

Item No.	Classification Open	Date: 7 December 2021	MEETING NAME Cabinet
Report title:		Housing Revenue Account – Indicative Rent Setting and Budget Report 2022-23	
Ward(s) or groups affected:		All	
Cabinet Members:		Councillor Rebecca Lury, Cabinet Member for Finance, Performance and Democracy Councillor Stephanie Cryan, Cabinet Member for Council Homes and Homelessness	

FOREWORD – COUNCILLOR REBECCA LURY, CABINET MEMBER FOR FINANCE, PERFORMANCE AND DEMOCRACY, AND COUNCILLOR STEPHANIE CRYAN, CABINET MEMBER FOR COUNCIL HOMES AND HOMELESSNESS

We are proud to maintain and manage the Council’s 55,000 rented, leasehold and freehold homes across the Borough.

The money we use to do this sits within our Housing Revenue Account (HRA) which is made up of rents and service charges paid by tenants and homeowners and used to fund all the activity needed to ensure our homes and estates are well run and in good condition.

This report sets out an indicative budget for next year’s HRA (2022-23) so we can seek tenant and homeowner views on it before a final budget is agreed. The report also considers what the appropriate charges should be for a variety of housing services. The final budget will be taken to cabinet in January 2022.

The Covid-19 pandemic continues to have huge ramifications for our tenants and homeowners. This will continue to impact on our budget. Whilst we are starting to return to business as usual we are working through backlogs in our repairs service and our delivery of new kitchens and bathrooms as part of our Quality Homes Investment Programme. We also see additional pressures with the increasing costs associated with helping those who find themselves homeless.

The Building Safety Bill is currently being debated in Parliament and the requirements on Southwark as one of the largest landlords of social housing in the UK and of the highest number of high rise blocks in England will bring additional pressures onto the HRA. We have also recently agreed our Heat Networks Strategy to update and decarbonise the 17,000 homes on our district heating networks.

We will be consulting on these proposals with our residents before the final budget is presented in January.

Whilst we continue to see greater demands on the HRA we are pleased to recommend this budget to cabinet.

RECOMMENDATIONS

1. Cabinet notes on a provisional basis a rent increase of 4.1% for all directly and tenant managed (TMO) housing stock within the HRA (including estate voids, sheltered housing and any residual hostels), with effect from 4 April 2022. 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 24 – 25 with effect from 4 April 2022.
3. Cabinet notes on a provisional basis the proposed changes to sheltered housing service charges as set out in paragraphs 26 – 28 with effect from 4 April 2022.
4. Cabinet notes on a provisional basis the changes to charges for garages and other non-residential facilities as set out in paragraphs 29 – 30 with effect from 4 April 2022.
5. Cabinet notes on a provisional basis the proposed increase to district heating and hot water charges as set out in paragraphs 31 – 38 with effect from 4 April 2022.
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 2022-23 after due consultation processes with residents have been followed, for consideration at their meeting on 18 January 2022.

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 government reaffirming that 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.

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 over 8% lower than the government's assumed target, though the effect of the "straight-to-target" policy, coupled with the requirement of the Rent Standard 2020 that all new lets be at target rent will reduce this gap over an extended period of time. Council rents remain around the lower quartile of the 29 London Boroughs with retained housing stock.

HRA budget background

12. Whilst the funding regimes for the HRA and the council's general fund are different, the budget principles are aligned, whereas the timeline for setting rents is abridged such that notification of changes in rents and charges can be served in line with the statutory deadline 28 days in advance of the rent increase becoming effective.
13. Budget review and validation is unremitting and endeavours to identify savings through service rationalisation and more efficient working practices, with particular focus on back-office and departmental/corporate overheads in order to prioritise resources to where they are most needed and deliver the council's policy objectives. This has been particularly difficult within the constraints of a national rent reduction policy and welfare benefit reforms, along with inflationary and contract cost pressures and unavoidable commitments arising from exceptional events such as Grenfell and latterly Covid-19. The table below illustrates the extent of these pressures since 2012 when the HRA became self-financing and wholly reliant on its own resources.

	Types of Expenditure		Types of Income			
	General inflation £'000	Commitments £'000	Rent and charges £'000	Homeowners charges £'000	Fees and charges £'000	Savings £'000
2011-12	1,600	19,784	(12,143)	–	–	(9,241)
2012-13	1,400	16,695	(15,298)	3,900	(300)	(6,397)
2013-14	1,978	15,663	(11,614)	–	5	(6,032)
2014-15	2,805	11,349	(2,738)	(4,970)	(553)	(5,893)
2015-16	2,384	11,826	(3,348)	(5,000)	(400)	(5,462)
2016-17	2,446	9,242	77	(1,036)	(402)	(10,327)
2017-18	1,938	3,246	2,192	(219)	(211)	(6,946)
2018-19	1,660	(4,734)	1,171	4,870	(279)	(2,688)
2019-20	2,447	2,363	421	(200)	(478)	(4,553)
2020-21	2,570	9,595	(5,344)	(1,000)	(923)	(4,898)
2021-22	2,020	7,705	(3,137)	(1,500)	(180)	(4,908)
Total	23,248	102,734	(49,761)	(5,155)	(3,721)	(67,345)
Total Expenditure	125,982		Total Income (125,982)			

