

<b>Item No.</b> 22.	<b>Classification</b> Open	<b>Date:</b> 17 December 2019	<b>Meeting Name:</b> Cabinet
<b>Report title:</b>		Indicative Housing Revenue Account – Budget and Rent Setting Report 2020-21	
<b>Ward(s) or groups affected:</b>		All	
<b>Cabinet Members:</b>		Councillor Victoria Mills, Cabinet Member for Finance, Performance and Brexit Councillor Kieron Williams, Cabinet Member for Housing Management and Modernisation	

**FOREWORD – COUNCILLOR VICTORIA MILLS, CABINET MEMBER FOR FINANCE, PERFORMANCE AND BREXIT, AND COUNCILLOR KIERON WILLIAMS, CABINET MEMBER FOR HOUSING MANAGEMENT AND MODERNISATION**

We are committed to ensuring the council’s 53,000 rented, leasehold and freehold homes are well maintained and managed. The money we use to do this sits within our Housing Revenue Account (HRA). Tenants and homeowners pay their rents and service charges into the HRA and this money is then used to fund all the activity need to ensure our homes and estates are well run and in good condition. As this money comes from our tenants and homeowners we are committed to consulting them on how it is spent so it always used in ways that best meet their needs and improve their homes.

This report sets out an indicative budget for next year’s HRA (2020-21) so we can seek tenant and homeowner views on it before a final budget is agreed. This is something we do every year. The report also considers what the appropriate charges should be for a variety of housing services. Final decisions will be taken by Cabinet on 21 January 2020.

This year sees an end to the four years of National Rent Reduction of 1% a year which formed part of the Welfare Reform and Work Act 2016. We estimate that the cumulative impact has been a £62.5m reduction in the annual HRA budget, which has created a significant hole in our financial planning. Under this substantial pressure we have worked hard to protect frontline housing services for our tenants and residents whilst also ensuring long-term investment in making our housing warm, dry and safe continues at pace. However, with the ending of this cap the Council is proposing a rent rise of inflation plus 1% (in this case 2.7%) to begin to mitigate the impact of the last four years. After the proposed rise, Southwark’s rents will remain 8% – 9% lower than the government’s assumed target and the 8th lowest of the 29 London Boroughs with retained housing stock.

As well as managing our existing homes, the council also uses the HRA to build new council homes, at council rents as part of our commitment to build 11,000 new council homes. The Government’s recent announcement to increase interest rates on borrowing from the Public Works Loan Board will have a significant adverse impact on the Council’s ability to make use of the lifting of the HRA borrowing cap which we were welcoming this time last year. There is a huge and pressing need for new housing to be built across the country and Southwark will of course continue to play its part with our ambitious council housing programme. However at a time when the Government is able to access borrowing at historically low rates we urge them to re-think this decision which will have

real impact on our ability to build the number of new truly affordable council homes that are needed in our borough.

We are asking Cabinet to consider the recommendations set out in this report and then allow consultation on its proposals before we take our final decisions in January.

## **RECOMMENDATIONS**

1. Cabinet notes on a provisional basis a rent increase of 2.7% for all directly and tenant managed (TMO) housing stock within the HRA (including estate voids, sheltered and hostels), with effect from 6 April 2020. This is the maximum permitted under the Rent Standard 2020.
2. With regard to other HRA-wide charges, cabinet notes on a provisional basis the changes to tenant service charges, comprising estate cleaning, grounds maintenance, communal lighting and door entry system maintenance as set out in paragraphs 23 – 24 with effect from 6 April 2020.
3. Cabinet notes on a provisional basis the proposed changes to sheltered housing service charges contained as set out in paragraphs 25 – 29 with effect from 6 April 2020.
4. Cabinet notes on a provisional basis the changes to charges for garages and other non-residential facilities as set out in paragraphs 30 – 32 with effect from 6 April 2020.
5. Cabinet notes on a provisional basis no increase to district heating and hot water charges as set out in paragraphs 33 – 36 with effect from 6 April 2020.
6. 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.
7. Cabinet instructs officers to provide a final report on Rent Setting and the HRA Budget for 2020-21 after due consultation processes with residents have been followed for consideration at their meeting on 21 January 2020.

