

Item No. 12.	Classification Open	Date: 19 January 2021	Meeting Name: Cabinet
Report title:		Housing Revenue Account – Final Rent-Setting and Budget Report 2021-22	
Ward(s) or groups affected:		All	
Cabinet Members:		Councillor Rebecca Lury, Finance and Resources and Councillor Leo Pollak, Housing	

FOREWORD – COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE AND RESOURCES AND COUNCILLOR LEO POLLAK, CABINET MEMBER FOR HOUSING

We are committed to ensuring the council’s 55,000 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 needed 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 is always used in ways that best meet their needs and improve their homes.

This report sets out a final budget for next year’s HRA (2021-22) and also considers what the appropriate charges should be for a variety of housing services. Also included is an appendix setting out the result of our consultation on the proposals with tenants and homeowners which took place during December.

While this year sees the second year of modest rent increases following 4 years of forced reductions under the National Rent Reduction of the Welfare Reform and Work Act 2016, the council is continuing to claw back an estimated £62.5m cumulative reduction in the annual HRA budget, all while our financial planning has been hit further by the impact of the Covid-19 pandemic.

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 homes warm, dry and safe continues apace. However, with the ending of the rent cap the Council is proposing a rent rise of inflation plus 1% (in this case 1.5%), representing an average £1.67 per week increase. Southwark's rents will remain 8% 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 HRA is also used to invest in crucial building safety and energy efficiency improvements, as well as much-needed heat network upgrades, more

detail of which will be presented in our housing asset management strategy refresh over the coming months.

The council will continue to urge Government to support the full suite of new energy efficiency and building safety standards currently making their way through Parliament, to reclassify council housing as infrastructure in Treasury global accounts, all while submitting ambitious bids as and when available grant funding becomes available.

RECOMMENDATIONS

1. Cabinet agrees a rent increase of 1.5% for all directly and tenant managed (TMO) housing stock within the HRA (including estate voids, sheltered and hostels) with effect from 5 April 2021. This is the maximum permitted under the Rent Standard 2020.
2. With regard to other HRA-wide charges, cabinet agrees that tenant service charges, comprising estate cleaning, grounds maintenance, communal lighting and door entry maintenance be increased as set out in paragraphs 16 and 17 with effect from 5 April 2021.
3. Cabinet agrees the proposed changes to sheltered housing service charges as set out in paragraph 18 with effect from 5 April 2021.
4. Cabinet agrees the changes to charges for garages and other non-residential facilities as set out in paragraph 19 with effect from 5 April 2021.
5. Cabinet agrees that there be no increase to district heating and hot water charges as set out in paragraph 20 with effect from 5 April 2021.
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 (8 December report)

8. Cabinet on 8 December 2020 considered the indicative HRA rent-setting and budget position for 2021-22. 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. However for ease of reference the appendices to the indicative report are repeated as they set out the detail behind the various

categories of year-on-year budget movement. Any resolutions or comments arising from the consultation process are included within Appendix F.

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 virtual consultation by means of a webinar conducted by officers on 15 December with residents that had registered an interest, alongside an extended period afterwards for others to raise questions and/or make comments, through the council's consultation hub.
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 2020-21 and 2021-22, predicated on the basis of a rent increase of 1.5% and other proposed changes to charges and budget movements.

Average rent levels

13. 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 8th lowest of the 29 London Boroughs with retained housing stock.
14. In terms of rent levels for 2021-22, 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).

Bedrooms	Average weekly rent 2020-21 £ per week	Average weekly rent 2021-22 £ per week	Average increase £ per week
0	80.33	81.59	1.26
1	92.06	93.49	1.43
2	101.64	103.27	1.63
3	111.16	112.98	1.82
4	120.03	122.07	2.04
5	131.53	133.65	2.12
6+	144.80	147.52	2.72
Total/Ave	101.57	103.24	1.67

KEY ISSUES FOR CONSIDERATION

Dwelling rents

15. As set out in the indicative budget report, the Ministry for Housing, Communities and Local Government (MHCLG) indicated that rent increase levels would revert to September CPI+1% increases for five years post-2020. To that end they extended the remit of the Regulator for Social Housing to cover the local authority sector, and directed the Regulator to issue a new Rent Standard, setting the maximum rent increase at 1.5% (being September 2020 CPI +1%). The 8 December report indicated that this is the level of rent increase to be adopted by the council.

Tenant service charges

16. The principle underpinning the calculation of charges is that they are set at a level to recover the estimated cost of providing the service; borough-wide costs are pooled in order to moderate any area cost differentials and divided by the estimated number of service recipients to derive a standard charge. In order to ensure that costs and charges remain aligned, they are now subject to annual rebasing and the existing and proposed rates are set out below. Crucially they remain eligible for welfare benefit support.
17. The existing and proposed rates for tenant service charges are set out below.

	2020-21 £ per week	2021-22 £ per week	Change £ per week
Estate Cleaning	5.99	6.13	0.14
Grounds Maintenance	1.26	1.42	0.16
Communal Lighting	1.34	1.46	0.12
Door Entry System Maintenance	0.66	0.66	–
Total	9.25	9.67	0.42

Sheltered housing service charges

18. As set out in the December report sheltered housing service charge rates have not kept pace with costs, and whilst full cost recovery implies a weekly rate of £34.69, the council intends to continue to phase this increase over a number of years. To that end, the recommended increase for 2021-22 has been capped at £33.20 (an increase of £2.18 per week). Given the phasing, the anticipated charge in 2022-23 will be £35.38 (based on current inflation indices).