Budget framework and key issues for 2022-23

14. The budget framework for next year remains substantially the same as in previous years with the focus being on finding further savings through efficiencies and directing greater resources (both new and existing), to areas of highest priority in order to support and enhance the provision of housing services to residents. The worst effects of the pandemic are hopefully behind us from a budgetary standpoint, and whilst there is still uncertainty, service provision is largely back on track and staff are working hard to recover lost ground in terms of repairs and capital works projects that stalled during the pandemic. Income recovery procedures that were suspended to assist residents during this challenging period, have now resumed but not unexpectedly, arrears have been adversely impacted. However, the position is showing improvement and the expectation remains that this trend will continue but will take time to normalise to pre-pandemic levels. Similarly, for HRA commercial properties and garages which saw a downturn in lettings activity, but are showing signs of recovery but are not expected to provide any real income growth for 2022-23, other than increased charge rates for garages. Consequently, it is again anticipated that budget provisions set-aside for bad debts will be fully utilised in-year thereby minimising any scope to off-set pressures elsewhere within the HRA.
15. One of the most enduring budget pressures is the repair and maintenance of the housing stock, which consumes the greatest proportion of operational resources, requiring stringent management of high value/high volume contract budgets. The successful implementation of the housing repairs improvement plan is key to improving the performance and financial viability of the Southwark Repairs service going forward and further resources of £1m are being committed as part of this budget round, negating any savings previously assumed through performance and productivity gains which are being deferred to 2023-24. In addition, further resources of £1.4m are being earmarked within Asset Management for district heating, disrepair and leaks from above.
16. The onerous responsibilities conferred by the Building Safety Bill and Fire Safety Act 2021 on local authorities and private sector landlords represents a seismic endeavour and requires significant financial commitment given the unique size and nature of the council's housing stock. Southwark has 170 in-scope high-rise buildings (the highest number in the country) which are the immediate priority, along with a significant number of buildings that require further surveys, but which are considered to be of low or moderate risk outside the scope of the legislation. Notwithstanding the critical importance of these new duties to augment residents' safety, they create a substantial additional financial pressure on already constrained resources, particularly capital, both for the initial surveying programme, but moreover the cost of remediation works arising, which is an unknown, but potentially significant. For 2022-23 new revenue and capital funding commitments totalling £7.1m are included in the budget proposals to address these needs.

17. In light of these new pressures, the council is currently undertaking a wholesale review of its asset management strategy to subsume these new requirements into its business planning, which is likely to be at the expense of other less-essential programmes over the medium-term. As previously reported, capital resources are under extreme pressure and borrowing to support the QHIP and New Homes programmes continues to rise at an unprecedented rate with a consequent revenue financing impact on the HRA, which cannot be sustained over the long-term. 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. With rent policy constrained to CPI+1%, the reality is that resources will never fully match the needs of the housing stock. This is particularly true for both the HRA and the housing investment programme (HIP), and requires the prioritisation and re-profiling of works programmes in order to achieve best value and ensure long-term financial sustainability.
18. The indicative budget for 2022-23 is predicated on a number of known and anticipated budget pressures/commitments and assumptions around demand/activity changes totalling £13.6m and a rent increase at September 2021 CPI+1% (4.1%) which raises £5.4m net. Other income streams and capitalisation contribute a further £7.0m and budget efficiencies and rationalisation measures delivers £1.2m. These proposals are sufficient to deliver a balanced budget for 2022-23 as required by statute. Appendices A to F set out the indicative revenue budget movements as they relate to 2022-23.

