

Item No. 7.	Classification Open	Date: 25 January 2011	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2011/12	
Ward(s) or groups affected:		All	
Cabinet Member:		Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	

FOREWORD – COUNCILLOR IAN WINGFIELD, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING MANAGEMENT

1. In December I told Cabinet that housing finance was at a crossroads. Since then local authorities have begun to receive further information from Government as to the likely future of social housing provision, and it's financing, not least through the Localism Bill, but there is still much detail to be provided to us. Officers will continue to assess this detail as and when it is issued by the Communities and Local Government Department and will provide us with an impact assessment in due course. I also noted that housing was not immune from savings demanded of other council services, and this remains true. We have embarked on the widest range of consultation exercises with residents for some years in order to provide openness to them on the difficult decisions that we face, and to enable them to guide us in setting service priorities and thus influence the composition of those decisions.

RECOMMENDATIONS

Cabinet is recommended to:

2. Approve an average rent increase of 7.08% in accordance with the Government's required formula rent guidance (as set out in paragraph 11). This is equivalent to an increase of £5.71 per week on average, to be applied to all HRA dwellings (including estate voids and hostels), with effect from 4 April 2011. Average budgeted dwelling rent for 2011/12 will be £86.31 per week.
3. Approve revised tenant service charges following the rebasing exercise as set out in paragraph 14 with effect from 4 April 2011.
4. Approve an increase in rents and charges for all non-residential property of 50% as set out in paragraph 15 with effect from 4 April 2011.
5. Approve a further standstill in heating and hot water charges for 2011/12 such that each charge remains at the rate determined for 2009/10 and 2010/11 (as set out in paragraph 16).

BACKGROUND INFORMATION

Context

6. Cabinet on 14 December 2010 considered the Indicative HRA Rent-Setting and Budget position for 2011/12. This report contained all of the background information necessary to consider the reasons behind the proposed changes to rents and other charges. It is not proposed to repeat this detail here, but where further and updated information has been received from central Government that is germane to this process it is outlined below. The consultation process is not yet complete (as at the time of compilation of this report), but officers will provide a formal report of any resolutions from Tenant Council, Home Owner Council and Area Housing Forums at the Cabinet meeting.
7. The purpose of this report is to seek formal approval of the recommendations in respect of rents and other charges outlined at paragraphs 2 to 5 above.

Statutory Framework

8. 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, housing subsidy, leaseholder service charges and other income. The HRA forms a specific part of the council's accounts, and a report regarding the general fund budget is being considered separately at this Cabinet meeting.
9. Whilst there is no statutory requirement to consult, the council is committed to engaging with stakeholders, particularly under the terms of the Tenancy Agreement, and so the Indicative Report (14 December 2010) formed the basis of early consultation with Tenant Council, Area Housing Forums and Home Owner Council before this Final Report is considered by Cabinet. This process commenced before Christmas 2010, and continued throughout January 2011.
10. The council is obliged by statute to agree a balanced HRA budget, whereby income and expenditure levels for the forthcoming year match. In order to meet this requirement, this report uses a number of assumptions regarding income and expenditure levels, and Appendix A summarises this position. A key assumption is that unavoidable expenditure and other commitments, together with additional income generated by means of the rent and charges proposals elsewhere in this report will have to be supplemented by efficiency savings to the tune of £7.0m in order to balance. This does not, however, pre-empt the consultation exercise on budgets that the council is currently undertaking. The Finance Director and Director of Housing Services will present jointly a report setting out the detail of the required efficiency savings for Cabinet endorsement before the end of the current financial year, and this report will encompass consultation outcomes.

KEY ISSUES FOR CONSIDERATION

Annual Rent Guideline and Formula Rent

11. The Indicative Report (14 December 2010) set out existing arrangements for national rent-setting under the Government's rent restructuring policy, and the rent increase likely to result under the terms of the Draft HRA determination. This Determination was finalised on 10 January 2011, with no resultant changes to rental inflation. This exercise also affects Government housing subsidy levels (which have changed), and hence the relevant tables in the sections headed 'Management and Maintenance Allowances' and 'Major Repairs Allowance and Debt Charges' have been updated accordingly.

