

## Briefing Paper

### Government Revises Guideline Rents

March 2009

#### Introduction

Housing Minister Margaret Beckett announced on 6<sup>th</sup> March 2009 that there would be new support to help councils to cut their planned rent increases for tenants in the current economic climate.

The average guideline rent increase for 2009/10 will be halved from 6.2% to 3.1% for local authority tenants, to encourage councils to reduce the amount tenants would have to pay for the coming year. Mrs Beckett announced that the Government would make funding available to support local authorities to make the changes, and revise their rents for 2009/10 accordingly.

The government calculates that the changes to the guideline rent increase means tenants should see a marked drop in their proposed average rent increase for the coming year from around £4 per week to approximately just under £2.

The announcement was made in a written statement to Parliament recorded in 'Hansard' as follows:

***"The Minister for Housing (Margaret Beckett):** Each autumn, after consultation, the Government publish formal guideline rents so that local authorities know where they stand on Government subsidy on the Housing Revenue Account (HRA) system.*

*"Authorities are then free to make their own decisions on the actual rent level to set in their particular circumstances. Many authorities set actual rents below the guideline figure.*

*"Last year, the Government were pressed to give authorities greater financial certainty and responded by giving guidance for two years rather than one—which authorities appeared to welcome. However, since recent major changes in the economic situation, the Government are under substantial pressure from local authorities who would prefer us to reconsider the two-year deal. I have already indicated that we will re-examine the guideline rents for the second year, 2010-11.*

*"More recently, we have also had increased pressure to re-examine the guideline rents already issued for this coming year. Under normal circumstances, this is not something that I would be prepared to contemplate.*

*"But, in, and only in the context of the present unprecedented global downturn, it is right that the Government offer real help to council tenants. I am therefore quite exceptionally prepared to offer authorities the opportunity to bid for additional subsidy, if, and only if they are preparing to revisit the level of rents set and reduce them by that amount.*

*"We are therefore halving the national average guideline increase from 6.2% to 3.1%. This will require the Department to issue new 2009/10 guideline rents for all local authorities. I am prepared to change the subsidy position of those authorities who reduce their actual average increase in rents in 2009/10 in line with the new national average.*

*"We will be inviting authorities to let us know whether they will take this up by around the end of April. They will be able to introduce the new rent increases as soon as is practicable for them."*

Mrs Beckett also said:

*"We are facing challenging economic times and it is right that this Government offers real help now to council tenants. We have listened to what councils and their tenants have said to us about the planned rent increases, and we are determined to help tenants get a fair and affordable deal.*

*"Ultimately, it is for each council to take up this offer of support, but I would expect them to ensure their tenants receive the full benefits." The Minister has already indicated that she will look again at the guideline rents for 2010/11 to ensure that council tenants continue to pay rents that are affordable and fair."*

### **The Reasons for the Announcement**

The government states that the guideline rent increase for 2009/10 was set in September 2008 at a time of much higher inflation but the new guidelines will override this and support tenants during the current economic uncertainty, whilst making sure that local authorities still have the money to carry out essential repairs and maintenance.

The 6.2% increase had been set when inflation was running at some 5% and at that time the Government also proposed an upper limit on actual rent rises above 7%. The Local Authority Housing Panel of the Chartered Institute of Public Finance and Accountancy – of which Adrian Waite is a member - has urged Communities & Local Government to reduce these increases and in a response last year to the Government consultation they pointed out that:

*"An upper limit of 7% on average rent increases seems rather high in the current financial climate, is likely to hit those tenants who receive no benefits support for their rent particularly hard and should surely be seen in the context of average rises in wages and pensions if they are not to result in disincentives to work. This is likely to be especially the case where (as in September 2008) the inflation rate is high but may fall significantly later (as many predict for 2009)."*

Inflation rates did indeed fall. The Chartered Institute of Public Finance and Accountancy has welcomed the announcement but has pointed out that its timing is likely cause difficulties for many authorities that have already set their rents and budgets. It will also cause especial difficulties for any authority in the midst of a Large-scale Voluntary Transfer. It remains unclear, moreover, where this leaves the policy of rent convergence. The announcement leaves many questions unanswered and while it addresses the problem of high rent increases at a time of recession and low inflation it appears to create many other problems.

The Government is carrying out a wide-ranging review of the Housing Revenue Account led jointly by Communities and Local Government and the Treasury. The review is looking at how they can provide the best and most effective system for local authorities to maintain and manage their housing stock and will report to Ministers in the spring, before going out to consultation. The review has been supported by four working groups. Adrian Waite has been a member of the working group that has looked at mechanisms for the financing of council housing and there is information about the review available on the 'AWICS' website. The review has yet to report and it is unclear how this present announcement is linked to the conclusions of the review.

### **Implications for Housing Associations**

There appear to be no implications for housing associations and their tenants of this announcement. Housing Association rents will continue to increase in line with the requirements of the rent influencing regime. Tenants of housing associations may wonder why the government believes that it is right to protect tenants of local authorities at a time of recession, but not tenants of housing associations.