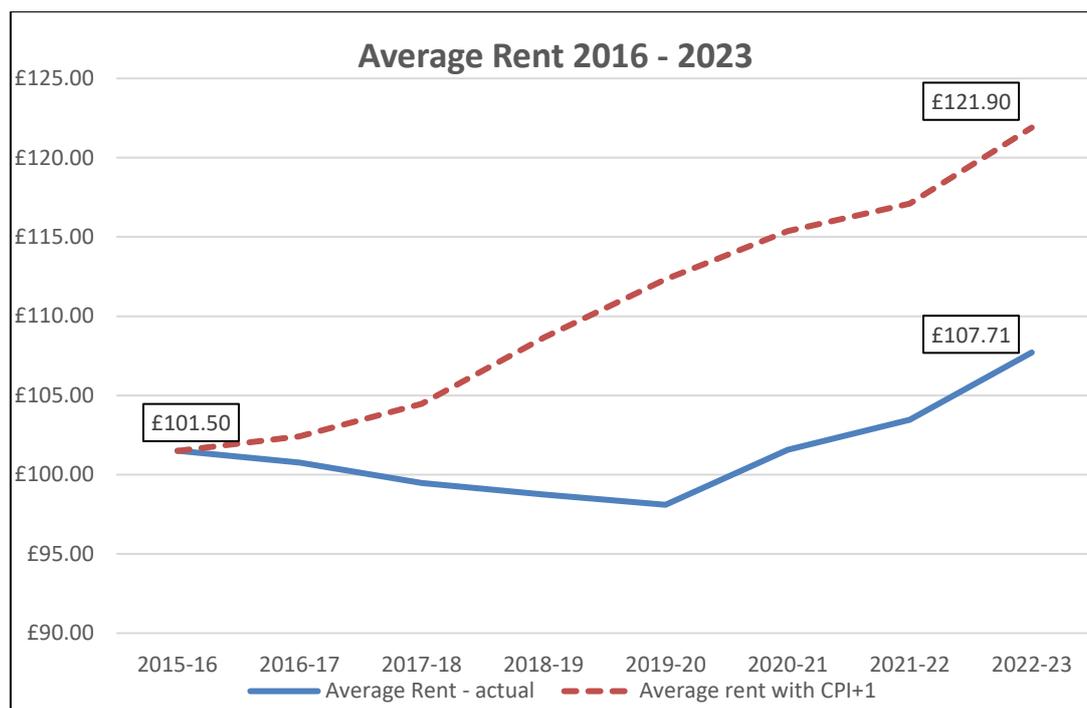
Average rent levels

19. The table below gives the average rent by bedsize for 2021-22 and includes the effects of regeneration and the 'straight-to-target' rent policy for new lets (which became mandatory under the Rent Standard 2020). Uplifting this dataset by the proposed 4.1% increase gives the indicative averages by category for 2022-23.

Bedrooms	Average weekly rent 2021-22	Average weekly rent 2022-23	Increase per week
0	£81.63	£84.98	£3.35
1	£93.63	£97.47	£3.84
2	£103.45	£107.69	£4.24
3	£113.16	£117.80	£4.64
4	£122.29	£127.30	£5.01
5	£134.12	£139.62	£5.50
6+	£147.86	£153.92	£6.06
Overall	£103.47	£107.71	£4.24

Note: figures for 2021-22 are based on the mid-year stock position to ensure greater accuracy.

20. The chart below shows actual average rents for Southwark since the introduction of national rent reductions under the Welfare Reform and Work Act 2016. Over four years, rents were reduced by 1% each year, before reverting to the current government guideline increase of CPI + 1%. The dotted line shows what the average rent would have been had CPI+1% been applicable throughout. It can be seen that inflation in 2020-21 returned average rents roughly to the point they were at when the reduction process commenced four years earlier, a time-lag that remains to the present day – the proposed increase for 2022-23 still only brings average rents back to the level that they would otherwise have been in 2018-19. The gap in 2022-23 between the two lines is the equivalent of £14.19 per week on average.



HRA financing

21. 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), £55.1m 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 recently, it has not been necessary to borrow additionally to fund the capital programme, but that position is no longer sustainable and borrowing will increase exponentially as the building and fire safety, heat network, high-needs estates and new homes programmes ramp-up. Whilst the relaxation of local authority borrowing controls is welcome and market interest rates are low, 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).

22. Borrowing remains 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

23. 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 2021 stood at £28.3m, up from £23.0m the previous year. This is a continuation of the gradual replenishment of reserves following the downward trajectory experienced in prior years. It should be noted that around 74% is 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

24. 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.
25. 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.

Tenant service charges	2021-22 £ per week	2022-23 £ per week	Change £ per week
Estate Cleaning	6.13	6.32	19p
Grounds Maintenance	1.42	1.45	3p
Communal Lighting	1.46	1.81	35p
Door Entry	0.66	0.71	5p
Total	9.67	10.29	62p

Sheltered housing service charges

26. Sheltered housing service charges were first implemented in 2013-14 and reflect the cost of enhanced housing management services provided to residents. Whilst core service provision had largely remained unaltered over the period, charge rates had not kept pace with costs. Following a rebasing exercise during the last financial year, charge rates were proposed to increase markedly to fully reflect the cost of provision. However, in order to mitigate potential hardship for clients, cabinet resolved to cap the charge for 2021-22 at £33.20 per week (as opposed to £34.69 per week).
27. The cap was also partly intended to retain a phasing element of the move towards full cost recovery, and last year's cabinet reports indicated that its impact in terms of the likely level for 2022-23 would result in a weekly charge of £35.38. Updated inflationary pressures on these costs means that the actual recommended amount is slightly less than this original figure, at £34.75. The originally anticipated additional income of £76k in 2022-23 will therefore be slightly lower, at £54k.
28. Service charges like rents are eligible for welfare benefits and currently around 80% of all residents are in receipt of full or partial support or receive transitional funding from Adult Social Care, a long-standing agreement emanating from the Supporting People funding regime, which is gradually falling out as residents leave sheltered care.

Garages and non-residential charges

29. Garages are a valuable asset within the HRA and provide an income stream that helps maintain service provision. Charges are determined by reference to inner London quartile rates, demand and stock availability. A limited programme of renewal and refurbishment to bring obsolete garages back into use continues, but this is likely to slow or cease as resources become more constrained and policy priorities for garage sites shift towards the provision of new homes and where appropriate and financially viable, more affordable business/creative work space.
30. Following a review of the garage portfolio and charging regime it is recommended that standard charges for council residents (secure tenants, resident leaseholders/freeholders) are increased by 3.1%; and by 5% for private sector renters. The resultant charges are set out in the table below and are estimated to generate additional income of around £222k.

Garage charges	2021-22 £ per week	2022-23 £ per week	Increase (%)	Change £ per week
Standard charge	21.75	22.40	2.99%	0.65
Concessionary rate (£5 reduction)	16.75	17.40	3.88%	0.65
Small sites rate	11.50	12.00	4.35%	0.50
Private sector rate	37.30	39.20	5.09%	1.90
Additional charges:				
Larger than average garage	5.40	5.60	3.70%	0.20
Additional parking	5.40	5.60	3.70%	0.20
Water supply	0.50	0.50	–	–
Additional security	1.00	1.00	–	–

Note: the private sector charge is inclusive of VAT at the standard rate.

