

Item No. 10.	Classification Open	Date: 28 January 2014	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2014/15	
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

In December cabinet considered a report on the HRA budget for next year which was balanced, as required by statute, and predicated on following government guidelines on rent levels, as this council has done for a number of years. Also in that month, we responded to a consultation from central government on the shape of rent policy for the next ten years. The consultation indicates that rent increases will be more closely tied to national inflation rates than ever before, which has implications for our financial position going forward. We have raised several issues in this context, and our full response forms an appendix to this report.

Managing a modern-day HRA is particularly challenging and carries with it both risks and opportunities. We must seek to raise the optimal amount of resources to deliver the standard of services as a landlord that our residents demand and deserve. We must endeavour to address the outstanding debt that central government has left us with in order to free up investment funding for the future renewal and replacement of our stock. And we must take heed of rising rent levels and their affordability for tenants, particularly in these times of economic hardship.

This is why cabinet instructed officers to examine a variety of differing rent options for 2014/15, in addition to the government 'baseline'. Collectively, cabinet have carefully considered the options put before us in this report. Being mindful of the other budget pressures detailed therein and also the consultation on the HRA budget that takes place during December and January, we will make a decision that in our view strikes the best balance between the needs of our residents whilst also delivering a balanced and sustainable HRA budget going forward.

RECOMMENDATIONS

Cabinet is recommended to:

1. Approve an average rent increase of 5.4% in accordance with the government's required formula rent guidance to be applied to all HRA dwellings as set out in paragraphs 26 to 29. This is equivalent to an increase of £5.21 per week on average for tenanted properties, with effect from 7 April 2014. This percentage increase is also to be applied to estate void and hostel properties from 7 April 2014. The average budgeted dwelling rent for 2014/15 will be £101.61 per week.

2. Note the council's response to the government consultation '**Social Rents in 2015/16**' (Appendix I), and its implications for the council's letting policy, particularly the options put forward regarding setting rents for new-build and new-let tenancies at formula rent levels (paragraphs 34 to 37).
3. Set tenant service charges at the same level as 2013/14 as laid out in paragraph 38 with effect from 7 April 2014.
4. Set the standard charge for non-residential property (garages etc.) at the same level as 2013/14, as laid out in paragraphs 39 and 40 with effect from 7 April 2014.
5. Set heating and hot water charges at the same level as 2013/14 as laid out in paragraph 41 with effect from 7 April 2014.
6. Set sheltered housing charges at the same level as 2013/14 as laid out in paragraph 42 with effect from 7 April 2014.
7. Note that water and sewerage charges levied by Thames Water are liable to an inflationary uplift as set out at paragraph 43, but as yet the council has not been informed by Thames Water of what that increase will be.
8. Note the revised HRA budget for 2014/15 (as set out in Appendices E and F).

BACKGROUND INFORMATION

Indicative HRA budget (the 'December report')

9. Cabinet on 10 December 2013 considered the Indicative HRA Rent-Setting and Budget position for 2014/15. This report contained all of the background information necessary to consider the reasons behind the proposals for rents and other charges. It is not proposed to repeat this detail here, but where further and updated information has been received that is germane to this process it is outlined below. Officers will provide a formal report of any resolutions from Tenant Council, Home Owner Council, TMO Liaison Committee and area housing forums at the cabinet meeting.
10. The purpose of this final report is to seek formal approval of the recommendations in respect of rents and other charges outlined at paragraphs 1 to 8 above.
11. Cabinet also instructed officers to explore possible options for the mitigation of the 'headline' rent increase under rent restructuring, and these are set out elsewhere in this report and within Appendix G.

Statutory framework

12. The HRA reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, 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 including those aspects provided via the housing and community services department is being considered separately.

13. Whilst there is no statutory requirement to consult, the council is committed to engaging with stakeholders, particularly under the terms of the Tenancy Agreement, and so the December report formed the basis of early consultation with the bodies listed in paragraph 9 above. This process commenced before Christmas 2013, and continued throughout January 2014.
14. The council is obliged by statute to agree a balanced HRA budget, whereby income and expenditure levels for the forthcoming year match. Appendix A summarises budget movements between 2013/14 and 2014/15, predicated on the basis of a guideline rent increase of 5.4%.