### **Implications for Local Authorities**

The announcement states that authorities can bid for additional subsidy if and only if, they are preparing to revisit the level of rents set and reduce them by that amount.

This is an interesting paragraph in that it indicates that Councils will get extra subsidy that may in some cases mean that they will move back out of negative subsidy. However, this extra subsidy is conditional on a revisit of rent level – defined as 'reduce them by that amount'. But – how is 'that amount' defined? Does it mean by 3.1% or does it mean a halving of the proposed rent increase?

It is suggested that authorities will be invited to apply for the additional subsidy at the end of April 2009. This paragraph clearly indicates that Communities and Local Government will be issuing guidance to explain what is on offer and they will be expecting a response by the end of April. So, authorities will presumably implement rent increases as planned in April 2009 and then apply for additional subsidy following which they will presumably reduce rents and backdate the reduction to April 2009 involving giving tenants a refund. It therefore appears that Councils will need to ensure that they have a mechanism in place for the politicians to agree a reduced rent provided it is the government who is paying and not the Housing Revenue Account. The last sentence is ambiguous as it could be read as an encouragement following on from the first sentence of the paragraph to not make any changes at the rent level until after April. On the other hand it could be read as an encouragement to get on with it now but if authorities reduce rents as from the start of April they presumably run the risk that the additional subsidy is not approved and valuable resources are lost to the Housing Revenue Account.

If guideline rents are to be varied how is this to be done? Are formula rents going to be reduced? Is the length of time taken to reach rent convergence to be increased? Or, are guideline rents simply going to be reduced by 3.1% or by 50% of the increase that was originally planned? The choice of method would have a different effect in different authorities and a different effect on future rent paths.

Presumably, if guideline rents are reduced there would also be reductions in limit rents. If limit rents were reduced only for authorities that reduced their actual rents this could be seen as inequitable but if limit rents were reduced for all authorities it is possible that some authorities that opted not to reduce their rent increases would not only forego the additional subsidy but could also incur penalties in housing benefit subsidy.

It is also unclear whether these proposals would affect caps and limits. Will these be reduced, and if so, on what basis? Again, if bedroom caps are reduced only for authorities that reduced their actual rents this could be seen as inequitable but if bedroom caps were reduced for all authorities it is possible that some authorities in high value areas would be forced to reduce their rents whether or not they applied for the increased housing subsidy.

The proposed increase in guideline rent will obviously act as an incentive for local authorities to reduce their rents but it is unclear whether there will be any other incentives or penalties to encourage rent reductions. Furthermore, it is unclear whether these proposals will have any effect on management, maintenance or major repairs allowances or other elements of the housing subsidy calculation either in 2009/10 or subsequent years.

If, as it appears, there are to be additional resources in the housing revenue account in 2009/10 through a reduction in guideline rents, this raises the question of what is the source of these resources. The Treasury has consistently stated that the 2007 Comprehensive Spending Review has established budgets for all public services that are effectively 'set in stone'. However, it has allowed resources to be brought forward from future years due to the recession. If the additional resources that are to fund the reduced guideline rents are brought forward from what was planned in future housing revenue account subsidy determinations then this implies that guideline rents will increase more steeply and/or that management, maintenance and major repairs allowances will increase by a smaller amount in 2010/11 than was originally intended. The long-run effect on housing revenue accounts and on rents may not be as beneficial as it first appears.

The implications for housing benefits appear to me to be complex. Tenants will claim benefit based on increased rents from April 2009 but will then have a backdated rent reduction that will presumably result in backdated housing benefit reductions.

## **The Procedure**

The procedure that the government has followed appears to be remarkable:

During the autumn of 2008 the government took the unusual step of going out to consultation on the 2009 and 2010 subsidy determinations. This included consultation on two different ways of calculating guideline rents. Following this they issued and consulted on draft determinations in November 2008 and final determinations in December 2008. Throughout the whole of this process the emphasis was on stability and no change on the grounds that no significant changes should be made to the housing revenue account subsidy system until the review of housing revenue account financing had been concluded. In February 2009 Councils set Housing Revenue Account rents and budgets based on the housing revenue account subsidy determination.

Then in March 2009 the Government has revised subsidy determinations after Councils have issued the increased rent notification letters, suggesting that Councils apply for increased subsidy at the end of April and then reduce rents subsequently, providing tenants with a refund.

It is not clear who is going to pay for the issue of revised rent notification letters.

It would appear that this is a recipe for confusion.

Having spoken to housing managers, accountants and elected Members in a number of authorities my perception is that most authorities will be proceeding with rent increases as planned in April 2009 and will not be considering reduced rent increases or rent reductions until the details of the government's proposals have become more apparent.

### **Implications for Rent Restructuring**

This announcement, following the extension of the date for rent convergence to 2017 last year and to 2024 this year, suggests that the government has all but abandoned its objective of achieving convergence between local authority and housing association rents.