District heating charges

31. The council's procurement strategy for the purchase of gas and electricity for the district heating network is provided through the LASER purchasing consortium that has over a sustained period delivered very competitive utility prices, primarily gas. This contract was renewed in September 2020 to cover the period to March 2025. 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 over which the council has no control.
32. 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. In terms of future developments, cabinet agreed a wide-ranging report on the heat networks strategy and associated statutory requirements on 14 September 2021. Officers will come back during 2022 with worked-up proposals around implementation, including billing implications.
33. Review 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, adverse 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.
34. 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.
35. The Laser framework means that council requirements for gas and electricity are pooled with around 100 or so other local authorities, police etc. which enables other local authorities and public sector bodies to access the wholesale markets directly. They can purchase energy requirements up to four years in advance at any time, so this helps smooth any sudden spikes in the market. Having said that, this is of course an unprecedented time in the energy markets and so price rises are inevitable with the wholesale market rising by around 300% this year. Housing estates are currently paying around 1.8ppkWh plus standing charges, whereas the wholesale market currently sits at around 6ppkWh, with residential customers being offered around 8ppkWh by suppliers.

36. The majority of gas on Southwark estates (around 70%) is used between October and March, meaning any April price increases will be for the summer portion of gas. This gives us some certainty with regard to the in-year costs for the remainder of 2021-22. The expectation is that the market will settle down again before next winter's buying period, and Laser will continue to monitor the markets and purchase at strategic points to ensure the best possible value. It should be stressed, that even with price volatility, the consortium continues to ensure that the council pays an extremely attractive price for the energy supplies under this contract and we are not as exposed as other consumers to the adverse market conditions. The proposed 2022-23 increase is intended to manage short-term exposure to the exceptional market volatility currently being experienced with a capped increase in district heating charges to match the rent increase at 4.1%. This should allow time for markets to stabilise, but clearly there can be no guarantee and in the event that costs remain above the budgeted income level, then the heating account reserve will be used to mitigate the short-term impact, and further consideration of charge rates may be necessary during 2022-23.
37. The Office of Gas and Energy Markets (Ofgem) is currently consulting on the potential impact of increased wholesale price volatility on their default tariff cap, and the increase proposed by the council is mindful of this on-going process. Ofgem have had the legal power to design and enforce the cap since 2018, but recognise that current circumstances demand reconsideration as to how it reflects the costs, risks and uncertainties that energy suppliers face. The cap has already been increased by c.12% earlier this year (August 2021, effective from October).

38. The current and proposed weekly charges for district heating are set out in the table below.

	Bedrooms	2021-22 £ per week	2022-23 £ per week
Central Heating and Hot Water	0	8.61	8.96
	1	12.09	12.59
	2	14.97	15.58
	3	17.92	18.65
	4+	19.34	20.13
Weatherfoil Heating and Hot Water	0	7.25	7.55
	1	10.40	10.83
	2	12.99	13.52
	3	15.54	16.18
	4+	16.85	17.54
Weatherfoil Heating only	0	5.47	5.69
	1	6.78	7.06
	2	8.17	8.50
	3	9.53	9.92
	4+	10.89	11.34
Central Heating only	0	6.73	7.01
	1	8.46	8.81
	2	10.15	10.57
	4+	12.70	13.22
Hot Water only	1	2.30	2.39
	2	4.85	5.05
	3	6.00	6.25
LRB Heating	0	5.84	6.08
	1	8.71	9.07
	2	9.43	9.82
	3	10.18	10.60
Partial Heating	0	4.58	4.77
	1	5.62	5.85
Underfloor Heating	0	6.87	7.15
	1	7.62	7.93
	2	8.38	8.72
	3	9.13	9.50

Other income streams

39. Whilst tenant rents and service charges constitute over three-quarters of HRA income; the remainder comprise homeowner service charges, commercial property rents, interest receivable, recharges, costs recovered, capitalised expenditure and discretionary and mandatory fees and charges.
40. Homeowner revenue service charges are the second-largest income stream to the HRA and represent the actual cost of services provided to homeowners that are fully recoverable under the terms of the lease. Whilst right-to-buy activity remains low, price and volume increases across a range of recoverable services are forecast; the base budget needs to be realigned for 2022-23 to reflect this. Overall this is net neutral to the HRA. 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, and given the delays arising from the pandemic in the current year, there is no realistic expectation of budget growth in this area for 2022-23.
41. The economic impact of the pandemic has also been felt in terms of the council's commercial property portfolio, in common with the private sector in this regard, and in acknowledgement of this there is no additional income from this source factored into the HRA budget for 2022-23. A modest increase in income derived from miscellaneous fees and charges has been budgeted for, in line with the provisions of the council's Medium-Term Financial Strategy, which covers both the HRA and General Fund services.
42. As noted in the section above on financing, the HRA will have an additional commitment relating to building safety surveys from 2022-23 onward. It is proposed to fund the immediate costs of this through capitalising the cost via the investment programme.

Consultation and statutory/contractual notification requirements

43. 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.
44. Following extensive consultation the council adopted the new Resident Participation Framework in 2020, reforming its consultative bodies and procedures, with the intention that HRA budget and rent setting consultation for 2021-22 be conducted in line with the new arrangements. 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 any budget proposals pertinent to the calculation of their service charges.