KEY ISSUES FOR CONSIDERATION

Financial context

15. Whilst self-financing provides financial freedoms, it also brings with it a number of increased risks and budget pressures, particularly in the early years of operation. To a large extent these have already been mitigated through the delivery of efficiency savings totalling £27.5 million (inclusive of 2014/15 proposals) and wholesale restructuring of landlord services since 2011/12. Appendix B sets out savings and income generation for 2014/15 specifically.
16. The government effectively operates control over rent policy through the rent restructuring regime and calculated Southwark's debt settlement adjustment on the assumption that rent levels match those imputed by full adherence to the national rent policy. The difficulty caused to Southwark by government assumptions regarding rent convergence is illustrated in the chart at Appendix C1 (other London boroughs rent levels are summarised in the accompanying table, Appendix C2, and this is shown in chart form in Appendix C3). This is exacerbated by proposals in the consultation paper on social rents, and this issue is dealt with in more detail elsewhere in this report.
17. However, it should be noted that the continued application of annual affordability limits will mitigate individual rent increases for 55.6% of tenants in 2014/15 – to the extent that the average rent increase across the borough will be reduced from 8.0% to 5.4% as a result.
18. The December report set out recommended contributions and commitments on the basis of the guideline rent increase for 2014/15. Their impact on divisional budgets forms part of Appendix F. A budget for the HRA utilising an alternative rent increase would require some consequential amendment to expenditure and/or income levels in order to remain in balance.

19. The table below sets out savings either realised or intended to be realised since 2011/12:

	2011/12 £m	2012/13 £m	2013/14 £m	2014/15 £m	Total £m
Customer Experience	(0.4)	(0.1)	–	(0.1)	(0.6)
Finance and Corporate Services	(1.7)	(0.3)	(4.3)	(3.1)	(9.4)
Specialist Housing Services	(0.2)	(0.1)	(0.7)	(0.2)	(1.2)
Chief Executive's	(0.2)	–	(0.1)	(0.1)	(0.4)
Community Engagement	(0.5)	(0.2)	–	(0.1)	(0.8)
Maintenance and Compliance	(3.2)	(3.1)	(0.1)	(1.4)	(7.8)
Operations	(2.4)	(2.1)	(0.8)	(0.9)	(6.2)
Major Works	(0.6)	(0.5)	–	–	(1.1)
Total HRA	(9.2)	(6.4)	(6.0)	(5.9)	(27.5)

20. Budgeted expenditure and income for 2014/15 is represented in bubble map form in Appendix D; Appendix E indicates the revised budget for 2013/14 and the base for 2014/15 incorporating the changes identified in Appendix A. This is further analysed to a divisional level in Appendix F.

HRA reserves and balances update

21. The December report also set out the current position in regard to council policy on HRA reserves and balances, in common with the council's general fund. Most of these reserves are earmarked for particular future application, meaning that the degree of flexibility within the overall balance position can be somewhat constrained by the particular mix of intended applications at any given point in time. The policy of contributing to reserves in order to be able to prudently manage scarce resources available and to cover exceptional cost items now and in the future continues to ensure they are at a more sustainable level and therefore there is no proposed base budget contribution to reserves in 2014/15.

Debt repayment

22. Central to the design and implementation of self-financing from a central government perspective was the need to place each authority in a position to only carry debt to the extent that it could reasonably pay it off over the course of a thirty-year business planning timescale. To that end, it was calculated that Southwark could afford to carry £451 million of historic debt – a write-down of £199.2 million from that held by the end of the subsidy system.
23. The announcement by the Chancellor of the Exchequer in his Autumn Statement of an easing of the cap on HRA-related borrowing by £300 million requires some amplification. The £300 million is split over two years, is subject to a bidding process, is also conditional on agreement with local partnerships, and also a commitment by the bidding authority to sell off (as yet undefined) 'high value social housing'. Given these hurdles, the council has some reservations and therefore intends to keep this position under review.

24. Operation of the government model business plan indicates that if (at one extreme) all of the HRA's resources were applied towards debt repayment, then this would be achieved by years 17 – 20 of the thirty-year lifetime of the plan. However, this would be to the total exclusion of any additional resources for service improvement, and assumes both full rent convergence by 2015/16 and uniform rent rises of RPI + 0.5% thereafter. If actual convergence were to continue beyond April 2015, at Southwark it would be some years after this, and the council would wish to reserve to itself decisions as to service delivery and rent levels in the foreseeable future.
25. £2.4 million was identified within the December report as being for 'financing' purposes. Paragraph 34 of that report noted that £1.3 million of this would be utilised to begin the process of debt repayment, whilst the remainder forms part of the on-going transition to a fully-componentised depreciation charge.