Garage charges

19. The previous HRA budget report made reference to the garage portfolio, the on-going renewal and refurbishment programme and the need to benchmark charges against inner London comparators. Taking into account these various factors, the recommendation in the indicative budget report remains that standard charges for council residents (secure tenants, resident leaseholders/freeholders) are increased by 2.1%; and by for 5% for private sector renters. The resultant charges are set out in the table below.

	2020-21 £ per week	2021-22 £ per week	Change £ per week
Standard charge	21.30	21.75	0.45
Concessionary rate (£5 reduction)	16.30	16.75	0.45
Small sites rate	11.30	11.50	0.20
Private sector rate*	35.30	37.30	1.80
Additional charges:			
Larger than average garage	5.30	5.40	0.10
Additional parking	5.30	5.40	0.10
Water supply	0.50	0.50	–
Additional security	1.00	1.00	–

N.B. the private sector charge is inclusive of VAT at the standard rate

Heating and hot water charges

20. The December report set out how 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. 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 2021-22.

Budget movement schedules

21. Further detail on the composition of the HRA budget movements by category: budget pressures and commitments, income generation, and efficiency savings is contained in the appendices to this report, and also in the main body of the 8 December report. There are two significant changes to the 'indicative' schedules – a proposed saving with regard to the underoccupation service within the Customer Experience division (ref. 303) has been removed, and the overall inflation allowance within the HRA has been reduced to mitigate this.

Community impact statement

22. 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.
23. 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.
24. 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.
25. 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.

Consultation and notification

26. 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 8 December report was labelled 'indicative' and figures therein were subject to

change. As noted above, there are two amendments to the indicative schedules within this final report.

27. Cabinet resolved on 4 February 2020 to reform the means by which it consults with and involves residents in decision-making, and to implement the Resident Participation framework as recommended by an independent review process during the previous year. To that end Tenant Council and Homeowner Council were replaced by a joint tenant and homeowner forum, supported by five area housing forums, amongst other changes. At the time for consultation on the December report, the tenant and homeowner joint forum had not been fully constituted. Given the circumstances created by the pandemic officers arranged and conducted a webinar on 15 December 2020 for residents to hear a presentation on the December report and submit questions. A consultation hub on the budget report was also established on the council's website for those who could not attend to register their views. This hub was open until 31 December 2020, and outcomes from it and the live meeting are summarised in Appendix F.

Statutory and contractual notifications

28. Subsequent to the approval of this final report on 19 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 Governance

29. The report sets out a Final Budget for the Housing Revenue Account (HRA) for 2021-22. Members are invited to approve:
- A rent increase for existing directly managed and TMO managed tenancies;
 - An increase made in tenant service charges;
 - An increase made in charges for garages and other non-residential facilities;
 - An increase made to charges for sheltered housing service charges;
 - No increase in district heating and hot water charges; and
 - The HRA budget proposals in the report.
30. The financial and budgetary considerations underpinning officer recommendations are explained in the body of the report and its annexes.

Policy and Legislative Context

31. The **Local Government and Housing Act 1989** (“the 1989 Act”) sets out legal requirements the council must comply with in relation to housing finance. In particular, Section 74 of the 1989 Act places a duty on the council to maintain a Housing Revenue Account (“HRA”) and, under Section 76 of the Act duties to budget to prevent a debit balance on the HRA, to implement and to review the budget.
32. The **Housing Act 1985** (“the 1985 Act”) Section 24 makes provision for the council to “*make such reasonable charges as [it] may determine for the tenancy or occupation of [its] houses*” with the requirement from time to time, to review rents and make such changes as circumstances may require.
33. This provision conferring discretion as to rents and charges made to occupiers within the scope of 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’).
34. The 2016 Act, and regulations made pursuant to it, require the council to ensure (with 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 . Provision is also made 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.
35. 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.
36. From 1 April 2020 the council must set rents in accordance with the **Rent Standard 2020** (“the 2020 Standard”) issued by the Regulator of Social Housing on the direction of the Secretary of State for Housing, Communities and Local Government using powers granted by the Housing and Regeneration Act 2008 Section 197. The direction on Rent Standards 2014 ceased to have effect in relation to rents from 1 April 2020.
37. The 2020 Standard allows 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.
38. 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

39. 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 for secure tenants and Sections 137 and 143A of the Housing Act 1996 for introductory and demoted tenants.
40. As a term of the tenancy agreement with its tenants however, Southwark Council has undertaken to consult with the Tenant and Homeowner Forum before seeking to change rent and other charges. The report indicates that representative groups have been consulted in order to comply with this term.
41. 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

42. 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.
 - 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.

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 Budget and Rent-Setting 2021-22 Link: (please copy and paste into browser): http://modern.gov.southwark.gov.uk/documents/s92360/Report%20Housing%20Revenue%20Account%202021-22.pdf	160 Tooley Street London SE1 2QH	Paula Thornton Constitutional Team

APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2021-22
Appendix B	HRA Inflation, Budget Pressures and Commitments 2021-22
Appendix C	HRA Income Generation 2021-22
Appendix D	HRA Efficiencies and Improved Use of Resources 2021-22
Appendix E	Objective Analysis of HRA Expenditure 2021-22 by Division
Appendix F	Results of consultation

AUDIT TRAIL

Cabinet Members	Councillor Rebecca Lury, Finance and Resources and Councillor Leo Pollak, Housing	
Lead Officers	Duncan Whitfield, Strategic Director of Finance and Governance Michael Scorer, Strategic Director of Housing and Modernisation	
Report Author	Ian Young, Acting Director of Finance and Departmental Finance Manager, Housing and Modernisation	
Version	Final	
Dated	8 January 2021	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Director of Law and Governance	Yes	Yes
Strategic Director of Finance and Governance	N/a	N/a
Date final report sent to Constitutional Team		8 January 2021