

 Executive 04 February 2009		Agenda Item No.
Title	Housing Revenue Account Budget 2009/10 and Housing Rents	
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Service Area	Housing and Property Services / Finance	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number	Executive, 03/12/08 Minute number 635	
Background Papers	Report to Executive 3 rd December , 2008: Approval of Housing Revenue Account Base Estimates Revised 2008/09 and Original 2009/10 2009/10 Draft and Final Subsidy Determinations	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes Ref 137

Officer/Councillor Approval		
With regard to officer approval all reports <u>must</u> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Relevant Director	19 Jan 2009	Bill Hunt
Chief Executive	19 Jan 2009	Chris Elliott
CMT	19 Jan 2009	
Section 151 Officer	19 Jan 2009	Mary Hawkins
Legal	14 Jan 2009	Peter Oliver
Finance	19 Jan 2009	Mary Hawkins
Portfolio Holder(s)	19Jan 2009	Cllr Grainger
Consultation Undertaken		
Final Decision?	Yes	

1. SUMMARY

- 1.1 This report sets out the latest projections for the Housing Revenue Account revenue estimates in respect of 2008/09 and 2009/10.
- 1.2 It sets out the proposed increases to council tenant rents, garage rents and supporting people charges for 2009/10.

2. RECOMMENDATIONS (TO COUNCIL) -

- 2.1 To recommend to Council:
 - That housing dwelling rents for 2009/10 be increased by an average of 6.44%.
 - No increase to garage rents.
 - That Supporting People charges be increased by 2%.
 - That the 2009/10 Housing Revenue Account (HRA) budget, updated with the Final Subsidy Determination information, as set out at Appendix 3, be agreed.

3. REASONS FOR THE RECOMMENDATIONS

- 3.1 The Council is required to set a budget for the HRA each year, requiring agreement on the level of rents and other charges that are levied. The Executive is therefore required to make recommendations to Council that take into account the base budget revenue estimates for the HRA, the 2009/10 final subsidy determination and the current Government guidance on rent restructuring.
- 3.2 The proposed dwelling rent increase is in accordance with Government guidance and the Council's financial strategy.
- 3.3 Garage rent increases are not governed by the guidance for rent restructuring, which uses the September 2008 inflation rate of 5% in the calculation. No increase is proposed, as over a third of current garage lettings are to housing tenants who will be experiencing a rent increase for their home that is significantly above the current rate of inflation. The proposal minimises the potential for these tenants to fall into rent arrears without compromising the financial stability and viability of the HRA.

- 3.4 The proposed Supporting People charge increase is equivalent to the inflationary increase, awarded by Warwickshire County Council for all Supporting People contracts, effective from April 2008. The County Council's decision on this increase was received too late for it to be reflected in the 2008/09 charge levied to tenants, so this a retrospective inflationary charge being applied one year in arrears.
- 3.5 The recommendations will enable the proposed Housing Investment Programme for 2009/10 to be carried out, partially funded by a revenue contribution to capital outlay (RCCO) payment from the HRA, whilst maintaining a minimum working balance on the HRA of at least £750,000, in line with Council policy.

4. ALTERNATIVE OPTION(S) CONSIDERED

- 4.1 There is no alternative option for the setting of housing dwelling rents other than to comply with the Government's rent restructuring criteria.
- 4.2 There are alternative options in relation to garage rents as these are not subject to the Government's rent restructuring guidelines. Any option, from a nil increase to a percentage in excess of the current inflation rate, could be selected. Each option would realise a greater or lesser level of additional income to the HRA. A nil increase will result in a loss of potential income of around £4,460 per 1% of any proposed increase.
- 4.3 The Supporting People charge is also not subject to the rent restructuring criteria. The proposed increase reflects the level of the inflationary increase set by Warwickshire County Council for the financial year 2008/09. Currently, there is an indication that the Commissioning Body is recommending to County Council an inflationary increase in Supporting People charges of 1% for 2009/10. If there is an increase, the formal notification will again come too late to be reflected in the rent and charge setting process.
- 4.4 It is not a viable option to wait for this decision and set an increase for the year that reflects both the 2008/09 and 2009/10 inflationary awards. Had it been possible it would have meant some of our most vulnerable tenants facing an increase of around 3% in addition to the proposed rent increase of 6.44%.

