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| Meeting: | Cabinet |
| Date: | 18 th June 2009 |
| Subject: | Revised Housing Revenue Account (HRA) Budget 2009-10 and Medium Term Financial Strategy 2009-10 to 2011-12 |
| Key Decision: (Executive-side only) | Yes |
| Responsible Officer: | Gwyneth Allen, Divisional Director Housing Services |
| Portfolio Holder: | Councillor Barry Macleod-Cullinane, Portfolio Holder for Adults & Housing |
| Exempt: | No |
| Enclosures: | Appendix 1 – Budget 2009-10 to 2011-12 Appendix 2 – Average Rents & Service Charges Appendix 3 – Amended Determination and Impact on Negative Subsidy |

SECTION 1 – SUMMARY AND RECOMMENDATIONS

This report sets out the revisions to the Housing Revenue Account (HRA) Budget for 2009-10 and the Medium Term Financial Strategy 2009-10 to 2011-12 approved by Council on 19th February 2009. Government announced in principal, reduction in rental increases for 2009-10 on 9th March 2009.

RECOMMENDATIONS:

That

- 1) Council be requested to approve the Housing Revenue Account (Appendix 1) for 2009-10 and to agree to the revised average rent increase of 3% effective from 6th April 2009
- 2) The revised Medium Term Budget Strategy for the HRA at appendix 1 be approved.

REASON:

To publish the revised Housing Revenue Account (HRA) budget and rents for 2009-10, in line with Government policy for rent setting.

SECTION 2 – REPORT

Background

1. On 19th February 2009, Council approved the Medium Term Financial Budget Strategy for the HRA for 2009-10 to 2011-12.
2. In line with Government policy, which requires local authority rents to come into line with other social rents over time, an average rent increase of 6.15% was approved (5.66% in 2008-09). The rental increase proposed was calculated in accordance with government guidance and the increase is related to Retail Price Index (RPI) as at 30th September 2008. The index was 5% at that date. This resulted in an average rent charge of £86.57 per week per tenancy (£81.55 in 2008-09) representing an average rent increase of £5.02 (£4.37 in 2008-09). This would achieve rent convergence for 84% of Council dwellings by 2015/2016.
3. On 27th February 2009 all tenants were formally notified of the rental increase for 2009-10 approved by Council and effective from 6th April 2009.
4. On the 6th March 2009, the Housing Minister Margaret Beckett announced proposals to halve the increase in the national average guideline rent increase for local authority tenants.
5. The original average increase in guideline rent was published on 18th December 2008 in the Housing Revenue Account Subsidy Determination 2009-10 and was 6.2%
6. The proposed new national average guideline rent increase for 2009-10 is 3.1%
7. Communities and Local Government (CLG) issued a draft Housing Revenue Account Determination 2009-10, Amending Determination 2009, for consultation on 26 March 2009, with a deadline for responses by 24th April 2009.
8. The final version of the Amending Determination was published on 20th May 2009. This confirms what was in the draft revised offer accepted by Harrow Council.
9. Tenants will be consulted at a special Tenants' and Leaseholders' Consultative Forum arranged for 29th June 2009, when the housing capital programme will also be part of the agenda. Any comments made at this meeting in relation to rental reduction will be accommodated in the final report to Council on 9th July 2009. The housing capital programme will be subject of a report to Cabinet in July 2009.

Income

Dwelling Rent

10. Councils that accept the reduction in rent achieved by reducing their actual rent increases will be compensated on the following basis:

If the Councils 2009-10 average actual rent increase is less than or equal to the lower of;

- 3.1% of the authority's average guideline rent in 2008-09 or
- 3.1% of the authority's actual average rent in 2008-09

The CLG would give each participating council an increase in subsidy that a change to the national average guideline rent increase of 3.1% would result in for that council.

Councils have to substitute the national guideline rent increases with their own percentage guideline increases. This is explained in Appendix 3- Impact on Negative Subsidy.

11. The revised rent increase that results from the change in Government policy means an average rent increase of 3% for 2009-10 (previously 6.15% for 2009-10 and 5.66% in 2008-09). This means an average rent charge of £84.00 per week per tenant (previously £86.57 for 2009-10 and £81.55 in 2008-09) representing an average rent increase of £2.45 (previously £5.02 for 2009-10 and £4.37 in 2008-09). Details of average rents are shown in Appendix 3. This will achieve rent convergence for 63% of Council dwellings by 2015/16. In the February 2009 Cabinet report this was 84%. The reason for the decrease in numbers is that the target rent has remained unchanged in the amended determination and the reduced rent increase has widened the gap for convergence of the actual and target rents.
12. Subject to Council approval, it is intended that adjustments to take into account rent reduction with effect from 6th April 2009 will be implemented from 31st August 2009. This timetable will allow for the statutory 28 day notice of the change following Council's decision.
13. In addition to the cost to the HRA of negative subsidy amounting to £10,705 it is estimated that there are further costs amounting to £7,740 associated with implementing the rental reduction. There are also costs to the general fund for review of housing benefit entitlement estimated at £9,940.