Average Rent Inflation	2010/11 Final	2011/12 Draft	2011/12 Final
Inflation Uplift (RPI @ September)	(1.40%)	4.60%	4.60%
Top-Up Element	0.50%	0.50%	0.50%
= Increase in Formula Rent	(0.90%)	5.10%	5.10%
plus national convergence element	4.00%	1.70%	1.70%
= Increase in National Guideline Rent	3.10%	6.80%	6.80%
plus local convergence element	1.28%	1.25%	1.25%
less annual affordability limits	(3.05%)	(0.97%)	(0.97%)
= Total Increase in Actual Rents	1.33%	7.08%	7.08%

Management and Maintenance Allowances

12. Updated management and maintenance data on a per property basis for Southwark is contained in the table below. These allowances have increased in comparison with the Draft Determination data used in the Indicative Report.

	2010/11* £	2011/12 £	(gain)/loss £	%
Management	(1,107.38)	(1,122.30)	(14.92)	(1.35)
Maintenance	(1,478.18)	(1,548.17)	(69.99)	(4.73)
Rent Clawback	4,228.80	4,477.47	248.67	5.88
Net Clawback	1,643.24	1,807.00	163.76	9.97

* since the Final Determination for 2010/11 was issued after the deadline for last year's rent-setting report, these figures differ slightly from those published last year.

Major Repairs Allowance and Debt Charges

13. As with the other allowances that make up the overall calculation of subsidy, the Major Repairs Allowance (MRA) and net debt charges are dependent on both individual local authority data returns and Governmental assumptions. The Draft MRA figure of £980.84 per property has been increased to £986.72 per property for 2011/12 as part of the Final Determination. The debt charge position is unchanged. The effect of these changes on the total loss of subsidy expected for 2011/12 is set out in the updated table below, where it can be seen that the expected reduction has fallen to £5.5m. Since MRA is a capital element of subsidy, the shortfall in revenue terms is £6.7m (see Appendix A).

2011/12 Movement (gain)/loss	Draft Subsidy Determination		Final Subsidy Determination	
	£m	£m	£m	£m
Management Allowance	0.3		-	
Gain in Maintenance Allowance	(1.5)		(2.0)	
Gain in Major Repairs Allowance	(1.0)		(1.2)	
Total gain in allowances		(2.2)		(3.2)
Increased Rent Clawback		7.5		7.5
Fall in Subsidy Debt Charges	2.7		2.7	
Fall in Depreciation Charge	(1.7)		(1.5)	
Net fall in Debt Charge Subsidy		1.0		1.2
Total loss of Subsidy		6.3		5.5

Tenant Service Charges

14. The council does not, at this time, intend to change tenant service charges further from the position set out in the Indicative Report in December 2010. As part of the budget consultation process, officers are exploring with residents the potential for varying service provision with a consequent variation in charges. However, in order to present a balanced budget tenant service charges for 2011/12 are as set out in the table below.

	2010/11 £ per week	2011/12 Proposed new charge	% change
Estate Cleaning	4.45	4.60	3.4%
Grounds Maintenance	1.03	1.09	5.1%
Communal Lighting	0.93	1.17	24.7%
Door Entry	1.09	0.68	(37.6%)
Total	7.50	7.54	0.6%

Non-Residential Rents and Charges

15. Non-residential rents and charges were last increased in April 2009. This is an area on which consultation has taken place in recent months, with stakeholders giving a very clear message regarding their opposition to a proposed differential charging policy. The level of increase proposed in the Indicative Report remains unchanged at a flat-rate 50% from April 2011.