5. BUDGETARY FRAMEWORK

- 5.1 The HRA is a key component of the Council's budget framework.

6. POLICY FRAMEWORK

- 6.1 The rent and budget setting process is designed to comply with the requirements of the Council's Financial Strategy.

7. BACKGROUND

- 7.1 The Executive received a report on the background to setting the HRA budget and housing rents and charges for 2009/10 at its meeting on 3rd December 2008.
- 7.2 However, there are three elements that require consideration before the final 2009/10 rent increase can be agreed, which are set out in Sections 6-8 below. The rent increase, in turn, impacts on the setting of the final HRA budget which is considered in Sections 9 and 10.

8. RENT RESTRUCTURING OF DWELLING RENTS

- 8.1 Rent Restructuring was introduced by the Government in 2002/03, with the intention of bringing all social housing rents into line with each other, so that a similar sized property within a particular area will cost the same regardless of who is the landlord. The aim of the rent restructuring would be to achieve this convergence by 2012. Since its introduction rent setting for all social housing has been governed by the application of a prescribed national formula designed to bring about this convergence. The application of the formula is described in detail in Appendix 1.
- 8.2 Appendix 2 sets out the application of the formula to existing rents. To achieve the required rent convergence the formula prescribes a method of increasing current rents and then applying a second uplift to narrow the gap between the newly increased rent and the Formula Rent as shown in the appendix. The effect of these two uplifts is to raise the average rent for 2009/10 by £4.32 to £71.40 per week, an increase of 6.44% on the previous year's average rent.
- 8.3 The guidance for 2009/10 requires an overall maximum of 7% average rent increase to be set. Applying all of the relevant 'caps and limits' to the calculations, which impose an increase on current rents of inflation, at 5%, plus 0.5%, giving 5.5%, plus £2, the proposed increase of 6.44% is produced. This is more than half a percent, 0.56%, below the required maximum limit. Without these 'caps and limits', the average rent for 2009/10 would have needed to increase by £5.80 per week, an 8.65% increase.
- 8.4 The only way the shortfall between the actual rents being charged and the levels required to achieve convergence by 2012 could be rectified in a single year would be by setting a rent increase that would simply be unaffordable for many tenants. CLG has acknowledged this would not be viable and have instead issued guidance that allows for the calculation for 2009/10 to be based on a path of convergence leading to 2023/24 rather than 2011/12. Ministers have further indicated that with the forthcoming wider review of the HRA subsidy system, it is likely the convergence date will be reviewed again in future years.

9. GARAGE RENTS

- 9.1 Garage rents are unaffected by the rent restructuring guidelines described in Section 6 and any percentage increase can, therefore, be considered. Whilst a rent rise would maximise the potential to realise additional income, this would be offset if the new rent was higher than the local market could sustain resulting in higher void levels and consequent void rent loss.
- 9.2 A nil rent increase is proposed for 2009/10. This is an important consideration and reflects the understanding of this Council for the current economic climate and the ability of WDC tenants to pay their rents. Over a third of all garages are currently let to council housing tenants who will be facing an average 6.44% increase in their dwelling rent.

10. SUPPORTING PEOPLE CHARGES

- 10.1 Supporting People charges were introduced in April 2003 for tenants living in properties that receive a housing support service in addition to the normal tenancy management arrangements. Whilst the latter are financed from the rents that all tenants pay, the introduction of the Government's Supporting People initiative meant that the costs of the additional housing support, available only to particular groups of tenants, has to be separately funded to eliminate "rent pooling".
- 10.2 The Supporting People charge that is levied for this additional support is payable by the tenant unless they qualify for Supporting People Grant. Anyone eligible for Housing Benefit will automatically qualify for the Grant, which is administered by the County Council. In addition, any tenant who was resident at 1 April 2003 when the scheme was introduced is classed as a "protected" tenant who does not have to pay the additional charge. When their tenancy ends the charge is registered against the property and the incoming tenant becomes liable to pay it in addition to the rent charged on the property.
- 10.3 The Council has 4 Supporting People contracts covering the support services offered to tenants living in sheltered housing, designated older persons dwellings or any other property with a community (Lifeline) alarm. The support is delivered by Housing and Property Services', 24 hour, Warwick Response team.
- 10.4 Decisions on the level of grant payable are made by the Supporting People Administrative Authority, in our case Warwickshire County Council. Last year, unlike previous years, they decided to make an inflationary increase to the level of grant. To ensure that the integrity of the Supporting People scheme is preserved and to prevent the potential for rent pooling to creep back into the HRA it is therefore necessary to increase the Supporting People charges levied by a corresponding amount.

