

HOUSING REVENUE ACCOUNT RENT AND CHARGES 2024-25

DECEMBER 2023 BRIEFING

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HRA: Statutory Framework

- The HRA is a statutory account under s.74 of the Local Government and Housing Act 1989.
- It is ring-fenced and contains the costs of landlord provision (as opposed to welfare provision) of the Council's housing stock offset by tenant rents and service charges, homeowner service charges and other income.
- Regulations set out what can and can't be charged to the HRA (see Sch.4 to the 1989 Act, DoE Circular 8/95).
- The purpose of ring-fencing was to ensure no cross-subsidisation between tenants and council tax payers.
- There is also a statutory requirement to set a balanced budget each year (s.76 of the 1989 Act).

HRA: Self-Financing

- Under the provisions of the Localism Act 2011, the HRA became wholly reliant on its own resources from April 2012, chiefly its rental stream
- The underlying principle was the generation of revenue surpluses sufficient to meet the investment needs of the stock over thirty years, without further government support
- The resultant debt settlement under the 2011 Act reduced Southwark's historic debt by around £199 million to £451 million
- The thirty-year Business Plan was predicated on stock assumptions and rental increases at RPI (later CPI)
- Despite council and other sector-based lobbying Government assumptions did not adequately reflect the financial reality and unique nature and size of the housing stock in Southwark
- Other changes include the premature withdrawal of rent convergence, and the four year rent reductions imposed between 2016-17 and 2019-20
- From April 2020 Local Authority registered providers came within scope of the Regulator of Social Housing
- Government capped rents @ 7% for 2023-24 in response to the cost of living crisis (CPI +1% would have been 11.1% c. £9m loss)

HRA: Historic Budget Movements

Year	Types of Expenditure		Types of Income			
	General inflation	Commitments	Rent and charges	Homeowners charges	Fees and charges	Efficiency Savings
	£'000	£'000	£'000	£'000	£'000	£'000
2011-12	1,600	19,784	-12,143	0	0	-9,241
2012-13	1,400	16,695	-15,298	3,900	-300	-6,397
2013-14	1,978	15,663	-11,614	0	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
2022-23	2,844	11,179	-6,722	-965	-252	-6,084
2023-24	8,284	17,241	-23,471	-1,714	-213	-127
Total	34,376	131,154	-79,954	-7,834	-4,186	-73,556
	Total Expenditure	165,530			Total Income	-165,530

HRA: Outturn 2022-23

Category	2022-23 Revised Budget	2022-23 Outturn	2022-23 Variance
	£000	£000	£000
Debt Financing	30,105	26,275	-3,830
Depreciation (Dwellings)	50,000	50,000	0
Depreciation (Non-Dwellings)	3,000	1,708	-1,292
Revenue Contribution to Capital	19,712	15,989	-3,723
Heating Account	8,298	17,333	9,035
Central Services	29,170	23,598	-5,572
Asset Management	63,266	69,183	5,917
Resident Services	55,198	67,500	12,302
Exchequer Services/ HO Services	15,561	14,689	-872
Customer Services	4,977	5,921	944
Directorate	1,885	1,985	100
New Homes	385	910	525
Expenditure	281,557	295,091	13,534
Tenant's Rents & Service Charges	-232,595	-233,820	-1,225
Homeowner Service Charges	-34,876	-41,820	-6,944
Commercial Properties	-7,689	-6,709	980
Garage Rents	-6,397	-6,070	327
Income	-281,557	-288,419	-6,862
Appropriations to /(from) Reserves	0	-6,672	-6,672
Grand Total	0	0	0

HRA: Month 8 2023-24 Forecast Outturn

Category	Budget	Forecast	Variance	Change since M4
	£000	£000	£000	£000
Resident Services (Housing Management)	59,637	70,343	10,706	5,032
Asset Management (Repairs & Maintenance)	69,629	81,950	12,321	4,062
New Homes	670	1,165	495	179
Customer Services	5,272	6,982	1,710	1,227
Directorate	1,902	1,720	(182)	(147)
Total Tenant Facing Services	137,110	162,160	25,050	10,353
Capital, Financing and Support Services	157,128	147,560	(9,568)	(11,678)
Tenant Rents and Homeowner Charges	(294,238)	(292,964)	1,274	4,270
Housing Revenue Account Forecast Outturn	0	16,756	16,756	2,945