## **BACKGROUND INFORMATION**

### **Statutory Framework**

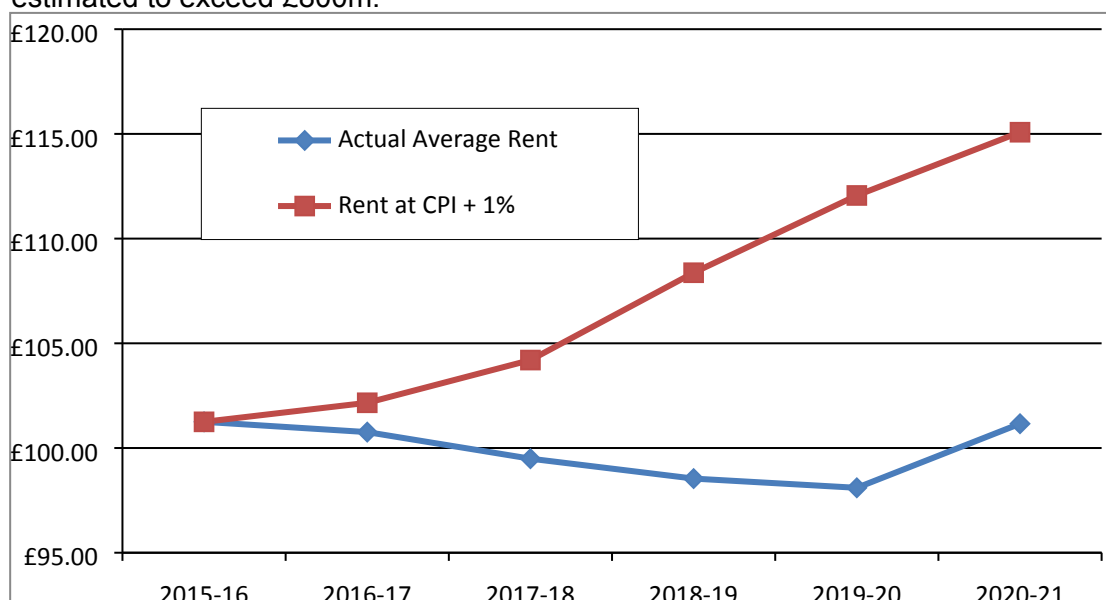
8. The Housing Revenue Account (HRA) reflects the statutory requirement under Section 74 of the Local Government and Housing Act 1989 to account separately for local authority housing provision. It is a ring-fenced account, containing solely the costs arising from the provision and management of the council's housing stock, offset by tenant rents and service charges, homeowner service charges and other income. The council has a statutory responsibility to set a balanced HRA budget.
9. 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 MHCLG announced that national rent policy would revert to CPI+1% for a period of five years from 2020-21 to 2024-25. This was followed by a rent policy statement from the government to the same effect in September 2018.

10. 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 up to September CPI+1%. This direction also for the first time brought local authority registered providers within the scope of the Regulator's Rent Standard. More detailed information regarding the scope and application of the Rent Standard 2020 is set out in Appendix A.

## KEY ISSUES FOR CONSIDERATION

### Impact of the National Rent Reduction Policy

11. Southwark has a history of low or inflation-linked rent rises, and has always adhered to the government's rent formula when setting rents, with the single exception to agree a lower rent increase in 2014-15, equivalent to CPI for that year, as the implied national increase was considered to be too high. Southwark's rents remain between 8% – 9% lower than the government's assumed target and rank 8<sup>th</sup> lowest of the 29 London Boroughs with retained housing stock.
12. Given the significant adverse financial impact of the statutory rent reduction policy, the restoration of increases at CPI+1% is to be welcomed. Had this policy been in effect for 2019-20 the resultant rent increase would have been 3.4% raising around £6.7m, as opposed to a real-terms cash loss. Over the four years, average rents this year would have been some 14% higher (£112.06 per week) than the estimated mid-year average of £98.10 per week used for 2019-20 budget-setting purposes. CPI-related inflation alone over the four years was just under 11%, as illustrated in the table below. The cumulative impact over the four years equates to around £62.5m in resources foregone and extrapolated over the thirty-year life of the HRA business plan is estimated to exceed £800m.



