

<b>Item No.</b> 9.	<b>Classification</b> Open	<b>Date:</b> 23 January 2018	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Housing Revenue Account – Final Rent-Setting and Budget Report 2018-19	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Member:</b>		Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for Housing	

## **FOREWORD – COUNCILLOR STEPHANIE CRYAN, DEPUTY LEADER AND CABINET MEMBER FOR HOUSING**

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

The budget for 2018-19 factors in the national rent reduction of 1% that was introduced as part of the Welfare Reform and Work Act 2016 and this continues to have a significant impact on the finances within the Housing Revenue Account.

The report sets out the council's position not to increase sheltered housing, district heating or hot water charges for the financial year.

There will be an increase to tenant service charges at 3.2% for a tenant liable for all four elements, which is below the maximum suggested by government of CPI +1% (i.e. 4%); and an increase in line with CPI (3%) for garages and associated charges.

In a time when we are receiving less income into the Housing Revenue Account due to the continuing effects of Government policy we need to ensure that savings are generated in the main through efficiencies. There will be additional pressures placed on the Housing Revenue Account for fire safety works and for any works required on the Ledbury Estate. Despite these pressures we remain committed to our Quality Housing Investment Programme and delivering new kitchens and bathrooms to our tenants.

I recommend that cabinet approve the report and note the proposed savings and income generation in the appendices.

## **RECOMMENDATIONS**

1. Cabinet agrees a rent decrease of 1.0% for all HRA dwellings (including estate voids and hostels) with effect from 2 April 2018. This is in accordance with the provisions of the Welfare Reform and Work Act 2016 as noted in paragraph 17 below. The average dwelling rent in 2018-19 under such a reduction will be £98.54 per week.
2. With regard to other HRA-wide charges, cabinet agrees that tenant service charges, comprising the estate cleaning, grounds maintenance, communal

lighting and door entry maintenance charges be increased as set out in paragraph 20 with effect from 2 April 2018.

3. Cabinet agrees that no increase be made to sheltered housing service charges as set out in paragraph 21 with effect from 2 April 2018.
4. Cabinet agrees that direct charges for garages and non-dwelling charges be increased as set out in paragraphs 23 and 24 with effect from 2 April 2018.
5. Cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 25 with effect from 2 April 2018.
6. Cabinet agrees the HRA budget proposals set out in this report and notes these changes ensure a balanced budget is set as required by statute.
7. Cabinet reaffirms the commitments made last month to ensure that savings made are primarily based on efficiencies, and where staffing reductions form part of any said savings, that due consultation and process is followed with trade unions.

## **BACKGROUND INFORMATION**

### **Indicative HRA budget (12 December report)**

8. Cabinet on 12 December 2017 considered the indicative HRA rent-setting and budget position for 2018-19. 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 response to any resolutions from Tenant Council, Homeowner Council, Southwark TMO Committee and area housing forums at the cabinet meeting.
9. The purpose of this final report is to seek formal approval of the recommendations in respect of rents and other charges outlined at paragraphs 1 to 7 above.

### **Statutory framework**

10. The HRA reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, homeowner service charges and other income. The HRA forms a specific part of the council's accounts, and a report regarding the general fund budget including those aspects provided via the housing and modernisation department is being considered separately.
11. Whilst there is no statutory requirement to consult, the council is committed to engaging with stakeholders, particularly under the terms of the Tenancy Agreement, and so the December report formed the basis of early consultation with the bodies listed in paragraph 8 above. This process commenced before Christmas 2017, and continued throughout January 2018.

12. The council is obliged by statute to agree a balanced HRA budget, whereby income and expenditure levels for the forthcoming year match. Appendix A summarises budget movements between 2017-18 and 2018-19, predicated on the basis of a rent reduction of 1% and other proposed changes to charges and budget movements.

## **KEY ISSUES FOR CONSIDERATION**

### **Financial context**

13. Whilst self-financing provided financial freedoms, it also brought with it a number of increased risks and budget pressures, particularly in the early years of operation. To a large extent these have already been mitigated through the delivery of efficiency savings and wholesale restructuring of landlord services since 2012-13. Appendix A sets out budget movements for 2018-19 specifically.
14. Budgeted expenditure and income for 2018-19 is represented subjectively in Appendix B alongside the effects of the various pressures noted above; HRA income and expenditure for 2018-19 is shown in graphical form by the bubble charts in Appendix C. Appendix D provides an objective analysis of gross expenditure across the various divisions and key service areas within the HRA.