HRA: Key Budget Issues 2024-25

- Unprecedented Inflationary cost pressures across the HRA, particularly building works, materials and energy (district heating)
- Onerous new responsibilities arising from Fire Safety and Building Safety Acts
- Significant cost implications for the council – both revenue and capital
- Further resources being made available for repairs, maintenance and improvement of the housing stock
- Works arising from survey programme currently unquantified
- Debt financing costs increasing rapidly due to high level of borrowing to fund capital programme
- Rising interest rates on new borrowing adding further to revenue cost pressure

HRA: Budget Background & Framework 2024-25

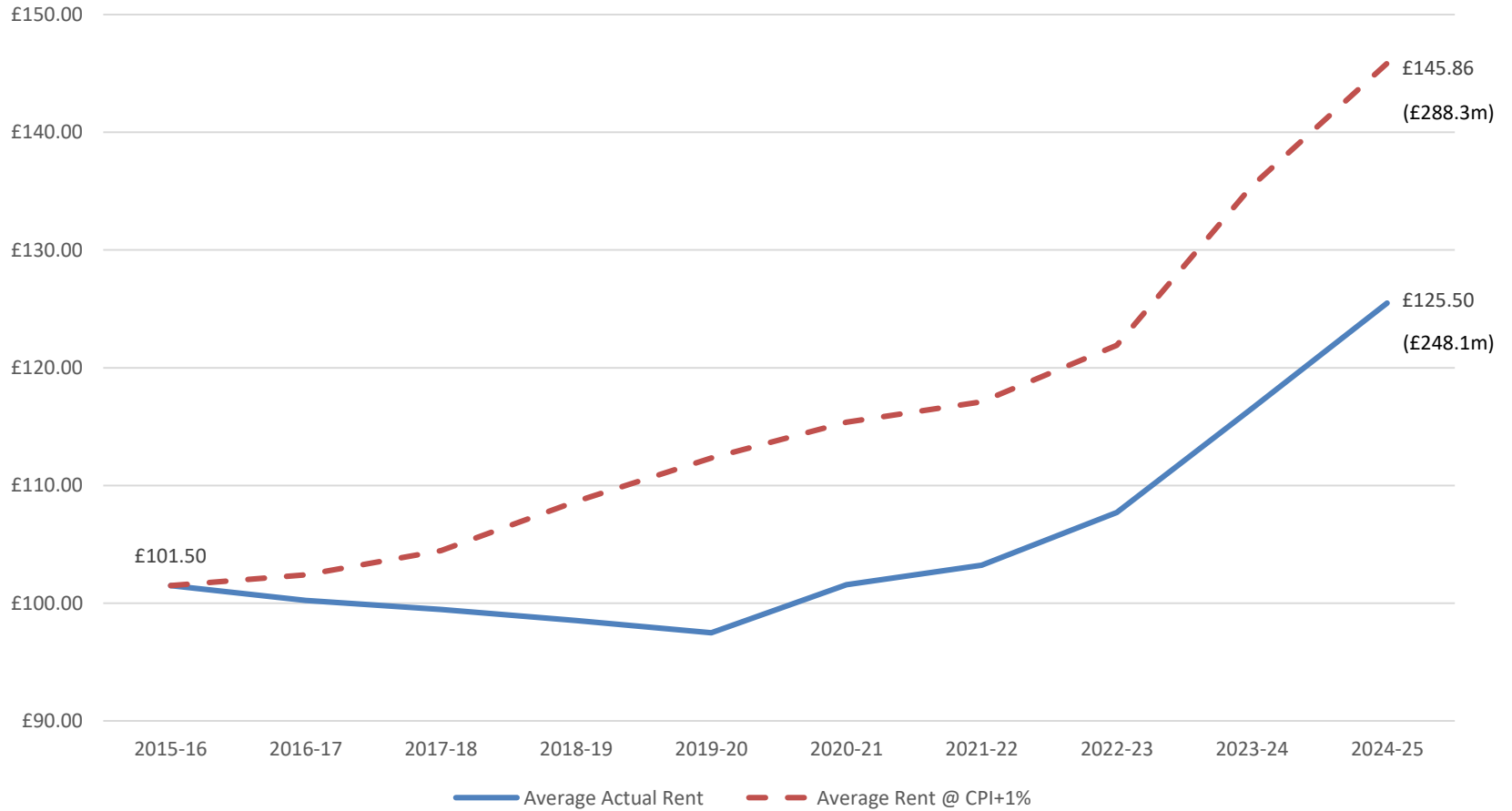
- Over the past three years the HRA has experienced exceptional budget pressures as a result of factors largely outside the council's control, primarily government rent policy and macro-economic events, which include:
 - The cumulative effect of the government imposed 1% rent reduction for four years for the period 2016-17 to 2019-20, running into hundreds of millions in income foregone over the life of the current HRA business plan
 - A government imposed 7% cap on rents for 2023-24, when formula rent would have yielded 11.1%, a loss of £9m+ in the current year and a lower income base going forward than it would otherwise have been, resulting in on-going year on year rent loss
 - Unfunded additional burdens relating to the housing stock arising from the Fire Safety and Building Safety Acts
 - Unprecedented energy price volatility impacting the council's heat network and other energy intensive elements such as lighting
 - Exponential growth in the HRA borrowing requirement for the capital programme (primarily new homes), together with the three-fold increase in interest rates since December 2021, which has substantially increased the revenue financing cost to the HRA.
- Given the size of Southwark's housing stock, the pressures outlined above have been particularly impactful for the council
- The HRA is currently forecast to be overspent in 2023-24, but is subject to a management action plan to mitigate the position before year-end, to include a repairs improvement programme and an asset management transformation piece, along with an end-to-end voids review, in conjunction with a temporary spending moratorium focussing on essential spending only
- Consideration will be given as to how any residual deficit will be addressed at year-end. Options include drawdown from the limited reserves available and a reduction in revenue funding for the housing investment programme
- Consequently, the budget setting process for 2024-25 is going through a more rigorous review and planning exercise. As a result, HRA budget information will form part of the council's policy and resources strategy report to Cabinet and Council Assembly in February 2024

