COUNCIL	DATE 24 February 2022	ITEM NO. 12
TITLE Housing Revenue Account Medium Term Financial Strategy & 2022/23 Budget and Rent Setting	**WARD(S)** All	
CHIEF OFFICER Director of Housing & Safer Communities	**CABINET MEMBER** Housing	
DECISION CLASSIFICATION Key decision Non-exempt report Non-exempt appendices	**IS THE FINAL DECISION ON THE RECOMMENDATION(S) IN THIS REPORT TO BE MADE AT THIS MEETING?** Yes	

1. Decisions Required

Council is asked:

1.1 To approve the Housing Revenue Account (HRA) Medium Term Financial Strategy, as detailed in section 4 of this report.

1.2 To approve the HRA budget proposals for 2022/23 detailed in the report.

1.3 To agree to follow the national rent policy, as set out in the Rent Standard and detailed in section 4.21, to increase rents by the Consumer Price Index (CPI) plus 1%, equating to 4.1%.

1.4 To agree the overall increase in the average weekly rental charge by £3.76 per week to an average rent per week of £95.42 (4.1%) as detailed in section 4.25.

1.5 To agree the overall decrease in the average weekly charge by £0.14 per week to £14.94 per week on Tenant Service Charges as detailed in 4.25.

1.6 To note, with effect from 1 April 2022, the resulting average rent in section 4.25 Table Five.

1.7 To agree an overall increase in garage rents in line with the rental increase of CPI plus 1% equating to 4.1% as detailed in section 4.23.

1.8 To note the balanced HRA 2022/23 budget position in section 4.27 Table Six.

1.9 To note the High Court decision in Royal Borough of Kingston-v- Moss in relation to historic water rates and agree to refund tenants as set out in section 4.36 and further to note the potential financial exposure of the council as a result

1.10 To note that Cabinet has been recommended to agree the use of revenue working balance surpluses to finance an enhanced Housing Capital Programme, details of which are contained in section 4.9.

2. Links to the Royal Greenwich high level objectives

2.1 The provision of affordable, high quality, well managed and maintained council homes meet a significant number of the council's strategic objectives:

- A Healthier Greenwich
- A Safer Greenwich
- A great place to grow up
- Delivering Homes Through Economic Growth
- A Cleaner, Greener Greenwich
- Economic Prosperity for All
- A Great Place to Be
- A Strong Vibrant and Well-run Borough

2.2 Specifically, the agreement of the council's HRA MFTS and rents ensures that the council housing is a significant driver of social inclusion, economic prosperity (through social rents) and neighbourhood cohesion. Social Housing is one of the Council's main interventions to ensure structural inequalities are addressed, by providing, where possible, secure, safe, appropriately sized housing in places where people want to live.

2.3 The requests for approval in this report also address the following priorities in the 2021- 2026 Housing Strategy:

Strand 1: Ensuring the supply of high-quality homes
Strand 4: Safe and sustainable homes for all
Strand 5: Building resilient and vibrant communities and neighbourhoods

3. Purpose of Report and Executive Summary

3.1 This report identifies the rent and budget proposals for the HRA for 2022/23.

There is a statutory duty to notify residents 28 days in advance of proposed changes in rents and charges which means decisions need to be taken in sufficient time for implementation effective from 1 April 2022.

3.2 The report sets out the potential use of revenue working balance surpluses to create an investment opportunity for an enhanced capital programme, which will look to deliver further stock improvement and new build homes.

4. Introduction and Background

4.1 The Housing Revenue Account (HRA) is a ring-fenced account relating to the activities of the Council as a landlord of its dwelling stock and contains all income and expenditure from the provision and management of the housing stock. The Council is required by law to avoid budgeting for a deficit on the HRA (Local Government and Housing Act 1989, Section 76).

4.2 The Council has agreed a set of budget principles as part of the Medium-Term Financial Strategy (MTFS) to guide future budget setting and are equally applicable to the HRA as they are to the General Fund.

- maintaining the highest possible quality and efficient services commensurate with the cuts imposed by Central Government.
- recognition of front-line service pressures.
- the maintenance of reserves at a prudent level.
- investing in and delivering the Growth Strategy.
- security of the Council's robust financial standing.

4.3 Medium Term Financial Strategy for HRA

4.4 In March 2021 the HRA revenue brought forward balances were £8.7m, broken down as follows: -

- £3.8m Minimum Working Balance and
- £4.9m Earmarked Balances

The Medium-Term Financial Strategy position for the HRA in 2021/22, reported as part of this Cabinet agenda within the Period 9 monitoring report, shows a projected overspend of £2.3m. The main reasons for this are the structural overspend in repairs and investment and void rent loss. Both these pressures are being performance monitored and have significant management attention.

There are a number of other variations which have assisted with bringing the HRA to this position, such as:

- Staffing underspend within Housing Inclusion Support Services and Welfare Reform of £0.6m and
- staffing underspend within Tenancy of £0.3m

The projected overspend of £2.3m may therefore result in the earmarked balances decreasing to £2.6m and potentially put planned investments in various programmes that are to be funded from earmarked reserves at risk.