Annual rent guideline and formula rent

26. The December report set out existing arrangements for national rent-setting under the government's rent restructuring policy, and the resultant rent increase. These figures are set out in the table below:

Average Rent Inflation	2013/14	2014/15
Inflation Uplift (RPI @ September)	2.60%	3.20%
Top-Up Element	0.50%	0.50%
= Increase in Formula Rent	3.10%	3.70%
plus national convergence element	1.67%	1.65%
= Increase in National Guideline Rent	4.77%	5.35%
plus local convergence element	1.81%	2.65%
= Unlimited annual rent increase	6.58%	8.00%
less annual affordability limits	(1.73%)	(2.60%)
= Total Increase in Actual Rents	4.85%	5.40%

27. Throughout the rent restructuring process, the council has implemented those aspects relating to annual affordability limits consistently and in full. Under this element of the policy, no individual rent may rise by more than RPI + 0.5% + £2.00 per year. Depending on the interplay between the national RPI level, the proximity to the convergence date and any other intervention by central government, the number of tenants benefitting from this limit can vary widely year-on-year. As noted above, some 55.6% of tenancies will benefit at the 5.4% level in 2014/15.
28. Central government recognised the cash-flow implications of a voluntary foregoing of rental income by application of the affordability limits, and made restitution to local authorities one year in arrears via the subsidy system. Under self-financing that support has ended; however the council has continued with its operation as a means of mitigating the highest rises to individual tenants whilst remaining within the strictures of government assumptions as part of the move to the self-financing system for the HRA, and the council is committed to adhering to this policy.

29. Southwark's long-standing policy of maintaining historically low social rent levels brings particular pressures under rent restructuring and means that it is impossible for the council to achieve rent convergence (actual rents being derived entirely on a formula rent basis) by the government's national deadline of 2015/16. Were the council to be on target for this date, the rent increase would be 5.35%; the need to 'catch up' adds a further 2.65% to the national baseline figure for 2014/15, making an unconstrained increase of 8.0%. The operation of the affordability limits mechanism reduces this figure to 5.4%. At an individual tenant level, this is equivalent to a reduction in weekly rent for 2014/15 from £104.11 to the amount proposed in paragraph 1 above, £101.61 (a reduction of £2.50 per week).

Rent debit sensitivity

30. In the early years of the HRA business plan, decisions as to the level of rents have profound consequences as to its long-term sustainability, since the self-financing determination assumed that councils would continue to raise rents at a level to achieve rent convergence in 2015/16. If the council decided to increase rents at a lower rate, then there would be a net loss of income to the HRA compared to that which was predicated in this valuation. Each 1% less than the restructured rent rise equates to an estimated net loss of just under £1.9 million, requiring other budgetary measures to ameliorate the position. To place this in context – a shortfall of £1 million, compounded at 2% over the remaining life of the HRA business plan equates to some £37 million of resources foregone (assuming constant stock levels). This represents an immediate and enduring challenge to the HRA and the council needs to carefully weigh the short-term benefit for tenants against the longer-term funding implications inherent in such a measure.

Rent options

31. Cabinet may wish to consider adopting a more targeted approach to any rent mitigation measures given a large proportion of tenants are already in receipt of housing benefit such that any increase is either wholly or partially mitigated in any event, rather than having a blanket reduction or freeze. The targeting of financial support to those worst affected by the rent increase, as we are currently doing for those affected by the 'under-occupation' impact, through DHP, would obviously reduce the rental loss and could be accommodated without major budget impact depending on the scale of that support.

32. However, cabinet instructed officers to “**explore options regarding the rent increase for 2014/15, setting out its effects on the HRA for that year, and also their medium and longer-term implications**” when considering the December report. Five alternative scenarios to the convergence “base case” have been considered and further details are set out in Appendix G for both 2014/15 and 2015/16, with the resultant rent income positions charted in Appendices H2 – H3:
- Option 1: a single year rent freeze,
 - Option 2: a two-year rent freeze,
 - Option 3: an increase capped at CPI + 1% (3.7%),
 - Option 4: an inflation only increase (September CPI = 2.7%) and
 - Option 5: a one-off increase followed by an on-going freeze.
33. The effect on the 2014/15 HRA budget in terms of any requirements for re-balancing income against expenditure for each of these options now forms part of Appendix A.