HRA: Rent Increase

- Southwark has a history of low or inflation linked rent rises
- Rents remain below the Government's assumed 'target' and rank around 9th lowest of the 12 inner London Boroughs
- Guideline rent determined by September CPI+1%
- September 2023 CPI was 6.7% plus 1% = 7.7% increase
- Cumulative impact of rent reduction & capping runs into hundreds of millions over the life of the Business Plan
- The chart illustrates the impact of these policy initiatives
- The gap between actual average rent for 2023-24 versus what it would have been without reduction (over £20 higher per week on average, amounts to circa £40m income foregone)
- Rents and tenant service charges remain eligible for welfare benefits
- Information about what financial support is available can be found on the cost of living pages on the council website:
 - <https://www.southwark.gov.uk/benefits-and-support/cost-of-living-support>

HRA: Statutory Rent Reduction

Average Rent 2015-16 - 2024-25



Average Rents

Number of Bedrooms	Average Rent	Average Rent	Increase	Increase
	£ per week	£ per week	£ per week	£ per annum
	2023-24	2024-25		
0	91.21	98.24	7.03	365.56
1	105.10	113.20	8.10	421.20
2	116.36	125.32	8.96	465.92
3	127.50	137.32	9.82	510.64
4	138.25	148.89	10.64	553.28
5	152.41	164.15	11.74	610.48
6+	165.51	178.26	12.75	663.00
Borough – wide Average	116.53	125.50		

Note. 2023-24 average updated to reflect the mid-year stock position.

HRA: Proposed Tenant Service Charges 2024-25

- The liability for tenant service charges is property-specific
- Charges are set at a level to recover the full cost of provision and recovered from service recipients
- Charges are based on borough wide pooled costs
- The areas covered are fairly typical across local authority social landlords
- Estate cleaning increases from £6.73 to £8.11
- Grounds Maintenance increases from £1.51 to £1.77
- Communal Lighting increases from £2.06 to £2.44
- Door Entry increases from £0.78 to £0.82

HRA: Proposed Sheltered Housing Service Charges 2024-25

- Service charges reflect the cost of enhanced housing management services
- Annual review of service undertaken and charges rebased to fully recover costs
- Current charge increases from £35.93 to £38.20

HRA: Proposed Garages and Non Residential Charges 2024-25

- Garage portfolio is a valuable HRA asset which helps mitigate wider cost pressures across the HRA
- Concessionary rate for OAP/registered disabled applies (£5 reduction)
- Standard charge increases from £23.10 to £24.70
- Concessionary rate increases from £18.10 to £19.70
- Private sector rate increases from £41.20 to £45.30 (incl. VAT)

Note - cabinet on 5 December agreed to review current garage charging policy and concessionary scheme and consult with residents on a refreshed policy framework