In line with best practice recommended by CIPFA, as utilised by the General Fund, the HRA prepares and presents a four year rolling MTFS, which is derived from a 30 year Business Plan. For the period 2022/23 to 2025/26 the forecast medium term financial position for the HRA is shown in the following tables:

Table 1: Forecast HRA MTFS - Key Expenditure and Inflationary Items 22/23 – 25/26

Description	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Repairs and Maintenance	815	906	889	1,009
Management	1,181	61	158	(628)
Bad Debts	117	(300)	(206)	74
Dwelling depreciation	897	238	1,030	(124)
Capital Financing	952	2,699	2,601	985
Total	**3,962**	**3,604**	**4,472**	**1,316**

4.5 A number of income inflationary mitigations are available to address these expenditure and inflationary items, which can be built into the base MTFS. These are summarised in Table 2 alongside the impact of these measures on the HRA:

Table 2: HRA MTFS Income Proposals 22/23 – 25/26

Description	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Effect from Business Plan	3,962	3,604	4,472	1,316
Balance brought forward	2,159	0	(3,363)	(4,995)
CPI+1% Rent Increase, Relets and other income	(6,142)	(6,018)	(5,442)	(4,288)
Service charge	157	(878)	(618)	(438)
Commercial and ground rent	(99)	(34)	(7)	(10)
Garages CPI+1%	(37)	(37)	(37)	(37)
Total	(6,121)	(6,967)	(6,104)	(4,773)
(Surplus) / Deficit c/f	**0**	**(3,363)**	**(4,995)**	**(8,452)**

4.6 As part of the HRA 2021/22 Budget and Rent Setting report in February 2021, Cabinet agreed a number of cost reduction proposals, after a fundamental review of HRA costs and income in the Autumn of 2020. There were ten projects (PIDs) with financial consequences to the HRA, several of which having implications across the span of the MTFS. The year 2021/22 was not without its challenges, as frontline services were largely protected and prioritised during the pandemic, which meant that some projects moved at a slower pace. For this reason, an annual review of the cost reductions from these projects has been undertaken. The PIDs have been updated to reflect performance of year one (21/22) cost reductions and rebased – the rebased PIDs are summarised below with further detail in Appendix A – the PID reference refers to that Appendix.

Table 3: HRA MFTS Cost Reduction Proposals 22/23 to 25/26

Description	**2022/23 £000**	**2023/24 £000**	**2024/25 £000**	**2025/26 £000**
Rent and FTA Arrears Reduction (PID3)	-	(300)	(500)	(500)
Garage Income (PID 5)	(37)	(74)	(111)	(148)
Repairs Productivity (PID 6)	(367)	(909)	(1,383)	(1,722)
Digital Repairs Offer (PID 7)	-	(100)	(200)	(200)
Repairs & Investment Structure (PID 9)	(80)	(160)	(216)	(216)
Planned Maintenance (PID 6)*	50	50	50	-
Housing Improvement Programme (PID 10)*	1,150	1,100	1,061	-
Total	**716**	**393**	**(1,299)**	**(2,786)**

* PID's 6 and 10 are shown in the above table on a non-cumulative basis as one off investment items.

4.7 The proposals set out in Table 3 above, have been factored into the forecast MTFS figures presented at Table 1 and Table 2.

4.8 Budget Position 2022/23

4.8.1 As presented within the Period 9 monitoring report on this Cabinet agenda and within this report, the HRA has an underlying deficit position of £2.3m which it is carrying over to 2022/23. To understand the budget position for 2022/23 this must be considered alongside the 'in-year' expenditure and income items in Table 1 and Table 2, as set out below.

Table 4 - HRA Consolidated Budget Gap / Surplus - 2022/23

Description	**2022/23 £000**
Forecast overspend at P9	**2,349**
Less non-recurring items	(190)
Structural overspend at P9	**2,159**
Pay Inflation 22/23	919
National Insurance Increase	559
Repairs Inflation 22/23	765
PID 6 – Planned Maintenance	50
PID 10 – Housing Improvement Programme	1,150
Stock Loss (RTB disposals)	245
Depreciation	897
Bad debt	117
Capital Financing	952
Service Charge	157
Total	**7,970**
Proposals to meet Gap	
Rents 4.1% increase, relets & new builds	(6,386)
CEC's reduction	(1,000)
Garage Income 4.1% increase	(37)
Commercial and Ground Rent	(100)
PID 6 – Repairs Productivity	(367)
PID 9 – Repairs and Investment structure	(80)
Total	**(7,970)**
Gap / (Surplus)	**-**

4.8.2 The above table demonstrates that the HRA is forecasting a balanced budget in 2022/23. A detail summary of the expenditure items in Table 4 are as follows:

- employers NIC has been calculated at 1.25% of the pay bill and this is estimated at £559k.
- repairs inflation of 3.1% has been applied to the Repairs budget at a cost of £765k.
- it is estimated that by the 31st March 2023 between 90-100 RTB sales will be completed. The impact on loss of rental income is estimated at £245k.
- allowance for pay inflation for 22/23 and this amounts to £919k.
- PID 6 – Planned Maintenance programmes- requires additional funding of £50k for 2022/23 as agreed in the MTFS
- there is a reduction in service charge income of £157k.
- increase in bad debt provision of £117k.
- the effect of depreciation and capital financing has been calculated at £897k and £952k respectively. This is driven from the increase in homes under the Greenwich Builds Phase 1 programme.

