

Meeting of the Cabinet – 9th September 2009

Joint Report of the Director of Adult, Community and Housing Services and the Interim Director of Finance

Review of Housing Finance

Purpose of Report

1. To propose revisions to the Housing Revenue Account (HRA) budgets to reflect latest financial forecasts, and to confirm revised rents for council homes.
2. To update Cabinet on developments in HRA finance.

Background

3. The HRA is a ring-fenced revenue account and deals with landlord functions associated with public sector housing. The costs of improvement and programmed maintenance of the Council's housing stock are treated as capital expenditure and are accounted for separately.
4. A report was approved by Cabinet in February 2009 on the deployment of resources for 2009-10 for the HRA and public sector housing capital. This report covered
 - the setting of the rent increase for council homes from 6 April 2009,
 - the review of rents for garages, garage plots and access agreements,
 - the setting of the HRA budget for 2009-10,
 - the setting of a capital expenditure budget for the improvement and programmed maintenance of the Council's housing stock from 2009-10 to 2013-14.
 - the review of the medium-term financial strategy for the HRA and Public Sector Housing Capital.

HRA Revised Budget

5. The current budget for 2009-10, approved by Cabinet on 11 February 2009, shows a surplus on the HRA of £0.894m at 31st March 2010. This budget takes account of the average rent increase of £3.91 approved by the February Cabinet and implemented from 6 April 2009.
6. There are now a number of variations to the original budget, arising mainly from
 - the Government's proposal to reduce the national guideline rent increase and to make additional subsidy available for councils that choose to revisit the level of rents set and reduce them accordingly

(reported to Cabinet on 18 March 2009)

- the Government's offer to allow councils to bring forward a proportion of Major Repairs Allowance (MRA) from 2010-11 to 2009-10 to accelerate capital works in order to stimulate the economy in particular regarding Decent Homes,
- resources brought forward from 2008-09 including earmarked reserves.

The original 2009-10 budget and the proposed revised 2009-10 budget are shown in Appendix 1.

7. Rent Increase

The annual rent increase for council tenants was implemented in April as planned with an average increase of 6.2%, following government guidelines on rent setting. The Cabinet Member for Housing responded to the Government that this appeared to be an unacceptably high rate of increase in a period of economic challenge, falling inflation and recession. In March 2009, the Government announced that it was offering additional housing subsidy to councils that reduced their rent increase to a (national) average of 3.1%. As details of how this would operate were not available immediately, Cabinet on 18 March authorised the Cabinet Members for Housing and Finance and the Directors of Adult, Community and Housing Services and of Finance to apply for additional subsidy, agree new rent levels in accordance with the new national guideline and report on the impact on the HRA budget at the earliest opportunity.

The operation of the Government's revised formula leads to an average actual rent increase of £1.92 on a 50-week basis (compared to the original rent increase of £3.91). This change will be worth just under £100 for the year to an average tenant (not taking into account any housing benefit received).

However, due to the precise workings of the Government's formula, we will not receive full reimbursement via subsidy for the reduction in rents from the originally planned 2009-10 levels. This will cost about £46,000 in 2009-10. In addition, the administrative costs to the HRA of implementing a second rent increase are estimated at £22,000.

We have made representations to the Government that we are being financially disadvantaged as a result of the operation of the formula. However, it is considered that the additional costs outlined are manageable, without significant detriment to the medium-term financial strategy for the HRA, and that it is justifiable to incur these costs in view of the significant benefit to tenants in the current economic climate.

The change to rents was actioned on 27 July, backdated to the start of the rent year on 6 April.

8. Brought Forward MRA

The Council has successfully applied to bring forward MRA from 2010-11 to 2009-10 in order to stimulate the economy in particular regarding Decent Homes. We expect to be able as a result to undertake a range of works earlier than would otherwise have been the case, for example, 1,250 replacement kitchens or bathrooms, 6,500 replacement windows in 2,500 homes, 250 electrical rewire, 200 large adaptations for tenants with disabilities, and 275 structural/

environmental improvement schemes. The HRA capital programme agreed by Cabinet on 17 June 2009 and Council on 13 July 2009 shows the impact of accelerating this grant.

We will also see a benefit on the revenue budget, as early receipt of grant will mean a reduction of around £170k in interest payments on our borrowing requirement for 2009-10 and around £340k in 2010-11. This will increase resources available for revenue repairs.