### **HRA reserves and financing**

15. In common with other local authorities and the council's General Fund, the HRA holds reserves, together with general balances for cash-flow purposes. In accordance with the Fairer Future Medium-Term Financial Strategy 2017-18 – 2019-20, the council has adopted a structured approach to the maintenance and replenishment of balances over the last few years. It is appropriate to keep reserves under periodic review and maintained at a level to mitigate future risks, fulfil future commitments already made and enable the transformation and modernisation of services going forward.
16. Reserves and working balances at 31 March 2016 stood at £16.6m, which is a reduction on the previous year, and is partly a consequence of the water refunds policy followed by the council. It should be noted that around three-quarters is earmarked for pre-determined purposes, with £4.5m held in contingency, which is considered to be below the optimal level. It remains a priority objective for the HRA to address these circumstances and establish a more prudent reserve position. Any surplus (or deficit) generated during the year will continue to be applied to, or met from reserves in the normal way.

### **Current legislative issues**

17. As set out in the indicative budget report, two major pieces of legislation were enacted by parliament recently; both with significant impact on the financing of social housing. The first, the Welfare Reform and Work Act 2016, implements a cut of at least 1% in local authority rents for each of the financial years from 2016-17 to 2019-20. The Department for Communities and Local Government (CLG) has indicated that rent levels will revert to September CPI + 1% increases for five years post 2020.

18. The second legislative item – the Housing and Planning Act 2016 – contained several elements impacting directly on the financing of social housing in future years. However, as the 12 December report noted, these are either in abeyance or have been formally abandoned by the government. The HRA budget for 2018-19 as set out in this report does not therefore provide for any direct impact of the higher-value void sale requirement, since this remains subject to the issue of as yet unpublished regulations from central government. Current understanding is that the implementation of this policy is not imminent as the practical implications of the vote in June 2016 to leave the European Union continue to be addressed centrally. The council's investment programme already contains assumptions as to a base level of void receipts to part-fund the new-build programme, so any change in policy would be detrimental.
19. Finally, the relevant provisions of the Housing and Planning Act 2016, when brought in force, will also make fundamental changes to the issuing of tenancies to new tenants, and also around the succession of existing tenancies to other family members. The HRA Final Budget report for 2017-18 considered by cabinet in January 2017 set out the stated intentions of central government in more detail at that stage. Draft regulations were anticipated during early 2017, with implementation assumed to be in the autumn of that year, but are still awaited.

### **Tenant service charges**

20. As set out in the 12 December report, the council intends to vary tenant service charges for 2018-19 in line with the estimated costs of provision for the coming year. For a tenant in receipt of all four services, it represents an increase of 3.2%, which is less than the underlying rent inflation figure of 4.0%, which is September CPI + 1%.

	<b>2017-18 per week</b>	<b>2018-19 per week</b>	<b>Change pence per week</b>
Estate Cleaning	£5.21	£5.52	31p
Grounds Maintenance	£1.16	£1.22	6p
Communal Lighting	£1.33	£1.30	-3p
Door Entry System Maintenance	£0.70	£0.63	-7p
<b>Total</b>	<b>£8.40</b>	<b>£8.67</b>	<b>27p</b>

### **Sheltered housing service charges**

21. Service charges for sheltered residents were first introduced in 2013-14 to meet the cost of enhanced housing management provision not covered by the base rent. As was the situation in 2017-18, the number of sheltered and extra care places available have increased in tandem with additional costs, such that the impact is broadly neutral. It is therefore not proposed to vary charges from their existing level.

22. Central government is currently consulting on changes to the funding of sheltered housing provision, with a view to implementation from April 2020. HRA budget reports for the next two financial years (2019-20 and 2020-21) will set out any specific implications for Southwark. An extract from the ministerial foreword to the consultation paper is reproduced below to set out the government's overall intentions.

*"It is our aim through making these changes to provide funding security to providers by allowing them to make long term investment decisions and therefore secure future supply. These changes will also ensure value for money for the taxpayer, enable councils to have a stronger role in providing appropriately for their local areas, and support better outcomes for tenants."*

### **Garages and non-dwelling charges**

23. Garage assets provide a valuable revenue stream to the HRA and modest charge increases and an increase in the number of lettable units help to ameliorate the budget gap.
24. Benchmarking shows that Southwark's rents are competitive in the market place, although higher than a number of other local authorities across London, most likely due to the borough's central location. However, the budget situation dictates that all sources of income are closely examined and it is proposed to apply a standard CPI uplift of 3% to garages, garage service charges and other miscellaneous non-dwelling facilities from 2 April 2018 (subject to a de-minimis value of 5p). The existing and proposed garage charge rates are set out below. The £5.00 concessionary charge reduction for elderly and Blue Badge holders is preserved under these proposals.