District Heating Charges

16. Charges for heating and hot water were last increased in April 2009. Despite continuing high volatility in the markets for energy supply the Indicative Report (14 December 2010) anticipated another year of no increases in this regard. The council reviews charges annually to ensure that within the context of the current four-year flexibly-priced gas supply contracts, charges are set at a level which is likely to be maintained within the currency of the contract. This may not always be the case – particularly in the latter stages of the contract period – but the council is able to maintain this position for 2011/12, and so no increase in these charges is recommended.

Thames Water

17. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2011. Notification of the increase will be advised in the next few weeks by Thames Water, on whose behalf the council act as agent for billing and collection.

Financial implications

18. The HRA continues to be under pressure, as subsidy resources continue to decline. The Government effectively operates control over rent policy, through the rent restructuring regime and reduces Southwark's subsidy (through rent clawback) based on notional data, which is divergent from the actual position as it relates to Southwark.
19. For 2011/12, the HRA final budget includes a range of measures, including increases in rents, improved collection and voids management generating higher income and lower debt provisions. As indicated in Appendix A, this leaves a gap of £7.0m which for the purpose of presenting a balanced budget, will have to be met by a package of efficiency savings. It is anticipated that these may be delivered through revised and more efficient working across housing services, together with further contract and supply chain improvements. Re-profiling and re-direction of resources provides the flexibility to target those areas of highest priority/greatest need. In order to prudently manage the scarce resources available, the council also intends to contribute sums into reserves to cover exceptional cost items now and in the future.

Commitments/Unavoidable Demands

20. These elements of expenditure, which broadly speaking fall outside the capacity of officers to directly influence in terms of varying service levels provided by the council as a landlord were explored in some detail within the Indicative Report. Where they have changed due to more timely information becoming available, this has been incorporated into Appendix A as appropriate.

Efficiency Savings

21. In order to present a balanced HRA budget under statute, the assumption has been made that the "gap" between likely income and expenditure levels identified within Appendix A will be met by a programme of efficiency savings. The precise composition of this package is dependent in part on consultation outcomes, though the Indicative Report set out the broad direction of travel required to meet the budget gap.

Localism Bill and Self-Financing

22. The Indicative Report contained sections setting out the broad impact on HRA services of the Spending Review, and the intention of the Coalition Government to legislate to introduce the 'self-financing' system to fund local authority social housing provision, as previewed in 2010 by the 'Prospectus' consultation paper, which Cabinet considered on 22 June. The legislative intentions became clearer when the Localism Bill was published on 13 December 2010.

23. The Bill covers a wide range of local authority activity and arrangements regarding the sector's relationship both with central government and residents, but there are provisions specific to HRA reform.
24. Local authorities have been told that CLG will issue indicative debt settlement figures around the end of January, updating the debt figures produced as part of the consultation process last year, and reported to Cabinet on 22 June 2010. Officers will report to Cabinet on the specific implications arising from further CLG communications on HRA reform at the earliest opportunity.
25. Regarding Decent Homes, Cabinet received a separate report from the Deputy Chief Executive at their 14 December 2010 meeting setting out the bidding process between local housing authorities and the Homes and Communities Agency for the first tranche of DH backlog monies. The council's bid was submitted to the HCA on 11 January 2011.

Community impact statement

26. The council works in accordance with the general equality duties which are set out in section 71 of the Race Relations Act 1976, 49A(i) of the Disability Discrimination Act 1995 and 76A of the Sex Discrimination Act 1975. This means the council must have due regard to the need to: eliminate unlawful discrimination, harassment and victimisation; advance equality of opportunity between different groups; and foster good relations between different groups. Guidance on the implications of the Equality Act and the duties it imposes on the council has been issued to service departments and members.
27. In September 2010, Cabinet agreed seven principles that will guide its decision making on the budget, and these were appended to the Indicative Report in December for reference.
28. This report is primarily to set rents and associated charges. There is no differential effect on rents or associated charges for any community or group, and therefore the recommended decisions in paragraphs 2 – 5 above have no particular equalities impact. It is recognised however that increases in rents and charges may present particular difficulties for people on low incomes.
29. The intention of this report is to provide Cabinet with a balanced HRA budget for statutory purposes, however, the precise composition of efficiency savings required to set that budget has not yet been determined, and will be influenced by the consultation exercises that the council is undertaking throughout January 2011 and beyond. A thorough equalities assessment will therefore be prepared in parallel with this exercise, and the results will be reported as part of the budget update referred to at paragraph 10.