4.9 Capital Implications from the Business Plan

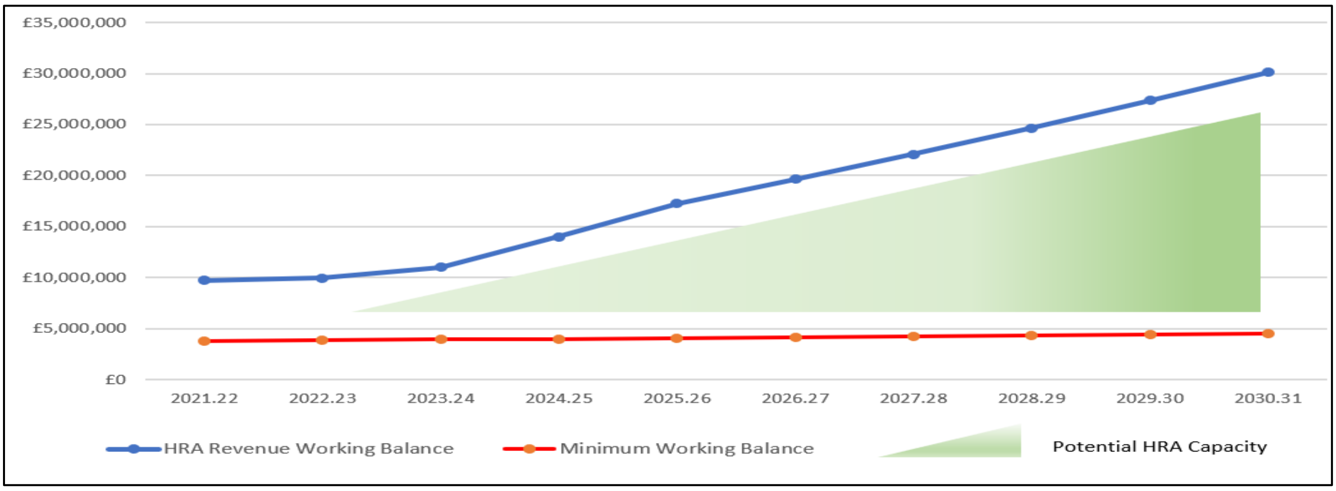
4.9.1 The HRA MTFS proposals contained within this report cover the four year period up to 2025/26, these are developed within a 30 year HRA Business Plan.

4.9.2 The business plan enables short to medium term plans and priorities to be developed and implemented through the MTFS process, but, also empowers a longer term perspective on revenue and capital financial planning, allowing an outlook beyond the 4 year MTFS period. The current business plan includes for recent Cabinet approvals such as Greenwich Builds Phase 1 and the Mainstream Stock Improvements programme up to March 2024.

4.9.3 The business plan highlights that the revenue decisions presented for approval within the other sections of this report, forecast the plan will generate an on-going annual revenue surplus resulting in an increasing working balance / reserve position. This is demonstrated over the MTFS period in Table Two.

4.9.4 The HRA must hold a minimum working balance, described earlier in this report, which provides a contingency buffer for HRA operations. The balance between the forecast HRA revenue working balance (blue line) and the *minimum* working balance (red line) provides potential opportunity for enhanced revenue or capital investment, demonstrated as follows:

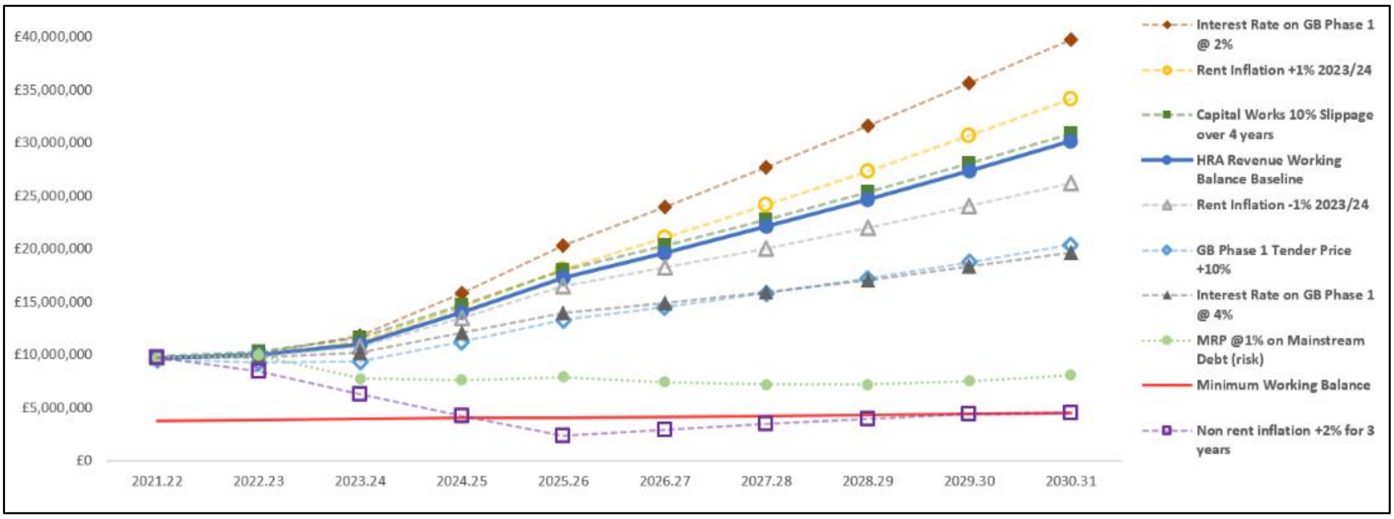
HRA Business Plan Forecast Revenue Balance Position and Potential Investment Capacity