## Budget Background

13. Whilst the funding regimes for the HRA and the council's general fund are different, the budget principles and timelines are broadly aligned. Budget review and rationalisation is unremitting and endeavours to identify savings through more efficient working practices, with particular focus on back-office and departmental/corporate overheads in order to prioritise resources for front-line services. This has been particularly difficult within the constraints of a national rent reduction policy, welfare reform changes, inflationary and contract cost pressures, unavoidable commitments and the impact of exceptional events such as the Ledbury and post-Grenfell fire safety. The table below sets out the extent of these pressures since it became wholly self-financing.

	<b>Budget Pressures and Unavoidable/Commitments</b>	<b>Financing and Non-Rental Income Streams</b>	<b>Efficiency Savings and Budget Rationalisation Measures</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2012-13</b>	5,500	856	(6,356)
<b>2013-14</b>	12,641	(6,609)	(6,032)
<b>2014-15</b>	5,758	135	(5,893)
<b>2015-16</b>	10,491	(5,029)	(5,462)
<b>2016-17</b>	10,676	(349)	(10,327)
<b>2017-18</b>	5,184	1,557	(6,741)
<b>2018-19</b>	3,741	(1,053)	(2,688)
<b>2019-20</b>	6,226	(1,673)	(4,553)
<b>Total</b>	<b>60,217</b>	<b>(12,165)</b>	<b>(48,052)</b>

## Budget Framework and Key Issues for 2020-21

14. The indicative budget for 2020-21 is predicated on a number of known and anticipated budget pressures and commitments and assumptions around demand/activity totalling £12.2m and for the first time since 2015-16 a rent increase at CPI+1% (2.7%) which raises £4.8m net. Other income streams are estimated to contribute a further £2.4m and a range of budget savings and rationalisation measures delivers £1m, together with a regularising of the capitalisation budget of £4m. This relates to works undertaken through the term contracts but which are of a capital nature and rightly fall to the investment programme as part of the Quality Homes Investment Programme (QHIP). These proposals are sufficient to deliver a balanced budget for 2020-21 as required by statute.
15. Repairs and maintenance of the housing stock consumes by far the greatest proportion of resources yet remains under the greatest budget pressure, given the demand-led nature of it. Robust contract management and control of high value/high volume budgets is critical to achieving better value for money, but it is necessary to target more resources (£4.2m gross, including inflation allowance) in this area moving forward. Void performance is similarly critical in minimising the loss of rental income through quicker turn-round times and ensuring costs are strictly controlled. The move towards a planned preventative asset management approach through QHIP is key to ensuring limited resources are prioritised and managed effectively and provides a degree of certainty around budget planning going forward.

16. The in-sourcing of housing repairs during 2018 represented a significant structural change in delivery and rapid scaling-up of operational capacity, which inevitably carried with it a degree of risk. Financial and performance targets are not yet being fully achieved as predicated in the business model leading to a budget pressure in the current year, which is a first call on HRA reserves. For budget planning purposes, it is assumed that the service will operate within the revised budget parameters outlined above for 2020-21.
17. Close monitoring and scrutiny of key budget drivers and performance indicators provide opportunity to realign and rationalise budgets to more closely reflect demand and activity changes and correct any budget anomalies that may have arisen over time. However, the reality is that resources are unlikely to ever fully match the needs of the housing stock. This is particularly true in terms of the scale of capital investment required versus the resources available. This inevitably requires the prioritisation, rationalisation and re-profiling of capital works programmes in order to achieve best value and ensure the HRA remains sustainable and able to support the HIP over the long-term. Appendices B to G set out the indicative revenue budget movements as they relate to 2020-21.

### Average Rent Levels

18. In terms of rent levels for 2020-21, the table below sets out the current average rent by bed-size and the indicative average rent after the proposed increase (calculated on the same stock base for consistency). For comparison, the equivalent figures for 2011-12 (the year prior to the implementation of HRA self-financing) and 2015-16 (the year prior to the statutory rent reductions commenced) are also included.