	2017-18 £ per week	2018-19 £ per week	Change £ per week
<b>Standard charge</b>	<b>19.62</b>	<b>20.20</b>	<b>0.58</b>
Concessionary rate	14.62	15.20	0.58
Small sites rate	10.50	10.80	0.30
Non-resident charge	32.50	33.50	1.00
Additional charges:			
Larger than average garage	5.00	5.15	0.15
Additional parking	5.00	5.15	0.15
Water supply	0.50	0.50	–
Additional security	1.00	1.00	–

## **District heating charges**

25. Council-wide utility contracts have and continue to deliver savings for gas and electricity and charges remain lower on average than retail market prices. Periodic review of the budget is necessary to align the anticipated cost and income during the forthcoming year arising from fluctuating prices, spikes in demand due to poor weather and changes in the recoverable stock base. Energy costs are pooled and standardised 'fuel only' charges set on a borough-wide basis for tenants, depending on the number of bedrooms and type of heating installation. On-going investment in the infrastructure to increase energy efficiency/reduce consumption also contributes to the financial sustainability of the heating account which has enabled charges to remain static over an extended period and can be held at existing levels once again for 2018-19. Homeowners are charged actual costs, comprising energy and repairs and maintenance as determined by their lease.

## **Commitments and savings**

26. The 12 December report set out likely budget pressures and commitments for 2018-19. These included general inflation at £1.6m, specific service commitments of £0.3m and rent loss due to the combined effect of the statutory rent reduction and stock losses of £1.8m. As noted in the appendices below, savings at £2.7m and further additional rent and charge proposals of £1.0m have also been identified, enabling a balanced budget to be set for 2018-19.
27. To place this in context, paragraph 19 of the indicative HRA budget report indicated that savings of £40.8m have been identified over the last six years. This has been to address the gap between committed expenditure and resources within the HRA budget, which over the same time period totalled £50.2m, with the balance being bridged by additional income of £9.4m. Further detail on the 2018-19 figures in particular is contained in Appendix A, and also in paragraphs 19 – 30 of the 12 December report.

## **Community impact statement**

28. 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, and advance equality of opportunity and foster good relations between different groups.
29. Transparency and fairness form part of the seven budget principles and are an underlying principle in the Council Plan. As with the budget for 2018-19 and for previous years, each department will undertake equality analysis/screening on its budget proposals ahead of the final decisions being taken. Where screenings identify potential impacts more detailed analysis is being carried out.
30. Undertaking equality analysis helps the council to understand the potential effects that the budget proposals may have on different groups. The analysis also considers if there may be any unintended consequences and how any of these issues can be mitigated. Analysis is also undertaken to consider any cross-cutting and organisation-wide impacts.

31. For many services the budget proposals will include efficiencies which have staffing implications. As specific proposals are brought forward, and at each stage of implementation thereafter, the different impacts on different categories of staff will be assessed in accordance with the council's reorganisation, redeployment and redundancy procedures.
32. Equality analysis will continue through the cycle of planning and implementation of these budget proposals. In line with our Public Sector Equality Duty, any changes to services arising from these proposals will be implemented in such a way so as to not impact disproportionately on any specific section or group in our community. Where necessary, consultation will be undertaken alongside mitigating actions where necessary. In line with the process across the council, information on the equality analysis will be shared with the relevant cabinet members so it can be considered when decisions are taken. To date no cumulative impacts have been identified through the analysis.

### **Consultation and notification**

33. The purpose of presenting rent setting and budget information to cabinet in two stages is to facilitate the early commencement of consultation with representative groups (i.e. before the Christmas break). To that end, the 12 December report was labelled 'indicative' and figures therein were subject to change. Since then there have been no changes to the recommendations themselves, but background financial analysis contained in the appendices has been updated. The sections in this final report have set out such changes as are required to provide the HRA with a balanced budget for 2018-19.
34. Tenant Council met on 2 January 2018 to consider the December report, and to refer it on to area housing forums. They reconvened on 22 January 2018 to consider any recommendations arising from the area forum consultation and make consolidated recommendations to cabinet, which due to time constraints are reported under separate cover as Appendix E to this report. Homeowner Council are unable to make recommendations in the matter of tenant rents and service charges, but may do so in terms of any proposals regarding non-dwellings charges and in terms of the rest of the HRA budget and considered the report at their meeting of 10 January 2018. Any such comments are reported to cabinet alongside those of Tenant Council. Similarly, the December report was also the subject of formal consultation with Southwark TMO Committee at their meeting on 17 January 2018.