45. The effect of the global pandemic had a far-reaching impact, not least on the ability of the council to conduct consultations such as the one required for the HRA budget and rent setting last year. In the event, a one-off webinar was held on 15 December 2020 focusing exclusively on HRA rent setting consultation. Invitations were sent to all TRA's, SGTO and all online panel members and participants who had previously attended local housing forums. People who wished to take part but not able to make the webinar itself were able to register their interest and sent links to the recording of the session and also to the on-line response/polling arrangements.
46. Officers are currently actively considering the most effective approach for 2022-23 consultation. The results of the consultation process will be collated and reported to cabinet for their consideration early in the new year. Subsequent to the approval of the final report, 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 effective date of 4 April 2022 for commencement of the new rent year.

Community, equalities (including socio-economic) and health impacts

Community impact statement

47. 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. Analysis has established there is no differential effect for any community or protected group. From 2020-21 the intention of central government is that rents should increase by up to CPI+1% under the provisions of the Rent Standard 2020. It is recognised that any increase may present particular difficulties for people on low incomes. However, rents and tenant service charges remain eligible for housing benefit/universal credit.
48. The wider impact of welfare reform changes has 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). For 2021-22 the allocation was £1.15m. The provision of further support is subject to annual confirmation from central government, but is expected to be of the same order and to provide support for tenants affected by the "bedroom tax" and "benefit cap" for example.
49. There are existing financial support streams, including the existing hardship fund, the newer and more substantial vulnerable renters fund (£1.1m), and the recently announced household support fund (£2.7m) that will provide exceptional support this winter in recognition of the unprecedented impacts of the pandemic. The former will provide extra help for vulnerable individuals at risk of losing their home. The latter will help vulnerable, low-income households with the cost of food, fuel, and other essentials this winter (November 2021 – March 2022). The council has decided that help for low-income households affected by the end of the universal credit uplift and changes to the statutory energy price cap will be a priority. Eligible households will be identified from benefit data held by the council, or by referral from community partners. Additional support will be provided for families of children attending Southwark schools and receiving free school meals.

50. The council established a residents working party during 2021 in order to examine the effects of the pandemic on (amongst other things) rent arrears and benefits take-up. The review has made draft recommendations aimed at supporting and enhancing the current approach, and the council is now considering the most effective means of implementation.

Equalities (including socio-economic) impact statement

51. 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.
52. Information on the equality analysis is shared with cabinet to enable it to be considered when decisions are taken. Changes to services will be implemented in such a way 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.

Health impact statement

53. The council is committed as part of the Fairer Futures – Homes for All theme, to maintaining the highest standards so that all our homes are clean, safe and cared for. Proposals within this budget contribute directly to continuing our long-term homebuilding programme and also investing in and improving our estates, which will contribute to providing health benefits for Southwark residents.
54. There is an established link between financial concerns being a driver/cause of poor mental health. The council recognises this issue, and strives to support tenants and homeowners by retaining and encouraging a focus on tenancy sustainability. Housing officers provide practical advice and help to tenants, whilst the statutory rent letter mail-out, amongst other communications, normally contains additional advice on benefits. During the pandemic, the council also suspended interventionist policies with regard to arrears recovery and eviction procedures in order to recognise the additional pressures both financially and mentally that the situation had placed on Southwark's residents.

Climate change implications

55. At its meeting of 7 July 2021 cabinet adopted Southwark's formal climate change strategy, and for a number of years the council has been committed to achieving carbon neutrality by 2030. The reports under consideration today and post-consultation are principally concerned with the financing and delivery of the council's responsibilities as a social landlord, so it is not proposed to reproduce the entire strategy here. However, Section E of the Action Plan on **Priority 1 – Greener Buildings** within the strategy relates directly to the council's dwelling stock, and that table is set out below.

Theme	Goal	Progress	Immediate Actions
E. Decarbonise council housing	1. Raise the energy efficiency of social housing with an EPC rating of D or lower	Improvements already underway including replacing gas burning boilers on the Wyndham, Consort and Newington estates with modern water source heat pumps.	Prioritise energy efficiency improvements and maximise funding for the worst-performing social housing properties i.e., those with EPC rating D or lower.
	2. Replacing gas with low carbon-technologies	The Tustin estate has seen new insulated roofs and double-glazed windows installed to the three tower blocks, significantly improving their energy efficiency.	Increase the number of council-owned homes to the extended SELCHP network where feasible.
			Continue to roll-out heat pumps within council housing stock and replacement of individual gas boilers
		Ann Moss Way development is an on-going pilot project to investigate whether carbon neutral council homes can be developed to Passivhaus standard and the cost of doing so.	Work with residents to develop decarbonisation plans for every estate in the borough.

56. To cite two specific examples in this area: cabinet considered two reports from the Strategic Director of Housing and Modernisation in September 2021, both of which have a direct relationship with the climate change strategy and the action plan above. Firstly, the refreshed asset management strategy, which addressed this directly and also contained a dedicated appendix on the matter. An extract from the main undertaking within the appendix is worth restating here:

“The proposal from Asset Management commits the Division to exploring measures to reduce carbon emissions relating to Southwark’s housing stock, including improved insulation, solar installations, and intelligent lighting systems, as well as the decarbonisation of the borough’s district heating network. The proposal makes clear that significant resident consultation and engagement will be carried out prior to the presentation of the full strategy to Southwark’s Cabinet in June 2022, to ensure that community-led decision making is at the heart of investment to make Southwark’s homes safer, secure, greener and places to be proud of.”