Bed size for ave. rent	Dwelling numbers	2019-20 Average weekly rent £	2020-21 Average weekly rent £	Increase £	2011-12 Average weekly rent £	2015-16 Average weekly rent £
0	1,663	78.22	80.33	2.11	69.25	81.00
1	10,279	89.64	92.06	2.42	77.94	92.20
2	13,006	98.97	101.64	2.67	85.26	101.77
3	8,487	108.23	111.16	2.93	92.97	111.23
4	2,055	116.87	120.03	3.16	100.46	120.20
5	264	128.07	131.53	3.46	109.65	132.17
6+	111	140.99	144.80	3.81	121.63	145.88
<b>Total</b>	<b>35,865</b>	<b>98.90</b>	<b>101.57</b>	<b>2.67</b>	<b>85.13</b>	<b>101.50</b>

*Notes: the borough-wide average of £98.90 is derived from the stock dataset as at 30 September 2019. 2011-12 and 2015-16 data above based on actual rents as reported to MHCLG, rather than the headline budget report averages due to in-year stock movements (and in the latter case) the implementation of the straight-to-target policy.*

### HRA Financing

19. The self-financing settlement assumed that residual debt would be extinguished over the thirty-year life of the business plan. Whilst there is no statutory requirement for a minimum repayment set-aside (unlike the general fund), £22m has been repaid since 2012. This would have been higher were it not for the enforced rent reduction which necessitated re-prioritising service

delivery over debt repayment. Up until now, the necessity to borrow to fund the capital programme has been avoided, but that position is no longer sustainable and borrowing will be required this financial year (2019-20), the extent of which is dependent on programme delivery.

20. Going forward, the emphasis has shifted towards the need for further borrowing to deliver the council's new homes commitment and other exceptional events such as Ledbury and other high-needs estates which require bespoke financing solutions. Whilst the relaxation of local authority borrowing controls is welcome and is currently accompanied by low market rates, it is not a panacea for unfettered borrowing as the revenue financing costs of new debt need to be sustainable over the long-term (thirty to fifty years).
21. Borrowing is subject to the provisions of the Local Government Act 2003 which requires the local authority to have regard to the Chartered Institute of Public Finance and Accountancy's '**Prudential Code for Capital Finance in Local Authorities 2011**' when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that decisions are taken in accordance with good professional practice. The council's treasury management strategy is regularly reviewed and reported to council assembly twice a year.

#### **HRA Reserves**

22. In accordance with the Fairer Futures Medium Term Financial Strategy (FFMTFS) and in common with other local authorities and the council's general fund, the HRA holds reserves to manage demand volatility, fulfil future commitments and mitigate budget risk. The level of reserves and working balances at 31 March 2019 stood at £20.8m, up from £19.9m the previous year. This is a reversal of the downward trajectory experienced over recent years primarily as a result of rollout of the water refunds policy and the requirement to maintain a stable level of support for the investment programme. It should be noted that around three-quarters are earmarked for specific purposes, with the remainder held as a contingency against exceptional or catastrophic events. Given the size of the HRA and HIP, this is still considered to be below the optimal level required and it remains a priority to build a more prudent reserve position as resources permit.

#### **Tenant Service Charges**

23. 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 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.
24. Charges are determined in relation to the actual contract costs of providing the service; the costs are pooled and divided by the estimated number of service recipients to derive a standard charge across the borough. 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. The overall increase in percentage terms for a tenant in receipt of all four services is 3.1%

and crucially they remain eligible for support under housing benefit/universal credit.

Tenant service charges	2019-20 £ per week	2020-21 £ per week	Change £ per week
Estate Cleaning	5.78	5.99	21p
Grounds Maintenance	1.26	1.26	-
Communal Lighting	1.30	1.34	4p
Door Entry	0.63	0.66	3p
<b>Total</b>	<b>8.97</b>	<b>9.25</b>	<b>28p</b>

### Sheltered Housing Service Charges

25. Sheltered housing service charges were first implemented in 2013-14 and reflect the cost of enhanced housing management services provided to residents. The enhanced service covers:

- A scheme based warden service for all sheltered housing schemes, from 8am to 4pm each week day;
- An external contractor engaged to carry out minor repair jobs; and
- A night time security visiting service to improve security.

26. Whilst core service provision has remained largely unaltered over the period, charge rates have not been increased in line with rising costs. Following a review, the existing weekly charge of £30.20 has been rebased to fully recover costs, which under normal circumstances would give rise to an increase of 13.4% (£4.05) at the current price base and 15.7% (£4.74) at the estimated 2020-21 price base.

27. Given the scale of the increase it is proposed to have a phased implementation, commencing with an initial increase of CPI+1% (£0.82 per week) for 2020-21, generating around £29k. The budget for 2020-21 is currently predicated on this basis; any variation to the proposed uplift as set out here would require an equivalent adjustment elsewhere within the HRA to compensate, but can be accommodated.