### **Statutory and Contractual Notifications**

35. Subsequent to the approval of the final report on 23 January, either as set out or as amended by cabinet, and the passing of the necessary date for its implementation, the council will issue a statutory and contractual notification of variation in rents and other charges to all tenants, not less than 28 days prior to the commencement of the new rents and charges referred to above.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Director of Law and Democracy**

36. Statutory requirements as to the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 ('the 1989 Act'). The 1989 Act provisions include a duty, under Section 76 of the 1989 Act, to

budget to prevent a debit balance on the HRA and to implement and review the budget.

37. Under Section 24 of the Housing Act 1985, local housing authorities have the power to "make such reasonable charges as they may determine for the tenancy or occupation of their houses". Section 24 also requires local authorities, from time to time, to review rents and make such changes as circumstances may require. This provision conferring discretion as to rents and charges made to occupiers, effectively limited by the above HRA provision, is subject to further restrictions arising from the provisions of the Welfare Reform and Work Act 2016 ('the 2016 Act').
38. The Welfare Reform and Work Act and regulations require (subject to limited exceptions) a 1% annual reduction from a frozen 2015/16 baseline, to the rent payable by social tenants for a period of 4 years. The Act also makes provision, for a period of four years commencing 2016, for the maximum levels of rent for social tenancies commencing after the 8 July 2015; these provisions apply to tenancies of new homes and re-lets to a new tenant, but not the grant of a new tenancy to an existing tenant.
39. For social rent properties, the rent reduction requirement applies to the rent element of the charge under the tenancy agreement and not to charges made for services.
40. Rent and other charges are excluded from the statutory definition of matters of housing management in respect of which local authorities are required to consult their tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996 in relation to secure, introductory and demoted tenants respectively. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant Council before seeking to change rent and other charges. The report indicates consultation has taken place in order to comply with this term.
41. Sections 103 (relating to secure tenancies) and 111A (relating to introductory tenancies) of the Housing Act 1985 , and the council's agreement with its tenants, require that tenants be notified of variation of rent and other charges, by service of a notice of variation, at least 28 days before the variation takes effect.
42. In making a decision the cabinet must have due regard to its equalities duties set out in the Equalities Act 2010 and specifically the need to:
  - Eliminate discrimination, harassment, victimisation or other prohibited conduct;
  - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not. The protected characteristics covered by the equality duty are age, disability, gender reassignment, pregnancy and maternity, race, religion, sex and sexual orientation. The duty also includes marriage and civil partnerships in respect of eliminating unlawful discrimination;
  - Foster good relationships between those who share relevant characteristics and those who do not.

43. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act. Cabinet must consider the report author's reference to equalities considerations at paragraphs 28 – 34 of this report.

### **Strategic Director of Finance and Governance**

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

### **BACKGROUND DOCUMENTS**

Background Papers	Held At	Contact
HRA Indicative Rent-Setting and Budget 2018-19	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team 020 7525 4395
<b>Link: (copy and paste into browser)</b> <a href="http://moderngov.southwark.gov.uk/documents/s72789/Report%20HRA%20Budget%202018-19%20Indicative.pdf">http://moderngov.southwark.gov.uk/documents/s72789/Report%20HRA%20Budget%202018-19%20Indicative.pdf</a>		
<b>Link: (copy and paste into browser)</b> <a href="http://moderngov.southwark.gov.uk/documents/s63776/Report%20Policy%20and%20resources%20strategy.pdf">http://moderngov.southwark.gov.uk/documents/s63776/Report%20Policy%20and%20resources%20strategy.pdf</a>		
Fairer Future Medium-Term Financial Strategy 2016-17 – 2019-20	160 Tooley Street London SE1 2QH	Jennifer Seeley Director of Finance 020 7525 0695

### **APPENDICES**

No.	Title
Appendix A	HRA Summary Budget Movements 2018-19
Appendix B	Subjective Analysis of HRA Revised 2017-18 and Base Budget 2018-19
Appendix C	HRA Expenditure and Income Bubble Charts
Appendix D	Objective Analysis of HRA Expenditure 2018-19 by Division
Appendix E	Results of consultation – <b>to be circulated as separate document</b>

## AUDIT TRAIL

<b>Cabinet Member</b>	Councillor Stephanie Cryan, Deputy Leader and Cabinet Member for Housing	
<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Governance	
<b>Report Author</b>	Ian Young, Departmental Finance Manager, Housing and Modernisation	
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<b>CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER</b>		
Officer Title	Comments Sought	Comments Included
Director of Law and Democracy	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
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11 January 2018		