Service Charge – Tenant

14. The amending determination refers to rents only and therefore service charges remain unchanged.

Expenditure

HRA subsidy

15. Appendix 3 shows the subsidy calculation based on the original determination issued in December 2008 on which the approved HRA budget was based. Appendix 3 provides comparison with the revised determination based on the lower rent increase of 3%.
16. The sum payable to CLG for 2009-10 will be reduced by £661,029 as a result of the reduction in the guideline rent from £87.55 to £85.01 reflecting the lower guideline rent increase of 2.97% (previously 6.07%).
17. 3.1% represents the national average guideline rent increase. Each authority will be required to apply their individual guideline rent increase, which for Harrow is 2.97%.
18. CLG have stated that they will consult in the summer on the issue of "Rent Caps and Limits" alongside their proposals for guideline rent increases for 2010-11. The

purpose is to ensure that those councils who qualify for “caps and limits” payments in respect of rents set in 2009-10 are not disadvantaged in 2010-11 by taking up the amended determination offer.

Balances

19. The previously agreed Medium Term Financial Strategy, anticipated reducing annual in year deficits in the three years to 2011-12 and anticipated a balance carried forward on 31st March 2012 of £2.577m, a reduction from £5.070m at 31st March 2009.
20. In 2009/10 the overall impact of the reduction in rents and negative subsidy payable is an additional cost to the HRA of £10,705. This is reflected in the increased in year deficit in Appendix 1.
21. Revised lower guideline rent in 2009/10 will lead to reduction in deficits by £36,710 in 2010/2011 and £123,390 in 2011/2012 as compared to budgets agreed at February 2009 cabinet.
22. The impact of the revision to rents and HRA subsidy anticipates HRA balances at 31st March 2012 of £2,726m.

Summary

23. The revised HRA strategy remains broadly consistent with the 30 year business plan. The business plan will be reviewed to reflect stock reductions and increases in capital investment when cabinet has approved those recommendations.
24. The revised budget estimates annual in year deficits over the three year period to 2011-12, will result in a reduction of balances carried forward to £2.734m (February 2009 Cabinet, £2,883m) when compared with the business plan balances of £5.460m anticipated at the end of 2011-12.
25. The impact of the lower level of balances will further shorten the period during which the Council has a viable HRA. If income and expenditure assumptions remain in line with the business plan, in year 7 [2013-2014] the balances will fall below the recommended level of £0.75m. By this point, the Council will have considered the options in relation to its future as a landlord.

Legal Issues

In accordance with the section 103 of the Housing Act 1985 the Council as landlord is required to give at least 4 weeks notice to its tenant of any variation to the rent.

In addition under the Council is required by the provisions of Schedule VI the Local Government and Housing Act 1989 to maintain the Housing Revenue Account.

Equalities Impact

The reduction of rent levels will benefit those tenants on low incomes bringing an equality benefit. The change will be applied to all tenants.

Performance Issues

It is unlikely that there will be any reduction in the rental collected as a result of the rental reduction outlined in this report.

| Rent Collection performance indicators | Actual 2008/09 | Target 2009/10 |
|---|---------------------------|---------------------------|
| Proportion of rent collected (ex BVPI 66a) | 96.17% | 98% |
| % tenants with more than 7 weeks arrears (ex BVPI 66b) | 7.09% | 7% |
| % tenants in arrears served with NOSP for arrears (ex BVPI 66c) | 27.11% | 20% |
| % tenants evicted for rent arrears (ex BVPI 66d) | 0.24% | 0.24% |

Environmental Impact

There is no environmental implication related to this report

Risk Management Implications

When the rental reduction proposals were announced by Central Government on 9th March 2009 confirmation of Harrow Council's intention to reduce the rental increase effected on 6th April 2009 were given to Harrow Federation of Tenants Associations. Full detail of the announcement was included on the Harrow Council Website. Tenants are therefore expecting a reduction in rental due in the current financial year.

A plan to effect the reduction is being developed which takes into account the way in which the refund will be calculated and put through each tenant's rental account. Rental cannot be backdated as this would invalidate all processes in relation to chasing of debt that have taken pace between 6th April 2009 and the date on which the refund is transacted. The ways in which sums of housing benefit that need to be repaid are calculated are being worked through.

The key risk is in the implementation of the reduction and the staff time that will be absorbed by this task. The reduction process is considerably more complex than the rental increase notification that was transacted on 6th April 2009.

Section 3 - Statutory Officer Clearance

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|-----------------------|-------------------------------------|---|
| Name: Jennifer Hydari | <input checked="" type="checkbox"/> | on behalf of the Chief Financial Officer |
| Date: 22 May 2009 | | |
| Name: Jessica Farmer | <input checked="" type="checkbox"/> | on behalf of the Monitoring Officer |
| Date: 26 May 2009 | | |

Section 4 – Performance Officer Clearance

Name: Tom Whiting



on behalf of the*
Divisional Director
(Strategy and Improvement)

Date: 26 May 2009

Section 5 – Environmental Impact Officer Clearance

Name: John Edwards



Divisional Director
(Environmental Services)

Date: 27 May 2009

Section 6 - Contact Details and Background Papers

Contact:

Donna Edwards

Adults & Housing Finance Manager

Telephone: 020-8424-1140

Background Papers:

- 30 year HRA Business Plan
- Report to Cabinet in December on the Medium Term Financial Strategy