4.9.5 The business plan is dependent on a set of baseline assumptions over the 30 year horizon, with those over the next 5 years providing a material impact on the medium term investment potential. The current baseline assumptions over the next 5 years, are as follows:

REVENUE INFLATION DRIVERS		1	2	3	4	5
		2022.23	2023.24	2024.25	2025.26	2026.27
General CPI		3.10%	3.30%	1.90%	2.00%	2.00%
Real inflation rents (increase above CPI)		1.00%	1.00%	1.00%	0.00%	0.00%
Real inflation non-dwelling rents		-3.10%	-3.30%	-1.90%	-2.00%	-1.50%
Real inflation service charges		-3.10%	1.00%	1.00%	0.00%	0.00%
Real inflation other income		-3.10%	-0.43%	-0.42%	-0.42%	-0.42%
Real inflation repairs		0.00%	0.00%	0.00%	0.00%	0.00%
Real inflation management		-1.35%	-1.80%	-0.40%	-0.50%	-0.50%
Real inflation special management		-1.35%	-1.80%	-0.40%	-0.50%	-0.50%
Right to buy sales		*100*	*80*	*80*	*80*	*80*
Other disposals (Not Specific Stock Reduction)		5	5	5	5	5
Void rate		*1.50%*	*1.00%*	*1.00%*	*1.00%*	*1.00%*
Bad Debt provision		1.98%	1.60%	1.33%	1.33%	1.33%
Relet Rents (Include Inflation)		1,526,582	1,589,172	1,654,328	1,705,612	1,739,724
HRA Minimum Working Balance		3,885,860	4,014,093	4,090,361	4,172,168	4,255,611
CAPITAL ASSUMPTIONS						
RCCO		2,040,000	2,081,000	2,123,000	2,165,000	0
Mainstream Improvement Programme		67,853,209	48,226,829	35,753,331	36,518,397	36,796,765
Interest Rate	Existing Debt	4.40%	4.40%	4.40%	4.40%	4.40%
	New Build/SCS	3.00%	3.00%	3.00%	3.00%	3.00%
Minimum Revenue Provision	Existing Stock	No MRP	No MRP	No MRP	No MRP	No MRP
	New Build	50 Years	50 Years	50 Years	50 Years	50 Years

4.9.6 These assumptions are dependent on future decisions, legislative or regulations changes and the external economic environment, most significantly CPI inflation which many of these assumptions are benchmarked against. Therefore, while a revenue surplus is currently forecast, we must be cognisant of the underlying risk of a variation in these assumptions materially impacting this position. Examples of the impact of individual baseline assumption variations are as follows:



4.9.7 The graph shows that in a worst case scenario, a non-rent (utilities, repairs, estate management etc) inflation increase of 2% above the baseline assumption for 3 years, would result in the revenue balance falling below the minimum working balance reducing all HRA funding capacity (purple square). This would potentially require future savings decisions within the HRA rather than additional investment capacity. A variation of more than one assumption would have a compound impact.

4.9.8 This investment potential presents Cabinet the opportunity to agree that the projected annual working balance surplus is used to lever in further capital investment, above the baseline assumptions made within the business plan. This surplus working balance allows the Council to either increase the revenue contribution to capital or finance additional prudential borrowing as required.

4.9.9 Further details on how it is proposed to use this increased capital investment are presented within a separate report on this agenda. Pending the approval of the decisions in this report, Cabinet will be asked to agree a medium term capital programme that's delivers £800m of capital investment, as follows:

- £403m to double the existing stock improvement programme from c£36m to c£73m for a period of 5 years between 2024/25 and 2028/29
- £397m to agree a continuation of the new build programme under 'Greenwich Builds Phase 2' developing c1,000 new Council homes.

4.9.10 In recognition of the financial risk that the underlying assumptions vary or increased revenue pressures not accounted for in the business plan materialise in future years, an annual report will be presented to Cabinet which reviews the latest business plan position, recasting baseline assumptions and updates on capital delivery to date to ensure that HRA funding continues to be available to deliver this enhanced programme. The phased/annual delivery of both programmes will allow corrective action to be taken in a timely manner if necessary to ensure the HRA maintains a balanced position.

4.10 Financing the HRA Budget

4.11 The proposals to meet this gap and which have been applied to the HRA Business Plan are detailed below.

<u>CEC and Recharges</u>

4.12 The HRA bears a share of the corporate centre costs and overheads, for services as wide ranging as democratic services, finance, legal and the costs of buildings. This share is calculated using apportionment formulas (for example, headcount, number of transactions, m^2 of floorspace etc). In addition, some services are directly recharged to the HRA where a service provided (for example, communications or horticulture and grounds maintenance).

The apportionment formulas and recharges are reviewed periodically, and as a result of the 2020 review, there is a reduction of £1m to the HRA for 22/23.

<u>Relet properties</u>

4.13 In July 2020, Cabinet agreed to relet properties at Formula rent + 5% for 3 years. This decision has now been implemented, and, dependent on the number of re-lettings in 2022/23, there will be additional rental income forecast at £502k. This is included in the Rents and relets figure in Section 4.8.2 Table 4.