28. The service will be subject to review during 2020-21 which may propose changes to the operating model and provision of enhanced management services. As part of this, charges will be reviewed in tandem.

29. Service charges like rents are eligible for housing benefit/universal credit and currently around half of all residents are in receipt of full or partial support, whilst another 31 residents currently receive transitional funding from Adult Social Care, a long-standing Supporting People funding regime, which is gradually falling out as residents leave sheltered care.

### Garage and Non-residential Charges

30. Garage assets provide a valuable revenue stream to the HRA which helps to ameliorate the budget position through modest charge increases and an increase in the number of units available for letting. This is as a direct result of

the ongoing programme of renewal and refurbishment to bring obsolete garages back into use. Going forward however, this trend may slow or cease as resources become more restricted and policy priorities for garage sites shift towards the provision of new housing development and new affordable business/creative work space, which reduces the opportunity to expand the lettings base and generate further revenue growth.

31. Benchmarking shows that Southwark’s rents are competitive in the market place and contributes around £5.6m (gross) to the HRA. Demand remains consistently high, with around 2,300 applicants on the garage waiting list currently, comprising 1,100 tenants, 300 resident homeowners and 900 private applicants. The number of private renters is around 600 and the weekly charge is two-thirds higher than the standard rate and has and continues to increase by a higher percentage. The opportunity for private applicants to acquire a garage remains low given the statutory requirement that garages must be offered to tenants and resident homeowners first.
32. For 2020-21 it is proposed to apply a standard CPI-related uplift of around 3% to the standard charges for garages, garage service charges and other miscellaneous non-residential facilities such as stores, sheds and parking bays from 6 April 2020. Additional charges applied to a very small proportion of units will remain unchanged. The existing and proposed garage charge rates are set out below.

<b>Garage charges</b>	<b>2019-20 £ per week</b>	<b>2020-21 £ per week</b>	<b>Change £per week</b>
<b>Standard charge</b>	<b>20.70</b>	<b>21.30</b>	<b>0.60</b>
Concessionary rate (£5 reduction)	15.70	16.30	0.60
Small sites rate	11.00	11.30	0.30
Private sector rate	34.50	35.50	1.00
Additional charges:			
Larger than average garage	5.30	5.30	–
Additional parking	5.30	5.30	–
Water supply	0.50	0.50	–
Additional security	1.00	1.00	–

### **District Heating Charges**

33. The council’s procurement strategy for the purchase of gas and electricity for the district heating network is provided through the LASER purchasing consortium which has over a sustained period delivered very competitive utility prices. This has enabled pooled charges to tenants to be maintained at the same level for a number of years and on average, these are lower than retail market rates. However, notwithstanding the advantage of this arrangement, utility prices remain subject to market fluctuations and have risen by over 20% in the last financial year, over which the council has no control.
34. The council’s pooled charging policy for district heating and hot water commenced in 1995 with the establishment of the district heating account, with the purpose to smooth-out the impact of price fluctuations over an extended period, mitigate any deficit periods and minimise the requirement for frequent charge movements.



35. Review of the ring-fenced heating account 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, poor weather and changes in the recoverable tenanted stock base. Energy costs are pooled and standardised 'fuel only' charges set on a borough-wide basis for tenants, depending on the number of bedrooms and type of heating installation. This ensures equilibrium between tenants across the piece regardless of the age and condition of the heating system to which they are connected. On-going investment in energy efficiency measures to reduce consumption also contributes to the financial stability of the heating account. For tenants, the cost of repairs and maintenance is integral in their rent.
36. For homeowners connected to the district heating network, the situation is different as under the terms of the lease they become liable for the actual energy costs incurred and will experience fluctuations in their charges year to year. In addition, and in line with other communal services, they are liable for a proportion of the actual cost of repairs and maintenance to the heating system in the block/estate in which they reside.