Consultation and Notification

30. The purpose of presenting rent-setting and budget information to Cabinet in two stages was to facilitate the early commencement of consultation with residents (i.e. before the Christmas break). To that end, the first report was labelled 'Indicative' and figures therein were all subject to change. The sections in this Final Report have set out such changes as are required to provide the HRA with a balanced budget for 2011/12. Specific feedback has been reflected in the relevant sections earlier in the report, where time constraints have allowed.

Savings Panel

31. Tenant Council has established a working party to look at savings proposals in more detail, and following a scoping meeting in December 2010, several meetings are scheduled in order to further explore particular issues.

Tenant Council

32. Tenant Council met on 10 January to consider the Indicative Rent-Setting and Budget Report, and to refer it on to Area Housing Forums. They reconvened on 24 January 2011 to consider any recommendations arising from the Area Forum consultation, and wider HRA budget consultation outcomes, where available; and make consolidated recommendations to Cabinet, which are reported under separate cover.

Home Owner Council

33. Home Owner Council are unable to make recommendations in the matter of tenant rents and service charges, but may do so in terms of any proposals regarding non-dwellings rents and other charges and in terms of the rest of the HRA Budget; and so the Indicative Report was considered at their meeting of 19 January 2011, and any comments made will be reported to Cabinet at the 25 January meeting alongside those of Tenant Council.

Statutory and Contractual Notifications

34. Subsequent to the approval of the Final Report on 25 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

Strategic Director of Communities, Law and Governance

35. Statutory requirements as to the keeping of a Housing Revenue Account are contained in the Local Government and Housing Act 1989. The provisions include a duty, under Section 76 of the Act, to budget to prevent a debit balance on the Housing Revenue Account and to implement and review the budget. Under Section 80 of the Act, the amount of the Housing Revenue Account subsidy payable to a local authority by Central Government is to be calculated in accordance with such formulae as the Secretary of State may from time to time determine. This report covers the formulae contained in the Department for Communities and Local Government Housing Revenue Subsidy Determination 2011/12.
36. Under Section 24 of the Housing Act 1985, local housing authorities have the power to "make such reasonable charges as they may determine for the tenancy or occupation of their houses". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. The section confers a broad discretion as to rents and charges made to occupiers, however Cabinet will note the effective limitation of discretion provided by the housing subsidy rules referred to in this report.

37. Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council, "before seeking to vary the sums payable for rents and other charges". The report indicates consultation will take place in order to comply with this term.
38. It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, which also applies in respect of introductory tenancies by virtue of Section 111A of the Housing Act 1985, together with the council's agreement with its tenants, that they are notified of variation of rent and other charges at least 28 days before the variation takes effect by service of a notice of variation. The report indicates the notice of variation will be served in time to comply with this requirement.

Finance Director

39. The financial implications arising from the Subsidy Determination and 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 Report 2011-12 (<i>Cabinet 14 December 2010, item 15</i>)	160 Tooley Street SE1 2TZ	Shaun Regan 020 7525 7771
Final Housing Subsidy Determination 2011-12 (<i>Communities and Local Government Department (CLG)</i>)	As above	As above
Localism Bill (<i>CLG</i>)	As above	As above

APPENDICES

No.	Title
Appendix A	HRA final budget movements 2010/11 to 2011/12

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Ian Young, Head of Housing Finance	
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Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director of Communities, Law and Governance	Yes	Yes
Finance Director	n/a	n/a
Cabinet Member	Yes	Yes
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