Garages

4.14 In order to bring the charges for the 3,247 garages for rent over 247 sites across the borough closer to those of other Councils, in 2021/22 the Council agreed to a £4 a week increase.

An increase in 2022/23 of CPI +1% will result in charges increases between 24p and 52p per week (depending on location) and increase income by a maximum of £37k per year as shown in Section 4.8.2, Table 4.

This increase is generally in line with the approach taken by other Councils, although RBG's overall charges will still benchmark lower than all of these, as well as Croydon, Ealing, Islington, Lewisham, Newham, and Southwark.

Commercial rents

4.15 There has been additional income estimated for 2022/23 at £91k for commercial rents and ground rents at £9k as shown in Section 4.8.2 Table 4.

4.16 Actions to manage in year pressures

4.17 The HRA is forecast to overspend by £2.3m in 2022/23, which reflects ongoing cost pressures in the repairs service and a level of void rent loss above what is budgeted for. There are three updated proposals that are proposed to manage these pressures as set out in 4.18 to 4.20.

4.18 Changes in working arrangements, improved systems and reforms to the trade staff Pay and Reward Scheme are expected to generate improved productivity to enable more work to be done in-house. Part of this capacity will be utilised to start delivering planned maintenance programmes. Changes to the staff structure are needed in order ensure the necessary capacity to develop planned maintenance programmes, which will be progressed this year. The target of £367k savings is achievable subject to the risks set out at in Appendix A.

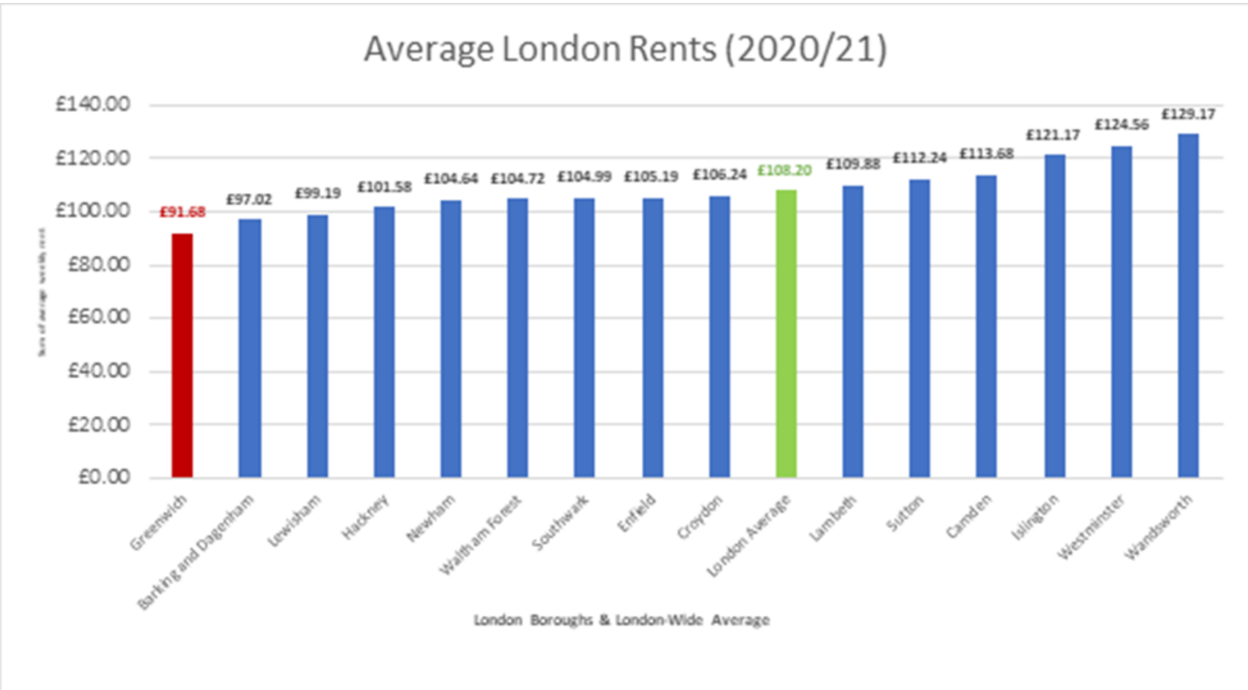
4.19 Significant work undertaken in 2019/20 to reduce rent loss from voids has been set back the fallout from Covid-19. Voids rent loss as a percentage has risen from 1.57% at 31st March 2021 to above 2% as at September 2021. During the initial lockdown, all works to voids were suspended. Post lockdown, extensive changes had to be made to develop safe working arrangements, which also resulted in works being progressed more slowly. Voids have been prioritised and significant work is underway to get properties refurbished and let. The target of 1.5% for 2022/23 is achievable subject to the risks of the on-going Covid situation which may impact on the ability to carry out void works.

4.20 The Housing Digital workstream (PID 10) underpins and enables the delivery of key service changes & cost reduction proposals. Specifically, work on Rent and FTA Arrears Reduction (HRA 3), Repairs Productivity (HRA5), the Digital Repairs Offer (HRA 7) and Void Rent Loss (HRA8).

Delivered in collaboration with Digital & Customer Services, initiatives include new digital services, improved data quality and more efficient internal processes. We will also focus on building the capacity of all housing teams, and training colleagues to use our systems most effectively.