9. Resources brought forward from 2008-09

At the end of 2008-09, the surplus on the HRA was slightly more than budgeted, leading to a higher balance being brought forward into 2009-10. As usual, resources have been earmarked to specific reserves in order to complete ongoing projects. These have now been allocated to the appropriate budget area. For 2009-10, key projects include ICT systems developments and completion of the North Priory estate clearance.

Developments in HRA Finance

10. HRA Subsidy Review

For some years, the current HRA subsidy system has been criticised as unfair, inflexible, opaque and unsuited to long-term housing strategy planning. In 2008, the Government announced that a review of the system would be undertaken, focusing on

- the operation of the subsidy system
- the operation of the HRA ring-fence
- standards and expectations following achievement of the Decent Homes Standard.

At the end of June, the current Housing Minister, John Healey, announced the outcome of this review, and a consultation paper was issued on 21 July 2009.

It recommends a “radical dismantling” of the HRA subsidy system and its replacement with a devolved system of responsibility and funding. Councils would finance their own operations from their own rents, in exchange for a one-off redistribution of housing debt – in effect, another type of pooling mechanism. The intention is to free councils from the annual funding decisions in the current system and enable longer-term planning and better management of their homes, leading to greater efficiencies and an improved quality of service to tenants.

In addition, it is proposed that councils will be able to retain all capital receipts arising from the sale of council houses and other HRA assets. Currently, up to 75% of the proceeds from such sales must be paid to Government to repay historic national housing debt.

Change on this scale is complex and may require primary legislation. At this stage the proposed timescales for implementation are uncertain but either 2011-12 or 2012-13 are suggested in the consultation paper.

It is impossible from the information given in the consultation paper to assess the impact on the Council of the proposed reforms. It is proposed that Cabinet delegate authority to the Cabinet Members for Housing and Finance and the Director of Adult, Community and Housing Services and Interim Director of Finance to formulate an appropriate response to the consultation paper by 27

October 2009.

11. Council Housing New Build – financial arrangements

In January, the Government issued a consultation paper on measures to encourage councils to start building new council houses, given the high demand for social housing and the current economic climate that was restricting the private sector supply.

The Minister for Housing has now announced that with immediate effect, new build or acquisition of council houses will be outside the present HRA subsidy system, meaning that councils will be able to keep the full rental income from new or newly acquired homes. In addition, should these homes subsequently be sold, the full capital receipt may be retained by the council.

Councils can also now access the same capital subsidy through the Social Housing Grant that is provided to housing associations for new affordable homes.

These measures begin to open the way for councils to start delivering and managing new housing once more. It should, however, be noted that the Council has relatively small landholdings, and this is likely to restrict our ability to engage in new housebuilding activity. We recognise the value of our partnership arrangements with RSLs, which have been very successful in generating additional affordable housing.

It is proposed that Cabinet notes the new financial arrangements for new council home building. These arrangements will be taken into account in future business and financial planning for the HRA and any specific spending proposals will be brought back to Cabinet as appropriate.

Finance

12. Section 76 of the Local Government and Housing Act places a duty on the Council to ensure that no action will be taken that may cause a deficit to arise on the HRA at 31 March 2010. A duty is also placed on the Council to review the financial prospects of the HRA from time to time. Reviews and regular monitoring carried out confirm that the HRA will be in surplus at 31 March 2010 and therefore complies with the requirements of the Act.

Law

13. The housing finance regime is governed by Sections 74-88 in Part VI of the Local Government and Housing Act 1989.

Equality Impact

14. This is primarily a financial report concerned with forecasting of income and application of resources. Some areas of proposed expenditure are intended to promote independence and improve the quality of life for disadvantaged groups.

Recommendation

15. It is recommended that Cabinet:

- approve the revised HRA budget for 2009-10 outlined in Appendix 1;
- note the amended rent increase for HRA dwellings backdated to 6th April 2009 with an average increase of £1.92 (3%) and a maximum increase of £3.06 in line with the government's proposal on reducing rent levels;
- note the outcome of the national HRA Subsidy Review;
- give delegated authority to the Cabinet Members for Housing and Finance, with the Director of Adult, Community and Housing Services and Interim Director of Finance, to respond to the consultation paper;
- note the new arrangements for new council house building.



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List of Background Papers

Report to Cabinet 18 March 2009 – Housing Revenue Account (HRA): Rent Increase 2009-10

Decision Memo re Rent Increase 2009-10 (CL/DACHS/RI200904)

HRA Subsidy Determination 2009-10 – Amending Determination 2009

Consultation paper on HRA Subsidy Review and New Build Council Housing