57. Secondly, the report on the heat networks strategy also spoke extensively to this area, both in terms of the anticipated reduction in carbon emissions that the new network would facilitate, and with regard to additional thermal energy efficiency measures to ameliorate potential upward charging pressures.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Director of Law and Democracy

58. The report sets out an Indicative Budget for the Housing Revenue Account (HRA) for 2022-23. Members are invited to approve officer recommendations for:
- Rent increases for existing directly managed and TMO managed tenancies by 4.1%;
 - An increase in tenant service charges, with two options set out for consultation;
 - A phased increase in sheltered housing service charges;
 - A 3.1% or 5.0% increase in charges for garages and other non-residential facilities dependent on the status of the customer; and
 - An increase in district heating and hot water charges of 4.1%.
59. The financial and budgetary considerations underpinning the recommendations are explained in the body of the report and its annexes.

Policy and legislative context

60. 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 to budget to prevent a debit balance on the HRA and to implement and review the budget.
61. 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 of the 1985 Act, from time to time, to review rents and make such changes as circumstances may require.
62. Up to 1 April 2020 the discretion as to rents and charges was subject to restrictions arising from the provisions of the Welfare Reform and Work Act 2016 (“the 2016 Act”). The Act and supporting regulations required the council to ensure (subject to limited exceptions) that for each relevant year the rents (excluding charges made for services) payable by its social tenants reduced by at least 1% year on year from a 2015-16 baseline, for a period of four years . The Act also made 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 applied to tenancies of new homes and re-lets to a new tenant, but not the grant of a new tenancy to an existing tenant.

63. Following consultation by the Ministry of Communities, Housing and Local Government with Registered Providers and Local Authorities, from 1 April 2020 the council must set rents in accordance with the Rent Standard April 2020 (“the 2020 Standard”). This is issued by the Regulator of Social Housing under direction (the Rent Standard Direction 2019) of the Secretary of State for Housing, Communities and Local Government pursuant to powers given under the Housing and Regeneration Act 2008 Section 197. Government policy in this respect is set out in the “Policy Statement of Rents for Social Housing”.
64. Under the 2020 Standard the council may 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. The council may set rents as recommended in the report provided the council has met its rent reduction obligations over the previous four years.
65. 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

66. Changes in Rent and other charges are excluded from the statutory consultation requirements on matters of “housing management” in respect of which local authorities are required to consult their tenants secure, introductory and demoted tenants pursuant to Section 105 of the Housing Act 1985 and Sections 137 and 143A of the Housing Act 1996. The Council however has undertaken in its tenancy conditions 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.
67. The council is required, by Section 103 of the Housing Act 1985 in relation to its secure tenancies by Section 111A of the Housing Act 1985 in respect of its introductory tenancies and further to the council’s agreement with its tenants, to notify tenants of variations of rent and other charges. The council will need to serve a notice of variation, at least 28 days before the variation takes effect.

Equalities impact

68. In making a decision the cabinet must have due regard to the council’s equalities duties set out in the Equalities Act 2010, 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; and
 - Foster good relationships between those who share relevant characteristics and those who do not.
69. The report includes a community impact statement which sets out consideration given to the equality duties in the Equality Act.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
https://moderngov.southwark.gov.uk/documents/s86580/Report%20Approval%20of%20the%20Housing%20Revenue%20Account%202020-21%20and%20rent%20setting.pdf	160 Tooley Street London SE1 2QH	Paula Thornton, Constitutional Team

APPENDICES

No.	Title
Appendix A	Summary of HRA Budget Movements 2022-23
Appendix B	HRA Summary Revised 2021-22 and Indicative Budget 2022-23
Appendix C	HRA Inflation, Budget Pressures and Commitments 2022-23
Appendix D	HRA Income Generation 2022-23
Appendix E	HRA Efficiencies and Improved Use of Resources 2022-23
Appendix F	HRA Subjective Indicative Budget 2022-23

AUDIT TRAIL

Cabinet Members	Councillor Rebecca Lury, Cabinet Member for Finance, Performance and Democracy Councillor Stephanie Cryan, Cabinet Member for Council Homes and Homelessness	
Lead Officers	Duncan Whitfield, Strategic Director of Finance and Governance Michael Scorer, Strategic Director of Housing and Modernisation	
Report Author	Ian Young, Interim Director of Finance and Departmental Finance Manager, Housing and Modernisation	
Version	16 (final)	
Dated	29 November 2021	
Key Decision?	Yes	
CONSULTATION WITH OTHER OFFICERS/DIRECTORATES/CABINET MEMBER		
	Officer Title	Comments Sought
	Director of Law and Democracy	Yes
	Strategic Director of Finance and Governance	n/a
	Date final report sent to Constitutional Team	29 November 2021

APPENDIX A – SUMMARY OF HRA BUDGET MOVEMENTS 2022-23

	HRA Budget movement
	£000
Inflation	2,844
Service commitments	11,179
Inflation, budget pressures and commitments	14,023
Increase in rental income	(5,374)
Tenant service charges	(837)
Sheltered housing service charges	(54)
District heating charges	(457)
Fees, charges and third party income	(30)
Garage and non-residential charges	(222)
Homeowner service charges	(965)
Capitalisation of building survey charges	(4,930)
Income generation	(12,869)
Efficiency savings	(1,154)
Efficiency savings and improved use of resources	(1,154)
HRA budget gap	0