4.21 Rent Policy

4.22 In July 2015, the Government introduced the Welfare Reform and Work Act 2016 which saw the imposition of a four- year 1% rent reduction for each year for the financial years 2016-17 to 2019-20. This reinforced the gap between rents in the Royal Borough of Greenwich and other London Boroughs, as shown in Graph One which shows the average council rents across a selection of London Boroughs in 2020/21. As can be seen, the Royal Borough of Greenwich continues to have the lowest rents in London.



Graph One: Average London Council rents, 2020/21 (extract of London council landlords)

4.23 In October 2017, the Government announced that at the end of the four-year reduction period, it would return to annual increases of up to CPI plus 1% for a period of five years from 2020-21 to 2024-25. This would be implemented through the Regulator for Social Housing's Rent Standard 2020 rather than through legislation. The direction also, for the first time, brought local authority registered providers within the scope of the Rent Standard. The Rent Standard also prescribes the measurement of CPI, which is fixed to the 12 month average increase of the September Consumer Price Index. In September 2021, CPI was 3.1%. If the Royal Borough of Greenwich applies the Rent Standard, it would equate to an increase of 4.1% effective from 1st April 2022. This 4.1% rise equates to an additional £6.386m in the HRA including relets and new developments.

4.24 Council rents are calculated with reference to 'formula rent'. This calculation, set out in Government's Policy Statement on Rents for Social Housing 2018, is derived from a number of measures including median household incomes, and is the Government's recognised 'benchmark' for affordability in any local authority area. The average formula rent in Greenwich is £107.12, and so is £15.47 above average council rent in Greenwich. Most London Boroughs have reached formula rent, which accounts for Greenwich's position in Graph One.

4.25 Cabinet at its meeting in December 2016 agreed to the introduction of Service Charges in 2016/17 and this has resulted in the separation of this element from the average rent breakdown. Services charges are set on the basis of full cost recovery meaning that the real cost of the service is set against them. It is appropriate to uplift them by 4.1%, which reflects pay inflation estimates and other inflationary pressures that the Council is less able to control like energy costs. In reviewing the current service charges, it has been identified that pest control services which are appropriate for a service charge have always been excluded – £216k of costs in this area have been identified and will be charged for in 2022/23. There has also been an overall reduction in service charges of £998,970. After applying the 4.1% increase, the overall effect is a decrease of £0.14 per week to £14.94.

Table 5 below shows the 4.1% increase for Rents and 0.93% decrease for Service Charges.

Table Five - Indicative Average Rent and Service Charge 2022/23

Rent and Service Charge (£)	2022/23
Current Average Rent per week	91.66
4.1% Increase	3.76
Assumed Average Rent per week	**95.42**
Current Service Charge per week	15.08
0.93% decrease	(0.14)
Proposed Service Charge per week	**14.94**
Total Average Rent and Service Charge	**110.36**

4.26 Summary

4.27 In summary the HRA budget position for 2022/23 is balanced and then forecast surplus of £3m the following year, growing through to 2025/26 is set out in Table Six. The variables (assumptions around inflation, pay, numbers of RtB, bad debts etc) are sensitive to change, so whilst projecting a future surplus they will be kept under review and revised as the economic environment develops.

Table 6: Housing Revenue Account Budget 2022/23 - 2025/26

Housing Revenue Account	2022/23 Budget £'000	2023/24 Budget £'000	2024/25 Budget £'000	2025/26 Budget £'000
Dwelling rents	(104,315)	(110,276)	(115,687)	(119,942)
Non-dwelling rents	(2,959)	(3,030)	(3,074)	(3,121)
Service charge income	(20,421)	(21,299)	(21,917)	(22,355)
Other income and contributions	(2,007)	(2,064)	(2,095)	(2,128)
Total Income	**(129,702)**	**(136,669)**	**(142,773)**	**(147,546)**
Repairs & maintenance	22,293	23,199	24,088	25,097
Management (incl RRT)	57,370	57,431	57,589	56,961
Bad debts	2,076	1,776	1,570	1,644
Dwelling Depreciation	29,813	30,051	31,081	30,957
Debt management	155	155	158	161
Interest Payable, RCCO	17,995	20,694	23,292	24,274
Total Expenditure	**129,702**	**133,306**	**137,778**	**139,094**
HRA In-Year (Surplus) / Deficit	**0**	**(3,363)**	**(4,995)**	**(8,452)**

4.28 Other Financial Risks and Variations:

4.29 Implementation of the Pay and Reward Scheme (PRS) is still forecast to lead to a significant £367k saving from Repairs and Investment costs, due to an expected increase to In-House productivity, leading to a lesser recourse to requiring sub-contractors to provide additional capacity.

The PRS implementation was delayed for 2021 due to Covid and a change in leadership of the service mid-year. The current expected roll out for the new scheme is during 2022. A specific project group is overseeing the implementation and working with unions, trade staff and managers to ensure this is achieved.

4.30 A significant issue created by the pandemic has been the increased backlog in empty homes due to void works being paused through the various lockdowns. 20/2021 saw a significant increase in the number of empty homes and a mostly “stand still position” has been seen through 2021/22 with void number not significantly increasing or decreasing. Some in-roads are being made into this backlog in quarter 4 of 2021/22 however. Additional internal resources and contractor capacity has now been agreed which is forecast to lead to more empty homes being let in 2022/23 and a significant reduction in current void loss figures..