10.5 However, notification of the award only came after the charge for 2008/09 had been set and it would not have been cost effective to attempt to make an alteration. The 2009/10 increase therefore introduces the inflationary increase retrospectively. Any further awards of this nature will be introduced one year in arrears for future financial years.

10.6 The proposed charges for 2009/10 are as follows:

Supporting People Charges:	Proposed Weekly Charge 2009/10
Very Sheltered Housing properties	£ 27.98
Sheltered Housing properties	£ 11.06
Older Person Designated Dwellings	£ 6.28
Other properties with a Community Alarm	£ 2.77

11. HOUSING REVENUE ACCOUNT

11.1 Appendix 3 shows the proposed Housing Revenue Account for 2009/10.

11.2 The 2009/10 Final Subsidy Determinations for all local authorities with a HRA were published on 18 December 2008. As with rent restructuring the formula used for calculating the subsidy determination is subject to change and revisions to the existing formula were introduced this year.

11.3 The key assumptions contained within the Final Subsidy Determination for Warwick District are:

	2008/09	2009/10	% change
No. of dwellings	5,645	5,623	-0.39
Management allowance per dwelling	£454.00	£484.31	6.68
Maintenance allowance per dwelling	£978.08	£1,008.85	3.15
Major Repairs Allowance per dwelling	£641.37	£648.56	1.12

11.4 A below inflation percentage increases has been applied to the Major Repairs Allowance for 2009/10. Whilst the Government itself uses the GDP deflator rate for the subsidy calculation which this year remains at 2.75%, in many cases the actual rate of inflation will be higher, e.g. for our investment programme where we have used a 4.2% building cost inflation rate. This does not pose a problem for the 2009/10 budget but the net impact will be to reduce the overall HRA balances to maintain our current rate of spending. This is not a problem in the short term as our total balances currently stand at £13.8M, but clearly would not be sustainable into the medium or long term were we to continue to receive below inflation increases on subsidy allowances in future years.

- 11.5 Despite our relative loss of subsidy the payments we make to the 'national rent pool' are set to increase. The rent pool has operated since 2004/05, when Housing Benefit rebates and their associated subsidy were removed from the HRA and placed in the General Fund. The rent pool is a redistributive system with authorities either paying into, or receiving additional subsidy payments from the pool. The Government uses a 'notional HRA' budget calculation for each local authority with a housing stock to determine whether their assumed rental income will be above or below the assumed management and maintenance costs for their stock. This notional HRA determines whether they will be net recipients to, or beneficiaries from the national rent pool.
- 11.6 In our case, the Government's subsidy assessment is that our rental income will exceed our housing costs. This gives us a 'negative subsidy requirement' meaning we will remain a contributor to the national rent pool. The payments we are required to make to the national rent pool represents a considerable loss of resources to the "real" HRA as they entail resources being directed elsewhere rather than being made available locally to fund stock or service improvements for WDC tenants.
- 11.7 As the following table shows, our income will exceed our expenditure by £7.8M, in the notional HRA calculation:

	2008/09 (£M)	2009/10 (£M)
Management & Maintenance Allowances	8.1	8.4
Major Repairs Allowance	3.6	3.6
Charges for Capital	1.3	0.7
Total Assumed housing costs	13.0	12.7
Rental Income	(19.9)	(20.5)
Difference	(6.9)	(7.8)
Payment to National Rent Pool	(6.9)	(7.8)

NB Figures rounded up or down

- 11.8 The £7.8M payment to the national rent pool is shown as the Transfer Payments total within the HRA budget as set out at Appendix 3. This increased payment of £0.2M is mainly due to the decrease in interest rates applied to the calculation of 'charges for capital', which form one of the allowances against rental income. This, together with other changes, particularly the need to carry out two important surveys in 2009/10, will reduce the anticipated balance on the HRA from £7.57M, shown in the December 2008 Estimates Report to Executive, to £7.53M for 2009/10. As the overall balances on the HRA are healthy, this increase will not have a detrimental impact on our ability to achieve the Decent Homes Standard by 2010.