### **Other Income Streams**

37. An integral part of the balancing the budget is to maximise other income streams in preference to reducing service provision. Guided by the council's Fairer Futures Medium Term Financial Strategy (FFMTFS) and Integrated Efficiency Plan (IEP), it is proposed to increase discretionary fees and charges by around 3% generally, unless mandatory provision or other over-riding policy/affordability criteria exists.
38. Whilst tenant rents and service charges constitute around 78% of HRA income; the remainder comprise homeowner service charges, commercial property rents, interest receivable, recharges and costs recovered and capitalised expenditure.
39. Homeowner contributions are the second-largest income source and represent actual costs incurred within the HRA that are fully recoverable under the terms of the lease. Given the relatively low right-to-buy activity, forecasts indicate that the existing revenue budget is towards the top-end of income expectations and therefore no growth is anticipated for 2020-21.
40. 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. Moving forward, forecasts for the capital works programme indicate modest but sustainable growth over the medium-term resulting in greater cost recovery under the terms of the lease. To reflect this, the income budget has been uplifted by £1m, which will be largely recycled as additional funding for the investment programme.
41. Other contributory income elements include a net increase in the rental stream derived from the HRA commercial property portfolio. This reflects increased lettings, lease renewals and strategic property acquisitions, generating an additional revenue stream over the medium-term, pending new homes development.

## **Consultation and Statutory/Contractual Notification Requirements**

42. 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 setting out the indicative budget and implications for rents and other charges in order that information can be disseminated to residents before Christmas. This remains the case, albeit the calling of the general election has caused a week's deferment of the cabinet meeting originally scheduled for 10 December.
43. Under current resident involvement arrangements, this report will be presented to Tenant Council, area housing forums, Southwark TMO Liaison Committee and Homeowner Council (HOC) during January 2020. 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 the budget proposals pertinent to the calculation of their service charges.
44. Cabinet will consider the final rent setting and HRA budget report at their meeting on 21 January 2020. As normal, the results of the consultation processes will be collated and reported to cabinet at that meeting for their consideration.
45. Subsequent to the approval of the final report on 21 January 2020, 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 operative date of 6 April 2020 for commencement of the new charges.

## **Community Impact Statement**

46. 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.
47. Information on the equality analysis is shared with cabinet so as to enable it to be considered when decisions are taken. Changes to services will be implemented in such a way so as 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.
48. The purpose of this report is specifically to set tenant rents and associated charges (which can also impact homeowners), and set a balanced budget as required by statute. The analysis has established there is no differential effect for any community or protected group. It should be noted that rent policy from 2016-17 to 2019-20 was determined nationally and required authorities to reduce rents by 1% per annum. However, from 2020-21 rents are proposed to increase by CPI+1% and it is recognised that any increase in rents and

charges may present particular difficulties for people on low incomes. However, rents and tenant service charges remain eligible for housing benefit/universal credit.

49. The wider impact of welfare reform changes have been considered and measures to mitigate the effects on the community have been implemented together with the provision of additional resources to support tenancy sustainment and financial assistance through the provision of Discretionary Housing Payments (DHP). The provision of further DHP support is subject to annual confirmation from central government.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

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

50. The report sets out an Indicative Budget for the Housing Revenue Account (HRA) for 2020-21. Members are invited to approve officer recommendations for:

- Rent increases for existing directly managed and TMO managed tenancies by 2.7%;
- A modest increase in tenant service charges;
- A phased increase in sheltered housing service charges;
- A 3% increase in charges for garages and other non residential facilities; and
- No increase in district heating and hot water charges.

51. The financial and budgetary considerations underpinning the recommendations are explained in the body of the report and its annexes.

### Policy and Legislative Context

52. 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 of the 1989 Act, to budget to prevent a debit balance on the HRA and to implement and review the budget.
53. 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, from time to time, to review rents and make such changes as circumstances may require.
54. This provision conferring discretion as to rents and charges made to occupiers, effectively limited by the above HRA provision, has also been subject to further restrictions arising from the provisions of the **Welfare Reform and Work Act 2016** (“the 2016 Act”).