4.31 Income Collection during 2021/22 has continued to be strong with a forecast of over 99% of in-year rent collected. Currently 69% of tenants (13,896) regularly pay their rent and keep their accounts in credit, whilst 31% of tenants (6,232) are in rent arrears. Of those cases in rent arrears, 86% are below £2,000, and 14% (1036) are above £2,000 and represent tenancies potentially at risk of eviction with court orders in place, and within this cohort 3% or 191 cases have over £5,000+ arrears and are most acutely at risk of eviction.

4.32 The Covid-19 Pandemic impact resulted in a drop in collection and spike in arrears to over £8.2m at the height of the pandemic which was reduced by £800K to end the year 2020/21 with £7.4m. This was aided by government support schemes and a responsive local proactive community support hub, coupled with increased customer contacts and support provided by the income team as an alternative to reduced or unavailable formal legal actions through the courts which has since improved. Arrears have remained broadly static during 2021/22, falling only slightly from £7.4m to £7.3m due to an increase in arrears seen over Christmas.

4.33 Although Income Collection has remained strong throughout the pandemic period, Universal Credit (UC) still poses a significant risk to the HRA. Currently there are 4,680 tenancy in receipt of UC with an average of £1,300 in arrears. This is comparable to around £750 for those not on UC. We are expecting the number of tenancies in receipt of UC to reach 5,000 by the end of this financial year. This would represent around 25% of RBGs Housing Stock.

4.34 Where tenants do get into arrears whilst on UC, the Council is able to apply for an APA (Alternative Payment Arrangement) so we are paid directly as a landlord. Currently 27% of our UC claimants are subject to an APA, this figure is generally between 25% - 30%.

4.35 The Housing Income Team have ensured that they have been balanced and supportive throughout the Covid-19 period, the approach having been one of guidance and information rather than punitive measures. A consistent message has been given to tenants throughout this period, which is that they should contact us as soon as they have any change of circumstances that may affect their income and their ability to pay their rent. To date from April 2020, 1,298 tenants have contacted us to say they that have been affected by Covid-19 and the team have helped support them, for example in applying for UC or providing additional support through the Council's welfare offers, or Discretionary Housing Payments (DHP).

4.36 Water Charge Refunds

4.36.1 RBG and other councils historically entered into an agreement to collect water charges on behalf of Thames Water (TW). TW paid councils a commission for the collection and administration of charges and acting as an "agent" rather than a "reseller" of water.10.2 The Water Resale Order 2006 ("the 2006 Order") limits the amount which a person who is acting as a "re-seller" of water may charge for it. The 2006 Order provides a formula for calculating the maximum water charge and provides that a water re-seller may charge 1.5 pence per day per property for providing a billing service. In 2017 Jones v Southwark proceedings in the High Court alleging the landlord were acting as a re-seller of water for the purposes of the 2006 Order and that as a result they had overcharged for water. Southwark argued that they were not acting as a reseller but as an agent for TW.

4.36.2 The High Court decided that under the terms of the agreement between Southwark and TW, Southwark were buying water from TW and selling it to their tenants rather than acting as TW's agent. This meant that they were a water reseller, and the 2006 Order limited the amount which they could recover from their tenants to the sum which they actually paid each year to TW. In response to the judgment Southwark decided not to appeal and proactively refunded all affected secure tenants overcharged water rates at an approximate cost of £24m.

4.36.3 Several councils including RBG and Royal Borough of Kingston (RBK) coalesced to form a Water Collective as they had the same or similar agreements with TW and the implications of the Southwark judgement were widespread. In RBK v Moss the High Court dismissed their argument and found that they were in fact acting as a water reseller. RBK appealed against that decision to the Court of Appeal, but their appeal was dismissed in October 2020.

4.36.4 The impact of the court of appeal decision is that tenants have a right to recover from RBG 20% of the water charges they have paid to RBG potentially from 2011 to The 20% represents the discount and commission received from TW and this is repayable to tenants together with interest at twice the Bank of England base rate.

4.36.5 Commensurate with our legal advice, RBG will cover periods of liability from December 2011 to December 2017 and any claims to be received by December 2023 (2017-2023). This is the period that tenants can recover under the Statute of Limitations. RBG will proactively refund current secure tenants in tandem to offsetting water refunds against any debts on HRA or other accounts, and reactively responding to former tenant account requests for refunds.

4.36.6 Approximate calculations based on the 6-year statute of limitations equates to an exposure of £5,100,492 with £653,113 offset against existing arrears leaving a total exposure of £4,447,379. These figures offer a snapshot at a fixed period (October 2021). The figures are approximations due to account balances subject to constant change and flux due to multiple payment types and permutations. A provision of £5.5m has been set aside to cover the exposure.

4.37 Balances

The HRA is expected to start the 2022/23 year with a minimum working balance (MWB) of £3.886m, to safeguard the delivery and sustainability of the budget as shown in section 4.4.

5. <u>Available Options</u>

5.1 Option A - Do nothing.

5.2 Option B – Fulfil its statutory duty to set a balanced budget as required by the Local Government and Housing Act 1989, Section 76 in order to fulfil its obligation of notifying residents of proposed changes in rents and charges.