HRA: District Heating and Hot Water (Fuel) Charges

Background

- Gas and electricity for our district heating systems is procured through the LASER consortium at wholesale prices which are lower than market rates obtainable by domestic customers
- Events in Ukraine have impacted the situation and global energy prices have risen significantly (gas prices doubled from 22/23 to 23/24 for example)
- Gas constitutes about 75% of the energy costs of providing heating and hot water, electricity is circa 9%, the remainder is for energy provided by South East London Combined Heat and Power (SELCHP) generated from waste
- This FY (22/23) the government is providing a subsidy to the energy prices of circa 28% of the unit cost for gas used in our district heating systems – this is estimated to be around £7m for the current financial year. It is not yet known if any subsidy will be made available for the coming financial year (2024-25)

HRA: District Heating and Hot Water (Fuel) Charges

TENANTS

Non-metered

- Flat weekly charge based on property size and heating type (e.g. full central heating, or hot water only) (Appendix 1 Table 1)
- Charges are set to cover tenants' share of the gas and electricity costs to run the district heating systems
- Tenants' share of equipment (boilers, pumps etc.) is covered by the weekly rent

HOMEOWNERS

Non-metered

- Estimated and actual service charge bills to recover the Homeowners share of the actual cost of running the systems on each estate (operation, maintenance, repair, gas and electricity).
- All costs allocated on heating type and room weighting within each estate.

HRA: District Heating and Hot Water (Fuel) Charges

Heat Metering Regulations

In certain situations the council now has a duty to install and maintain heat meters and to charge residents for the actual amount of heat used, rather than just an equal share of the costs.



Heat Metering in Southwark

- Consulted on a draft Heat Metering Policy in summer 2022 and now progressing this to an adopted policy
- Currently bill ~500 homes according to consumption (all new homes and mostly through external billing agents)
- Start consumption based billing for retrofit meters in April 2024

HRA: District Heating and Hot Water (Fuel) Charges

TENANTS

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- Charges are set to cover tenants' share of the gas and electricity costs to run the district heating systems
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Metered

1. Newer properties – a borough wide tariff to recover the cost of running new systems (Appendix 1 Table 2)
2. Older properties – a borough wide tariff to recover the cost of running older systems (Appendix 1 Table 3)

HOMEOWNERS

Non-metered

- Estimated and actual service charge bills to recover the Homeowners share of the actual cost of running the systems on each estate (operation, maintenance, repair, gas and electricity).
- All costs allocated on heating type and room weighting within each estate.

Metered

- Estimated and actual service charge bills to recover the actual cost of running the systems on each estate.
- Operation, maintenance & repair costs continue to be allocated on heating type and room weighting within each estate.
- Gas costs allocated on heat consumption according to tariff (which will include standing charge for fixed costs and variable charge for variable costs)

Homeowner Service Charges

Variable Service Charges to Homeowners

- Variable service charges to homeowners are constructed from the actual costs incurred for communal services provided to their individual blocks and estates
- Costs for a service may include fuel supply, planned maintenance and ad-hoc repairs
- The costs include overheads – these are the council’s direct (staffing) and indirect (office costs) of managing the services
- Homeowners are also charged an administration fee for the construction, billing and collection of service charges and the management of the service charge accounts
- Freeholders on estates are charged for the costs of communal services provided to the estate
- Freeholders may also be charged for heating if they are connected to a communal heating system

Communal Services

The communal services provided may include:

- Repairs to the structure, exterior, communal parts and communal service installations (both block and estate)
- Care and upkeep (cleaning of the block and estate)
- Lighting (of both block and estate)
- Communal heating systems
- Lifts
- Door Entry Systems
- Security Services
- Grounds Maintenance
- Communal Television Aerial
- Buildings Insurance

Apportionment

- Homeowners service charges can be calculated by using any reasonable method
- Southwark mainly uses a weighting method based on the size of the property
- Each property is assigned four units, and an additional unit per bedroom
- The cost of the work or service is divided by the total number of units in the block, or estate, (including tenanted properties) to get a cost per unit
- This is then multiplied by the number of units in the property to get the service charge
- An additional weighting is added to calculate the communal heating. This weighting represents the type of heating provided

Weekly Service Charges to Tenants

- Southwark makes an additional weekly charge to tenants for five services, subject to whether or not they receive the service.
- The five services are:
 - Caretaking
 - Grounds Maintenance
 - Lighting
 - Door Entry Systems
 - Heating

Tenant Service Charge Apportionment

- Unlike homeowners the charges to tenants for four of the five services are a simple division of the total cost to the HRA by the number of properties receiving the service
- The exception is heating, where the charge is weighted in accordance with the type of heating provided and the size of the property
- The charges to tenants for door entry, lighting and heating do not include the cost of repairs. These costs are included in the rent charged to all tenants whether or not they receive the service