11.9 In addition to the impact of the subsidy determination, there are some significant changes between the proposed 2009/10 budget and the draft presented in December. These are:

- A £421,700 increase in rental income. This is mainly a consequence of the proposed 6.44% rent increase rather than the estimated 6% increase in the December estimates.
- A £167,700 increase in National Housing Rent Pool Payments. This is a result of changes between the draft (November) and final (December) subsidy determinations issued by Government.
- A £67,200 reduction in income from Interest on Balances, due to real and anticipated reductions in the interest rate which can be earned on the invested balances.
- A £3,100 reduction in the Supervision and Management Special budget, due to an applied decrease of 0.25% in pay award inflation.
- A £137,000 increase in the Supervision and Management General budget. This is mainly due to the need for two surveys during 2009/10. A Stock Condition Survey, £45,000, to ensure Decent Homes Target will be met by 2010/11 and a Stock Options Appraisal, £75,000. £9,500 is required for software licences for new and existing system modules and the remaining £7,500 is to cover minor staffing changes.
- An £89,200 reduction in the estimated Balance Brought Forward from 2008/09. This is again as a result of the anticipated effect of the reduction in interest rates to be applied to balances in 2008/09.

12. RISK MANAGEMENT AND SENSITIVITY ANALYSIS

12.1 The risks, and appropriate control mechanisms, for the 2009/10 HRA and the rent increase process are considered to be:

Revenue

- The County Council will complete the programme of reviewing all current Supporting People contracts during 2009. The Supporting People Commissioning Body is likely to use this programme to change existing patterns of expenditure and introduce a new mix of schemes that will in future receive funding. This can only be achieved through decommissioning existing schemes and it is known that those schemes providing support for older people will come under particular scrutiny as these currently take up the majority of the available funding. This could mean that proposals are brought forward that impact on the funding of our contracts.
- Increased void levels or lengthening re-let times, for either dwellings or garages, would affect income receipt. Effective management of void rent loss is critical to efficient service delivery, recognised by its inclusion as one of the proposed top 21 corporate performance indicators and scrutinised regularly by the service area's management team.

Capital

- The position regarding 'Right to Buy' (RTB) sales of council homes has deteriorated with no sales to date in 2008/09 none anticipated for the rest of the year and none for 2009/10. Therefore, no capital receipts, which would arise from such sales, have been included in the estimates. After 111 sales in 2003/04, applications and completed sales have declined each year with only 32 sales completed in 2006/07 and a further 22 properties sold during 2007/08. The 2008/09 and 2009/10 budgets currently have no sales included.
- The capital receipts from RTB sales have traditionally been used to support General Fund housing initiatives, particularly grant provision for private sector housing. The Council's own housing stock tends to have 'second call', on any available receipts.

12.2 These key risks have been considered when setting the HRA budget for 2009/10. A sensitivity analysis of assumptions relating to these risks and their potential impact on the budget is as follows:-

- 20% reduction in Supporting People income = £118,100
- Currently there are no anticipated receipts from RTB sales, - this translates to a loss of potential income of around £24,300, per sale, at 2007/08 prices. This is 25% of the capital receipt which the Council is allowed to retain.
- 0.5% increase in void rent loss = £104,400

12.3 Were any, or all, of these possibilities to arise the impact could be accommodated within the proposed HRA budget for 2009/10.