APPENDIX B – HRA SUMMARY REVISED 2021-22 AND INDICATIVE BUDGET 2022-23

	2021-22 Revised budget	2022-23 Indicative budget
	£m	£m
Employees	40.4	44.0
Operational running costs	36.5	37.1
Estate cleaning and grounds maintenance	18.2	18.2
Repairs and maintenance	50.5	59.2
Contributions to investment programme, great estates and major projects	27.1	27.1
Corporate support costs	11.1	11.1
Depreciation	53.0	53.0
Financing costs	30.6	30.6
Tenant management organisations (TMOs)	7.0	7.0
HRA Expenditure	274.4	287.3
Dwelling rents	(196.7)	(202.1)
Non-dwelling rents	(5.8)	(6.0)
Heating and hot water charges	(8.8)	(9.3)
Tenant service charges	(15.7)	(16.5)
Homeowners - major works	(11.0)	(11.0)
Homeowners - service charges	(21.3)	(22.3)
Interest on balances	(0.7)	(0.7)
Commercial property rents	(8.3)	(8.3)
Fees, charges and third party income	(2.8)	(2.9)
Recharges	(3.3)	(8.2)
HRA Income	(274.4)	(287.3)
HRA Total	0.0	0.0

APPENDIX C – HRA INFLATION, BUDGET PRESSURES AND COMMITMENTS 2022-23

Division	Reference	Cabinet Member	Description	2022-23	Comments
				£000	
All Services	HRA150	Cllr Stephanie Cryan	General inflation provision	2,844	Annual inflation provision to meet price increases across a broad range of budget heads, including employees, operational running costs/energy usage and works contracts comprising repairs and maintenance, mechanical and electrical engineering and heating
Asset Management	HRA151	Cllr Stephanie Cryan	Building Safety - new dedicated building safety team (recruitment phased over two years)	1,278	Building Safety - estimated staffing requirement is 35 posts + 2 PMO posts - recruitment to be phased over two years
Asset Management	HRA152	Cllr Stephanie Cryan	Building Safety - surveying and intrusive safety investigation and safety cases (in-scope building programme phased over two years)	4,930	Estimated cost of surveying is £58k per block x 170 blocks = £9.86m to be undertaken by 31 March 2024. One-off cost over two years, then falls out in Year 3. Surveys are estimated to take up to sixteen weeks. Additional blocks deemed as 'high risk' (69) will be addressed through the mainstream capital works programme
Asset Management	HRA153	Cllr Stephanie Cryan	Building Safety - additional compliance works arising from building safety surveys	500	Increase in compliance budget to cover additional costs arising from building safety inspections
Asset Management	HRA154	Cllr Stephanie Cryan	Disrepair - additional legal and compensation costs to deal with historic claims and increased volume	1,000	Based on existing demand pressure, including impact of Habitation Act and targeting of residents by compensation claims firms. Increasing numbers of claims is a nationwide position
Asset Management	HRA155	Cllr Stephanie Cryan	New district heating team (recruitment phased over two years)	350	District heating team structure to deliver works programme (interim for one year then bulk of team to be capitalised as works programme commences)
Asset Management	HRA156	Cllr Stephanie Cryan	Southwark Building - impact of new Terms and Conditions	400	Estimated cost of transitioning to new T&C's for works labour force (tbc). Currently being assessed using actual cost information
Asset Management	HRA157	Cllr Stephanie Cryan	Southwark Building - disrepair	600	Estimated cost for additional contractors to deliver disrepair works that fall within the remit of Southwark Building

Division	Reference	Cabinet Member	Description	2022-23	Comments
				£000	
Asset Management	HRA158	Cllr Stephanie Cryan	Leaks from above team (additional post to address capacity shortfall)	55	1 x Hay 11 to address capacity shortfall
Asset Management	HRA159	Cllr Stephanie Cryan	New procurement and fire task team	432	Additional resource for Southwark Building procurement and Fire Task Teams, total cost £432k of which £200k to be capitalised
Resident Services	HRA160	Cllr Stephanie Cryan	Estate Management - Anti-Social Behaviour - demand led increase in legal costs to tackle increased activity	105	Increasing legal costs currently covered by reserves - SLA to be reviewed
Resident Services	HRA162	Cllr Stephanie Cryan	Estate Management - emergency TA placements, e.g. domestic abuse, violence, gangs etc.	450	Currently 59 cases (down from 83 last year) based on current numbers - projected spend is circa. £1m, budget of £125k pa. is for approx. 6 - 8 households per month. Growth allows for approx. 35 - 40 households per month
Resident Services	HRA163	Cllr Stephanie Cryan	Temporary Accommodation Estate Voids - refurbishment and repairs budget	500	Current projected overspend of £750k - previous commitment made in 2021-22, but void throughput continues to increase (estimated at 8 per week, up from 5)
Communities (HRA)	HRA164	Cllr Stephanie Cryan	T&RA Halls repairs and compliance budget	200	Increased repairs and compliance costs particularly around FRA related issues - overspend in the last two years has been c. £200k. Needs to be considered as part of council's carbon reduction target
Exchequer Services	HRA166	Cllr Stephanie Cryan	Homeowners Building Insurance - annual contract uplift	204	Annual price uplift in line with contract terms - fully recoverable from homeowners through service charges - contract subject to retendering for 2022-23. Final year agreed costs of 4% increase in RICS only not including IPT on total billed
Exchequer Services	HRA167	Cllr Rebecca Lury	Contact Centre - SMART and Out of Hours service	175	Base budget requires rebasing to reflect current activity/demand. HRA element of jointly funded service with GF
				14,023	