6. Preferred Option

6.1 Option B is the preferred option.

7. Reasons for Recommendation

7.1 By following Option B, the Royal Borough of Greenwich fulfils its statutory and legal obligations by setting a balanced budget and notifying its residents of proposed changes in rents and charges.

8. Consultation Results

8.1 The Council is not under a duty to consult with tenants on matters relating to rents however there will be discussions with tenants at a meeting of the Borough Wide Panel. This is alongside the council's overall budget consultation which runs from 18 January 2022 and closes on 6 February - an update will be provided to Full Council.

9. Cross-Cutting Issues and Implications

Issue	Implications	Sign-off
Legal including Human Rights Act	This report is asking Full Council to consider the rent and budget proposals for the HRA for 2022/23. Under Section 21 of the Housing Act 1985, the general powers of management, regulation and control of Council houses is vested in and shall be exercised by the local authority. Under Section 24, of the Housing Act 1985, a Council may make such reasonable charges, as it determines for the tenancy or occupation of its dwellings and it must review rents from time to time and make such changes as circumstances require.	John Scarborough Director of Legal Services 11th February 2022

	The Council 's discretion to determine rent levels is limited by Section 76 of the Local Government and Housing Act 1989 which requires the Council, during the months of January and February immediately preceding the relevant year, to formulate proposals relating to (a) income from rents and other charges and (b) the expenditure on repairs, maintenance, supervision and management of its houses The Council is further obliged to keep the proposals referred to in this report under review to avoid a debit balance and continue to be satisfied during the year. In the event that the Council, on review, determines that this requirement will not be satisfied, then the Council is, by virtue of Section 76(6), required to "make such revisions of the proposals as are reasonably practical towards securing that the proposals (as so revised) satisfy those requirements". Paragraph 4.8.2 demonstrates that the HRA is forecasting a balanced budget in 2022/23. Although the Council is not under a duty to consult tenants in respect of rent and other charges under section 105 Housing Act 1985, the Council is nevertheless under a duty to notify tenants of any variations of rents and other charges by serving Notice of Variation at least 28 days before the variation takes effect. It should therefore be noted that the intention is that the variations proposed in this report take effect from 1st April 2022. In terms of recommendation 1.5, the Tenant Service Charge is part of the rent	

	as the Council has (under Section 24) the power to charge for the services associated with the occupation of Council tenancies and that can be on a costs recovery basis. From 1 April 2020 the Council is under a duty to set its rent in accordance with the Rent Standard 2020. The Standard was issued by the Regulator of Housing by Direction issued by the Secretary of State for Housing, Communities and Local Government under the Housing and Regeneration Act 2008. The Standard sets out the formula to be applied. The legal position in relation to the repayment of water charges following the High Court decision in the case of Kim Jones v Southwark is set out clearly in section 4.36 of this report.	
Finance and other resources including procurement implications	The Director of Finance is required to be satisfied that the overall budgets set by the Council are robust. This applies the same discipline to the General Fund in setting the Council Tax and the Housing Revenue Account in decisions regarding rents and the level of balances. This report has been prepared in consultation with the Director of Finance. With regards to Financial Management and Financial Standing, the approach outlined in section 4 is consistent with the budget principles approved for the General Fund Financial Strategy. Providing for known pressures including the effect of rental income reductions and maintaining sufficient bad debt provision to address the effects of welfare reform mitigates the risk to the overall strategy. This is further supported by the maintenance of budget reserves in line	Michael Bate Assistant Director – Corporate Finance 27.1.2022

	with the minimum working balance of £3.886m, which is required to be held separately. The Director of Finance is satisfied that the budget proposals are sufficient to meet the legislative requirements of the Housing Revenue Account, in that the HRA is in balance for 2022/23.	
Equalities	Officers have undertaken a proper review of the equalities implications of this report – the full Equalities Impact Assessment is attached in Appendix B. After careful analysis on the impact of the proposals, it is clear that there is a low impact to all protected groups under the Equality Act 2010, but there is a possible impact for low economic status cohort. Although this is not technically a protected characteristic, those residents of a low socio-economic status have a limited ability to adapt to changes which increase their costs, as they are often unable to offset this by increasing their income. As a result, the rent increase has the potential to negatively impact on this cohort. This impact is offset by the support from Universal Credit and Housing Benefit for this cohort (69% of tenanted households receive one of these two benefits to some degree), the application of Discretionary Housing Payments and a proactive approach by the rents income team to stay in contact and provide support for those tenants falling into arrears. This work, along with increasing the Council's information held on tenants' protected characteristics, is included in the EIA action plan. In the broader sense, this report does contribute to the Council's Equality and	Jamie Carswell Director of H&SC 07/02/22

	Equity Charter and the Council's Equality Objectives 2020-2024, as the provision of social rented housing, held within the HRA and managed and maintained by the HRA budgets, is one of the Council's main interventions to address structural and economic inequality found in the Borough.	
Climate Change	This report does not make any direct contribution to the Greenwich Carbon Neutral Plan agreed by Cabinet 18 November 2020	Jamie Carswell Director of H&SC 27/1/22

14 Appendices

14.1 The following appendix comprises part of this report:

- Appendix A: HRA MTFS Project Initiation Documents (PIDs)
- Appendix B: HRA Equality Impact Assessment (EIA)

Background Papers:

None

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