55. For present purposes the 2016 Act, and regulations made further to the 2016 Act, require the council to ensure (subject to limited exceptions) that for each relevant year the rents payable by its social tenants is reduced by at least 1% year on year from a frozen 2015-16 baseline, for a period of four 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 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.
56. 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.
57. The government's policy statement on rents lifts rent restrictions under the 2016 Act from 30 March 2020. The council will have the opportunity to increase rent as recommended in the report provided the council has met its rent reduction obligations over the previous four years.
58. From 1 April 2020 the council will be obliged to set its rents in accordance with the **Rent Standard 2020** ("the 2020 Standard"). The Standard is issued by the Regulator of Social Housing by direction (the Rent Standard Direction 2019) issued by the Secretary of State for Housing, Communities and Local Government. The Secretary of States powers are given under the **Housing and Regeneration Act 2008** Section 197. The direction on Rent Standards 2014 will cease to have effect in relation to rents from 1 April 2020.
59. The 2020 Standard permits the council to apply annual rent increases, over a five-year period, of up to 1% above the general index of consumer prices; CPI. The 2020 Standard sets out the formula to be applied to social and affordable rents for existing tenants, to fair rents and for tenants moving between different types of rent.
60. The council must comply with the rules contained in the 2020 Standard; Housing and Regeneration Act 2008 section 194(2A). There is additionally a requirement to provide information to the Regulator of Social Housing when required and a duty to report non compliance or potential non-compliance.

#### Consultation

61. 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.
62. 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 that consultation will take place in order to comply with this term.
63. The council is required, by Section 103 of the Housing Act 1985 in relation to its secure tenancies; Section 111A of the Housing Act 1985 in respect of its introductory tenancies and the council's agreement with its tenants, to notify tenants of variations of rent and other charges, by service of a notice of variation, at least 28 days before the variation takes effect.

## Equalities Impact

64. In making a decision the cabinet must have due regard to the council's equalities duties set out in the Equalities Act 2010 and specifically the need to:
- Eliminate discrimination, harassment, victimisation or other prohibited conduct;
  - Advance quality of opportunity between persons who share a relevant protected characteristic and those who do not. The protected characteristics covered by the equality duty are age, disability, gender reassignment, pregnancy and maternity, race, religion, sex and sexual orientation. The duty also includes marriage and civil partnerships in respect of eliminating unlawful discrimination; and
  - Foster good relationships between those who share relevant characteristics and those who do not.
65. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act.

## REASONS FOR URGENCY

66. There is a statutory duty to notify residents 28 days in advance of proposed changes in rents and charges, which means cabinet need to take decisions by the end of January to enable the timely production and receipt of notifications by residents in the first week of March for implementation on 6 April 2020. Part of the established rent setting process involves consultation with residents on the HRA Indicative Rent-setting and Budget report through Tenants Council which is scheduled to meet on 6 January 2020, with a subsequent report to cabinet on 21 January 2020 setting out the results of resident consultation.
67. In order to meet the above established time frame, this report needs to be considered at the December cabinet. Failure to meet the time frame would delay the implementation of the rent increase with consequent adverse financial impact to the council.

## REASONS FOR LATENESS

68. This report asks cabinet to agree an indicative position regarding rent levels for 2020-21. Circulation of this report was delayed until after 12 December 2019 in order not to fall foul of the pre-election period restrictions in place due to the general election.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
<a href="http://moderngov.southwark.gov.uk/documents/s79784/Report%20Housing%20Revenue%20Account%20Final%20Rent-Setting%20and%20Budget%20Report%202019-20.pdf">http://moderngov.southwark.gov.uk/documents/s79784/Report%20Housing%20Revenue%20Account%20Final%20Rent-Setting%20and%20Budget%20Report%202019-20.pdf</a>	160 Tooley Street London SE1 2QH	Paula Thornton, Constitutional Team

## APPENDICES

No.	Title
Appendix A	Scope and Application of the Rent Standard 2020
Appendix B	Summary of HRA Budget Movements 2020-21
Appendix C	HRA Summary Revised 2019-20 and Indicative Budget 2020-21
Appendix D	HRA Budget Pressures and Commitments 2020-21
Appendix E	HRA Income Generation 2020-21
Appendix F	HRA Efficiencies and Improved Use of Resources 2020-21
Appendix G	HRA Subjective Indicative Budget 2020-21

## AUDIT TRAIL

<b>Cabinet Members</b>	Councillor Victoria Mills, Cabinet Member for Finance, Performance and Brexit Councillor Kieron Williams, Cabinet Member for Housing Management and Modernisation	
<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, Interim Director of Finance and Departmental Finance Manager, Housing and Modernisation	
<b>Version</b>	Final	
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<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 Democracy	Yes	Yes
Strategic Director of Finance and Governance	n/a	n/a
<b>Date final report sent to Constitutional Team</b>		13 December 2019