Application of the Government's Rent Restructuring Guidelines

- 1.1 The rent restructuring formula is designed to bring all social housing rents into line so that a similar sized property within a particular area will cost the same regardless of its landlord. All social housing rents are now set using a prescribed national formula designed to bring about this realignment.
- 1.2 The formula uses a 'National Average Rent' which is then varied to account for regional rent variations. In each locality the first component of the formula is to take 70% of the National Average Rent and adjust this figure by the average level of manual earnings in the area, with a further adjustment for a set 'bedroom weighting' factor. The second component is to take the remaining 30% and adjust this to take account of relative property values within the area compared to a set national average value. This enables a 'Formula Rent' to be calculated for each individual property.
- 1.3 The Formula Rent is integral to the Rent Restructuring process as the guidelines are designed to ensure actual rents converge with the Formula Rent, eliminating the current differences between them. Initially convergence was planned for 2011/12 but the revised guidelines now envisage convergence by 2023/24.
- 1.4 The Formula Rent is integral to the Rent Restructuring process as the guidelines envisage actual rents converging with the Formula Rent. The original intention had been for this convergence to be achieved by 2011/12 but this has now been extended to 2023/24. If rent restructuring had already been completed and we were charging our tenants at Formula Rent levels, the average rent for 2008/09 would have been £75.99, as shown at Column 2 of Appendix 2, compared to the actual average rent charge of £67.08, as shown at Column 4.
- 1.5 Rent restructuring is deliberately designed to be a gradual process preventing the possibility of the desired parity in rents only being achievable through a single or series of unaffordable rent increases. Actual average rent levels will therefore be below the Formula Rents in any given year until the projected convergence in 2023/24. The policy also provides for a system of 'caps & limits', designed to ensure that individual property rents do not rise at a rate significantly above the average, minimising the risk of rents becoming unaffordable for individual tenants. The application of these caps and limits further depresses the actual average rents charged. Had 'caps and limits' not been applied up to 2008/09 the actual average rent charged in that year would have been £68.59 rather than £67.08. This higher figure is classed as the 'unconstrained rent' and is shown at Column 3 of Appendix 2.

- 1.6 When calculating the 2009/10 rents the rent restructuring Guidelines have to be applied. Firstly the Formula Rents are increased by the inflation rate prescribed in the guidance. This is a set percentage, which this year is 5.5%. This raises the average Formula Rent to £80.17 as shown at Column 5.
- 1.7 The next stage is to apply the same percentage increase, 5.5%, to the Unconstrained Rent, the rent which would be charged if no constraining 'caps or limits' were applied. As the purpose of rent restructuring is, of course, to narrow the gap between Actual Rents and Formula Rents a second uplift is also applied to this part of the calculation. This uplift is calculated by dividing the difference between the Unconstrained Rent and the Formula Rent for each property by the number of years left until the target date for convergence. As the target date has now been extended to 2023/24 which is still 15 years away this means the uplift for the current year's rents will be $1/15^{\text{th}}$ of the difference between them and the Formula Rents.
- 1.8 Column 6 shows the impact of these uplifts. Unconstrained Rents would increase by 6.25% compared to the 5.50% increase in Formula Rents, narrowing the gap between the two. The average Unconstrained Rent payable would increase by £4.29 to £72.88.
- 1.9 The final stage is to compare the Unconstrained Rent with the Actual Rent charged in the previous year, 2008/09. The purpose of this part of the calculation is to ensure that the rent increase charged for each individual property does not exceed the prescribed guideline increase of 5.5% (inflation) plus £2. This limiting factor is calculated for each property and compared with the Unconstrained Rent. The lower of the two amounts is charged as the Actual Rent. Currently, 99% of our rents are constrained by this limit and have an Actual Rent that is below the Unconstrained Rent.
- 1.10 The actual average rent to be charged is shown in Column 7. This will now be £71.40 a £4.32 or 6.44% increase on the actual average rents charged in 2008/09 (Column 4).
- 1.11 However, we will be compensated for the lost income arising from the difference between the unconstrained rents we should be charging to ensure convergence by 2023/24 (Column 6) and the actual rents (Column 7). This payment, estimated to be £424,000 will be received retrospectively and will offset our payment to the national rent pool (described in Section 9.8 of the main report) for 2009/10.
- 1.12 However, the Government has recently announced a major review of the national HRA subsidy system. Whilst this may have implications elsewhere, for example with the HRA self-financing project, it is probable that it will lead to further changes in the rent restructuring guidance and the predicted 2023/24 target convergence date.