

Report to the Cabinet

Report reference: C-126-2008/09.

Date of meeting: 20 April 2009.



**Epping Forest
District Council**

**Portfolio: Housing.
Finance & Performance Management.**

Subject: Draft Housing Revenue Account Subsidy Determination 2009/10.

Responsible Officer: Peter Maddock (01992 564602).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations:

(1) That Officers be authorised to respond to the consultation paper requesting:

(a) that authorities' Housing Revenue Accounts be compensated by Government where rent increases have already been set below the 6.2% increase in the original 2009/10 Determination; and

(b) that authorities' General Funds be compensated by Government for any additional costs of benefit administration; and

(2) That if the Government ignores the request in recommendation (1(a)) above, this Council adjusts the rent increase for 2009/10 to achieve a 3.1% increase on guideline rents in the least disruptive manner possible.

Executive Summary

The report provides a commentary on the Draft HRA Subsidy Determination 2009/10 Amending Determination 2009 and recommends a response to the consultation paper.

Reasons for Proposed Decision

To agree the response to the paper and the consequent actions.

Other Options for Action

Members could decide not to make any response to the consultation.

If the Government decides not to compensate authorities that used their discretion to raise rents at a lower level than the guideline, Members could decide to leave the rent increase as originally set and forego the reduction in negative subsidy.

Report:

1. The Housing Revenue Account (HRA) is a ring-fenced account that contains all income and expenditure relating to the management and maintenance of Council housing. Each year the Government assesses the surplus or deficit on each authority's HRA for the forthcoming financial year. This is based on historic information provided to the department of Communities and Local Government (CLG) by each council.

2. The HRA Subsidy Determination, as this assessment is known, is issued in the December prior to the start of the financial year to which it relates. Within the calculation there are a number of elements including the Guideline Rent. The determination issued in

December 2008 increased the guideline rent by 6.2%, due in part to the high rate of increase in the Retail Prices Index at September 2008. In fact, the determination did state that authorities could increase actual rents by up to 7%. The outcome based on the original HRA Subsidy Determination 2009/10, which assumes a rent increase of 6.2%, is that the Council has to pay the CLG £11.2 million (this is commonly known as negative subsidy).

3. During the 2009/10 budget cycle Members considered the level of the rent increase and felt that a 7% increase was excessive given the current economic climate. Therefore Full Council on 17 February set the average increase in rents at 4%. This was possible as the HRA is in a good financial position with the latest indications suggesting that the HRA would not fall into a deficit until 2029/30.

4. On 6 March the government announced that it intended to take forward proposals for implementing a reduction in the increase to guideline rents from 6.2% to 3.1%. This move being designed to encourage authorities to reduce their actual rents accordingly. Whilst the principle is to be welcomed the timing is not, as authorities had set their budgets and issued their rent increase notification letters in order to comply with statutory notification timetables.

5. On 26 March 2009 the CLG issued a draft HRA Amending Determination 2009 confirming their proposal to set the increase in guideline rents at 3.1% rather than 6.2% as in the original Determination. The Draft Determination is issued in the form of a consultation paper requesting comments by 10am on 24 April 2009. The determination is made on the basis that Authorities confirm their intention to take up the offer by completing a pro forma to that effect by 24 April 2009. The offer states that if a council's 2009/10 average rent increase is less than or equal to the lower of:

(a) 3.1% of the authority's average guideline rent in 2008/09; or

(b) 3.1% of the authority's actual average rent in 2008/09.

6. The Government will amend the amount of negative subsidy payable by the full amount of the reduction in rental income, between the original guideline of 6.2% and the revised guideline of 3.1%. This means that authorities can in theory reduce their rent increases without any overall effect on the HRA. In practice for this Council, this would mean reducing the proposed increase in actual rents by 0.9% or slightly less given that the Councils Guideline rent is higher than its actual rent.