APPENDIX D – HRA INCOME GENERATION 2022-23

Division	Reference	Cabinet Member	Description	2022-23	Comments
				£000	
Resident Services	HRA121	Cllr Stephanie Cryan	Sheltered Housing Service Charges	(54)	Annual rebasing of sheltered housing service charges to reflect current/anticipated cost of providing enhanced housing management support to residents - second tranche of staged implementation (2021-22 to 2022-23)
Exchequer Services	HRA122	Cllr Stephanie Cryan	Garage Rents and Non-Residential Charges	(222)	Detrimental impact of Covid on lettings and hence rental stream - gradual recovery in activity expected to continue throughout 2022-23 to pre-Covid level. Increase in charges of 3.1% in line with September CPI, will generate income growth over existing budget
Exchequer Services	HRA123	Cllr Stephanie Cryan	Homeowner Revenue Service Charges	(965)	Annual rebasing of rechargeable income budget to reflect current/anticipated volumes and activity to ensure full cost recovery from homeowners under the terms of their lease
All Services	HRA124	Cllr Stephanie Cryan	Miscellaneous Mandatory and Discretionary Fees and Charges	(30)	Annual review of miscellaneous mandatory and discretionary fees and charges for services in line with Council's MTRS
Central Services	HRA126	Cllr Stephanie Cryan	Tenant Rents	(5,374)	Guideline rent increase @ September 2021 CPI (3.1% +1%), including stock/void movements and full-year impact of closure of shared hostel accommodation arising from Covid
Central Services	HRA127	Cllr Stephanie Cryan	Tenant Service Charges	(837)	Annual rebasing of charges to reflect estimated uplift in contract costs to ensure full cost recovery from service users, including allowance for impact of energy price rises
Central Services	HRA128	Cllr Stephanie Cryan	District Heating and Hot Water Charges	(457)	Increase in charges capped in line with rents in lieu of on-going assessment of energy market price volatility
Asset Management	HRA129	Cllr Stephanie Cryan	Capitalisation of building safety surveys	(4,930)	Immediate revenue costs of surveys funded from investment programme
				(12,869)	

APPENDIX E – HRA EFFICIENCIES AND IMPROVED USE OF RESOURCES 2022-23

Division	Reference	Cabinet Member	Description	2022-23	Comments
				£000	
Resident Services	HRA101	Cllr Stephanie Cryan	Special Investigations Team - reduction of one vacant post from existing team of ten	(45)	No service impact
Resident Services	HRA102	Cllr Stephanie Cryan	Great Estates Programme Pilot due to end in May 2022. Residual works to be subsumed into mainstream estate management	(979)	Residual works to be subsumed into mainstream estate management
Resident Services	HRA103	Cllr Stephanie Cryan	Hostels - removal of operational running cost budgets for decommissioned hostels designated for provision of new homes	(100)	No service impact as shared hostel accommodation closed and residents re-housed
Customer Experience	HRA108	Cllr Rebecca Lury	MSHO Service - close Market Place	(30)	Will need to continue to provide face to face service and potentially increase contact centre staff and complaints team to manage additional calls and complaints
				(1,154)	

APPENDIX F – HRA SUBJECTIVE INDICATIVE BUDGET 2022-23

	2021-22 Revised budget	Inflation, budget pressures and commitments	Income generation	Efficiency savings and improved use of resources	2022-23 Indicative budget
	£000	£000	£000	£000	£000
Employees	40,459	3,840	-	(236)	44,063
Operational running costs	36,541	759	-	(130)	37,170
Estate cleaning and grounds maintenance	18,183	-	-	-	18,183
Repairs and maintenance	50,532	9,424	-	(788)	59,168
Contributions to investment programme, great estates and major projects	27,070	-	-	-	27,070
Corporate support costs	11,110	-	-	-	11,110
Depreciation	53,000	-	-	-	53,000
Financing costs	30,555	-	-	-	30,555
Tenant management organisations (TMOs)	6,955	-	-	-	6,955
HRA Expenditure	274,405	14,023	-	(1,154)	287,274
Dwelling rents	(196,690)	-	(5,374)	-	(202,064)
Non-dwelling rents	(5,793)	-	(222)	-	(6,015)
Heating and hot water charges	(8,838)	-	(457)	-	(9,295)
Tenant service charges	(15,687)	-	(891)	-	(16,578)
Homeowners - major works	(11,000)	-	-	-	(11,000)
Homeowners - service charges	(21,335)	-	(965)	-	(22,300)
Interest on balances	(700)	-	-	-	(700)
Commercial property rents	(8,275)	-	-	-	(8,275)
Fees, charges and third party income	(2,830)	-	(30)	-	(2,860)
Recharges and capitalised expenditure	(3,257)	-	(4,930)	-	(8,187)
HRA Income	(274,405)	-	(12,869)	-	(287,274)
HRA Total	0	14,023	(12,869)	(1,154)	0