‘Social Rents in 2015/16’ – CLG consultation

34. Between 31 October and 24 December 2013 the Department of Communities and Local Government (CLG) formally consulted on proposals contained within the Spending Review of June 2013. This included:
- Changing the rent inflation factor from September RPI + 0.5% to September CPI + 1% for a period of ten years to 2026;
 - Ending the policy of rent convergence from April 2015;
 - Removing formula rent caps on high value/large bed number properties;
 - Details around implementation of the high income social tenants policy (more commonly known as ‘Pay to Stay’; and
 - Technical details around affordable housing grants.
35. The proposed ending of rent convergence from April 2015 onward in particular has a negative impact on rental income projections (this is set out as part of Appendix H1). This represents an immediate and enduring challenge to the HRA and the council needs to carefully weigh the short-term benefit for tenants against the longer-term funding implications inherent in such a measure.
36. Within the consultation was a formal statement that councils were now expected to have implemented a ‘straight-to-formula’ policy for all new lets. This would be to defray the acknowledged shortfall in rental income exacerbated by discontinuing the policy of rent convergence. Straight to formula is not currently Southwark policy – this would need to be reviewed and subject to further consultation. Under the current arrangements only 40% of properties would see their actual and formula rents converge from 2015/16 onward, with this proportion increasing to 80.4% by 2020/21. However, if an additional 800 relets per year were to be moved directly to their formula rent level from 2013/14 onward, these proportions would increase to 46.4% and 97.4% respectively, bringing the overall date of actual convergence for Southwark forward by a number of years.
37. The recommendation at paragraph 2 is for cabinet to note this assumption within the consultation, with a view to determining a way forward as part of the 2015/16 HRA budget-setting process. The full response to the consultation forms Appendix I to this report.

Tenant service charges

38. The council does not intend to increase tenant service charges for 2014/15. They remain at the current rates as shown in the table below.

	2014/15 £ per week
Estate Cleaning	4.60
Grounds Maintenance	1.09
Communal Lighting	1.17
Door Entry	0.68
Total	7.54

Non-residential rents and charges

39. The council does not intend to increase non-residential rents and charges from the 2013/14 levels. This covers garages, parking bays, storage facilities and sheds.
40. It is anticipated that an on-going programme of refurbishment works will continue to bring previously void stock back into use, raising revenue sufficient to outweigh any increase in the charges themselves for this year. This will be subject to further review during the course of the forthcoming financial year.

District heating charges

41. Despite continuing volatility in the markets for energy supply the December report 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 2014/15, and so no increase in these charges is recommended.

Sheltered housing service charges

42. These service charges were introduced as an individual member decision by the Deputy Leader and Cabinet Member for Housing Management on 10 January 2013. It is not proposed to vary these charges in 2014/15.

Thames Water

43. Water and sewerage charges applicable to council dwellings will be subject to an increase from April 2014. Following approval by the regulator Ofwat, 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.

Community impact statement

44. The council works in accordance with the single public sector equality duty contained within section 149 of the Equality Act 2010. This means the council must have due regard to the need to eliminate unlawful discrimination, harassment and victimisation, advance equality of opportunity, and foster good relations between different groups.
45. Consideration has been given to the report's relevance to equality issues in accordance with the public sector equality duty. This report is primarily to set rents and associated charges and a scoping exercise established there is no differential effect for any community or protected group. However, it is recognised that increases in rents and charges may present particular difficulties for people on low incomes, but rents and tenant service charges remain eligible for housing benefit, as noted in the main report. The assessment considers the effects of the self-financing regime introduced under the provisions of the Localism Act 2011 and the determinations issued by Department for Communities and Local Government in accordance with the provisions of Section 173 of that act.
46. There is a statutory requirement to set a balanced HRA budget and the extent and composition of efficiency savings and additional income generation assumed in the budget proposals are detailed in Appendix B. Extensive consultation previously undertaken incorporated savings proposals over a three-year planning horizon (2011/12 to 2013/14). As a consequence, indicative savings for next year were identified at an early stage and either remain available for implementation as proposed or have been substituted where necessary.
47. Agreed savings over the period (now including 2014/15) equate to £27.5 million and were largely front-loaded in 2011/12 and 2012/13 in order to re-position the budget to mitigate the initial revenue impact of self-financing on Southwark's HRA. An impact analysis has been undertaken in order to ascertain the potential impacts of these efficiency savings and concluded there is no differential effect for any community or protected group.
48. Above and beyond the ongoing increases in rent there are wider issues impacting both nationally and locally in terms of impending welfare reform and housing benefit under occupation changes, which came into force in April 2013. These have also been considered and measures to mitigate the effects on the community are currently being developed together with the provision of additional resources for this purpose.

