merrill	Miscellaneous Mandatory and Discretionary Fees and Charges	(35)	Annual review of miscellaneous mandatory and discretionary fees and charges for services in line with Council's Medium Term Financial Strategy (MTFS).
Central Services	HRA107	Cllr. Merrill	HRA Commercial Property Portfolio	(200)	Additional income from rent reviews and lease renewals of commercial property (shops etc.) held in the HRA. Income modelling assumes nil increase in rents charged to the smallest businesses concerned, and an unconstrained approach (having careful regard to the economic situation at the time of the review or renewal, nevertheless) to the new rents for larger businesses only. All transactions are managed through the Property

					Team to ensure consistency. The volume of reviews and renewals fluctuate from year to year, according to lease terms, and will decrease in number and overall value in 2024-25 and 2025-26.
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Division	Ref.	Cabinet Member	Description	2023/24 £000	Comments on Context
Central Services	HRA108	Cllr. Merrill	Government Capped Rent increase @ 7%	(15,414)	Capped rent increase @ 7% in line with government guidance. Compared against guideline methodology @ 11.1% results in a loss of income of £9m. A further reduction from 7% to either 5% or 3% results in further losses of £4.4m and £8.8m respectively. 2022-23 stock numbers updated to reflect the mid-year stock position to ensure greater accuracy for forward planning purposes.
Central Services	HRA109	Cllr. Merrill	Tenant Service Charges (TSC)	(615)	Annual rebasing of tenant service charges comprising: estate cleaning, grounds maintenance, estate lighting and door entry, to reflect contract and employee cost increases and ensure full cost recovery.
Central Services	HRA110	Cllr. Merrill	District Heating & Hot Water Charges	(7,200)	Energy costs for the district heating network are forecast to be around £7.2m higher than budget in 2022-23 and current charge rates are significantly below the level required to cover the shortfall requiring an increase in charges of 70%. Notwithstanding the scale of the increase, it is worth noting that tenants on district heating have and continue to benefit from the LASER contract arrangements that enable gas and electricity to be purchased at wholesale prices, which are considerably lower than domestic consumer prices. Given the continuing situation in Ukraine, it is anticipated that further charge increases will be necessary during 2023-24 to meet further energy cost increases.
Exchequer Services	HRA111	Cllr. Merrill	Homeowner Buildings Insurance	(250)	Estimated income recoverable from homeowners under the terms of their lease to match assumed cost increase arising from Building insurance contract retendering in 2023-24 (item HRA303 above refers). Cost increase currently unknown but provisional inflationary increase assumed in line with RICS guidance.
				(25,398)	



## APPENDIX E – HRA SAVINGS, EFFICIENCIES AND IMPROVED USE OF RESOURCES 2023-24

Division	Ref.	Cabinet Member	Description	2023/24 £000	Comments on Context
Asset Management	HRA003	Cllr. Merrill	Engineering Inspections	(90)	The current engineering inspection budget is £250k. Asset Management reviewed the asset register and has worked towards refurbishing some of the district heating plant rooms, introducing mechanical separation and reducing the operational pressure on the systems. This not only provides better performance and lowers the risk of bursts, but means the systems no longer fall under the Pressure Vessel Regulations, thereby reducing the need for annual inspections and realising a cost saving.
Central Services	HRA202	Cllr. Merrill	My Southwark Service Point (MSSP)	(37)	Rationalisation of current service provision to reflect lower activity/volumes – funding split 70/30 between HRA & GF.
				(127)	