7. The consultation paper also suggests that if the Council wishes to benefit from any reduction in guideline rents then it has to fulfil the above criteria. Given that Members have already decided to set the rent increase significantly below the guideline increase it seems inequitable that the Council cannot take advantage of the difference between a guideline increase of 6.2% and 4%. A fairer settlement would be to compensate authorities where they have already used their discretion to set rent increases below the original guideline. Officers feel that this Authority should not be penalised for pre-empting the reduction in the guideline, when it seemed clear well before the issue of the 2009/10 determination that inflation based on September would be artificially high compared to actual inflation in 2009/10.

8. If the Council were to take advantage of the reduced guideline rent it would be worth some £765,000 to the HRA in reduced subsidy payments to the CLG. However this would be offset by the lost rental income by reducing the increase by 0.9% (£220,000), the administration costs of amending the rent increase and informing tenants (chargeable to the HRA) and amending the Housing Benefit records and informing claimants (chargeable to the General Fund). These costs have as yet not been quantified but are likely to be less than the £545,000 potential benefit to the HRA.

9. Given that some of the additional costs will fall on the General Fund, it is felt that these costs should be re-imbursed by the CLG and that the response to the consultation should include this point.

10. If the decision is made to reduce the rent increase to 3.1% on 2009/10 Guideline Rents this will take some time before it can be applied to rent accounts and would need to be backdated to April 2009. Officers have met and have identified concerns with the unstable interface between the Academy (Benefits) and Ohms (Rents) IT systems. In particular the backdated rent decrease may prove too complex for the interface and the success of any attempt to process such transactions in bulk cannot be guaranteed. Furthermore, to back date the rent decrease on both Academy and Ohms systems would require manual adjustments being undertaken and each benefit claim (around 3,700 claims) would need to be individually recalculated by benefit assessors. With the current backlog of work in the Benefits Division following the system conversion there may not be enough resources to cope with the work required.

11. The effect on residents must also be considered and when the budget was approved by Council in February the rent increase of 4% was stated to increase the average weekly rent from £72.61 to £75.52. If the lower figure of 3.1% now under consideration is used the increase would be reduced by 66p per week. So whilst there may be a clear benefit in aggregate to the HRA the effect on individual tenants is negligible.

12. Officers identified a number of options they felt should be included on the return submission to the CLG which would greatly reduce the burden on the Council, these are: wait until April 2010 to backdate the adjustment to the rent accounts and adjust them at the same time as creating the 2010/11 rent accounts; do not back date the reduction in the rent accounts (as this is a minimal amount) and to allow a reduction from a time in the future say 1 June; or to reduce the rent from 1 September by a higher percentage to reflect the full year reduction in only six months.

Conclusion

13. Following CLG proposed announcement to reduce the 2009/10 Guideline Rent, the Council calculated that this could be worth a net £545,000 to the HRA. However, there are a number of concerns with the difficulties in implementing the back dated rent reductions and also the additional costs being imposed on the General Fund.

Resource Implications

The HRA would pay around £765,000 less to CLG in Housing Subsidy; however, this would be offset by the lost rental income by reducing the increase by 0.9% (£220,000). As highlighted at 3 above, the HRA is not currently under financial pressure and is forecasted to remain in surplus for the next twenty years.

The General Fund would incur additional costs in benefit administration to amend some 3,700 claims, although a reliable estimate of this cost cannot be made at this time.

Legal and Governance Implications

The report is necessary to respond to a proposed legislative change.

Safer, Cleaner, Greener Implications

There are no safer, cleaner, greener implications.

Consultation Undertaken

There has been no external consultation.

Background Papers

Various working papers held in Accountancy.

Impact Assessments

As rent increases are applied uniformly there are no equalities impacts.

If no reduction is implemented a net gain of £545,000 to the HRA could be foregone, although the HRA is currently predicted to remain in surplus for the next twenty years.

If a reduction is implemented it will impose costs on the General Fund that are not likely to be recoverable. Also, implementing any change will create significant additional work for the Benefits Division. Members have identified improvements in benefits processing times as a key corporate objective and having to amend 3,700 claims would seriously obstruct improvement.