Consultation and notification

49. 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 December 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 2014/15.

50. Tenant Council met on 6 January 2014 to consider the December report, and to refer it on to area housing forums. They reconvened on 27 January 2014 to consider any recommendations arising from the area forum consultation, and wider HRA budget consultation outcomes, where available; and make consolidated recommendations to cabinet, which due to time constraints are reported under separate cover. 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 December report was considered at their meeting on 15 January 2014. Any such comments will also be reported to cabinet alongside those of Tenant Council. The December report was also the subject of formal consultation with the TMO Liaison Committee at their meeting on 22 January 2014.

Statutory and Contractual Notifications

51. Subsequent to the approval of the Final report on 28 January, either as set out or as amended by cabinet, and the passing of the necessary date for its implementation, the council will issue a statutory and contractual notification of variation in rents and other charges to all tenants, not less than 28 days prior to the commencement of the new rents and charges referred to above.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Legal Services

52. Statutory requirements as to the keeping of a Housing Revenue Account (HRA) 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 HRA and to implement and review the budget.
53. Provisions contained within Part 7 of the Localism Act 2011 replace the Housing Revenue Account subsidy system with self financing arrangements for housing authorities in England. To facilitate this, the Act sets out the framework for the calculation of a 'settlement payment' with respect to each local housing authority by way of Secretary of State determination. It is provided that the Secretary of State must consult before making a determination.
54. This report includes recommendations on the charges made by the council in respect its HRA residential accommodation. 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 arising from the self-financing determinations referred to in within this report.

55. Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council, "before seeking to change the amounts payable for rent and other charges". The report indicates consultation is taking place in order to comply with this term and the outcome will be reported to cabinet. Members must consider the product of consultation when considering the recommendations in this report.
56. It is further provided by Section 103 of the Housing Act 1985 in relation to secure tenancies, which also applies in respect of its 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.
57. As noted at paragraph 44 of the report, the public sector equality duty (PSED) contained within section 149 of the Equality Act 2010 requires the council to have due regard in its decision-making processes to the need to:
- (a) Eliminate discrimination, harassment, victimisation or other prohibited conduct;
 - (b) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it; and
 - (c) Foster good relations between those who share a relevant characteristic and those that do not share it.
58. The relevant protected characteristics are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. The duty also applies to marriage and civil partnership, but only in relation to (a) above.
59. The council is required to act in accordance with the equality duty and have due regard to the duty when carrying out its functions, which includes making decisions in the current context. The cabinet must consider the report author's reference to equalities considerations at paragraphs 44 to 48 of this report.

Strategic Director of Finance and Corporate Services

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

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Housing Revenue Account – Indicative Rent Setting and Budget Report. Cabinet 10 December 2013 (item 11)	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
Link http://moderngov.southwark.gov.uk/ieListDocuments.aspx?CId=302&MId=4553&Ver=4		
Medium-Term Resources Strategy 2011/12 – 2013/14	160 Tooley Street London SE1 2QH	Jennifer Seeley Deputy Director of Finance and Corporate Services 020 7525 0695
Link http://www.southwark.gov.uk/download/7209/medium_term_resources_strategy_2011-12_to_2013-14		

APPENDICES

No.	Title
Appendix A	HRA Budget Movements 2013/14 to 2014/15
Appendix B	HRA Summary Savings and Income Generation Schedule 2014/15
Appendix C1 – 3	Southwark Rents, Convergence and London Average Rents
Appendix D	HRA Expenditure and Income Budget 2014/15 Bubble Maps
Appendix E	HRA Revised Budget 2013/14 and Base Budget 2014/15
Appendix F	HRA Base Budget 2014/15 by Division
Appendix G	Rent Options
Appendix H1 – 3	Rental Income by Option – 2014/15 & 2015/16
Appendix I	Response to ' <i>Social Rents in 2015/16</i> ' consultation

AUDIT TRAIL

Cabinet Member	Councillor Ian Wingfield, Deputy Leader and Cabinet Member for Housing Management	
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Report Author	Ian Young, Departmental Finance Manager, Housing and Community Services	
Version	Final	
Dated	16 January 2014	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Legal Services	Yes	Yes
Strategic Director of Finance and Corporate Services	N/a	N/a
Date final report sent to Constitutional Team		16 January 2014