One of the work streams in the review of the financing of council housing considered the future of council house rents. This review was carried out on the basis that there would be no change to the total level of housing revenue account subsidy until at least the outcome of the next comprehensive spending review. The review has yet to report. It appears that this decision has been taken without reference to the outcome of the review. It also appears that the outcome of the review may have been invalidated because one of the fundamental assumptions on which it was based has now changed – more money can be made available in the housing revenue account.

### **Implications for the Review of Housing Revenue Account Financing**

Since December 2007 Communities & Local Government and the Treasury have been carrying out a fundamental review of the financing of council housing. Until now it has been the policy of Communities & Local Government to defer taking decisions of significance until after the review had reported and was considered. The review is expected to report during the spring of 2009 which presumably means any time between now and the end of May. Does this announcement mean that the review has now been superseded by events?

It was clearly stated during the review that one of the non-negotiable factors was the level of resources allocated to housing revenue accounts as part of the 2007 Comprehensive Spending Review. However, the government now appears to have found a significant sum (probably about £200million) that it plans to allocate to reducing rents – assuming that this sum is new money as opposed to money that has been brought forward from future years.

This proposal appears to undermine the review, because if it had been known that additional funding could be made available this would obviously have opened up further options for consideration. What the working groups would have made of these further options we will never know as the working groups have been disbanded and the conclusions of the review, when they are published, are likely to be based on outdated assumptions about the level of resources available.

Indeed, how do we know that a reduction in rents is the best use for additional funding for the housing revenue account? We are not aware of the thought process within government that led them to the conclusion that additional resources should be applied to reducing rents. No consultation took place either with local authorities, tenants or other stakeholders. Perhaps the additional resources would have been better used on achieving the decent homes standard for that significant proportion of council tenants who currently have no hope of their home ever being improved to even this most basic of standards? Do we know which option tenants would have preferred? No. Why? Because a government that states that it is fully committed to tenant participation and consultation has not asked them.

### **Implications for Authorities involved in Stock Transfers**

A number of authorities are planning stock transfers during 2009/10. These authorities have set their rents for 2009/10 based on the housing subsidy determination. However, they have also established housing association business plans based on a rent path based on the 2009/10 housing subsidy determination and the rent influencing regime.

These authorities therefore appear to be confronted by a choice between:

- Leaving proposed 2009/10 rents as they are. This would mean that the authority would be unable to access the increased housing subsidy and that tenants would not benefit from the reduced increase in rents in 2009/10. This may be considered to be an unreasonable decision by the authority and would probably not be popular with tenants.
- Reducing rents as outlined above in 2009/10 only to increase them to the level envisaged in the housing association business plan at the point of transfer. For example, Plymouth City Council is planning a stock transfer in October 2009. They would therefore increase rents by 6% in April 2009, reduce them by 3% later in 2009 (say, in June 2009) and backdate this reduction to April. The stock would transfer in October and this would be followed immediately by a 3% increase in rents. This would probably be confusing and unpopular from the point of view of tenants.
- Reducing rents as outlined above in 2009/10 and leaving them at levels below those envisaged in the housing association business plan. This would leave the housing association with a funding gap between its resources and the cost of the commitments made in the offer document right from the outset. The housing association would probably have insufficient resources to improve the tenants' homes to the standards included in the offer document.

I suspect that none of these choices would be attractive.

During stock transfer ballot campaigns the issue of rent is often important. Opponents of stock transfer often claim that transfer of stock to a housing association is likely to lead to a higher increase in rents than would have been the case with stock retention. Since 2002 supporters of stock transfer have been able to argue convincingly that this should not be the case as rents would follow the same path regardless of whether or not a stock transfer took place. This is clearly no longer the case and significant rent increases at the point of transfer would send a clear signal that stock transfer leads to higher rents.

Sedgefield District Council in Durham is due to transfer its stock to a housing association at the end of March 2009. On 1<sup>st</sup> April 2009 it is also going to be merged with Durham County Council and the other Durham district councils into the new Durham Unitary Authority.

The Durham Unitary Authority has announced that they will be following government guidelines and reducing rents on 1<sup>st</sup> April 2009. This could be seen as a nice move for a unitary authority that takes over the housing function and is able to point to what they have achieved on their first day - rent increases cut in half.

The new Housing Association, though, has a business plan that assumed rent convergence by 2016/2017 as detailed in the offer document to tenants written in the summer of 2008. A 3% reduction in rents would make the business plan unviable. The funding that has been secured for the transfer would evaporate and a lot of hard work by staff and the aspirations of many tenants would be shattered.

The Housing Association appears to have no choice but to stick with their 6.6% average rent increase and accept the adverse publicity that is bound to be generated.

## **Conclusions**

When I first read this announcement I was surprised.

This government is well known for establishing long-term strategies that link together and on which there is meaningful consultation.

In this instance a decision appears to have been taken that:

- Revises the recently made housing revenue account subsidy determination after housing revenue account budgets and rent increases have been agreed and rent increase notification letters have been issued
- Proposes rent increases in April and reductions later
- Reallocates resources allocated as part of the Comprehensive Spending Review in a way that had previously been ruled out and apparently without any consideration of the range of options available for using the additional resources – or brings forward expenditure without any apparent consideration of the long-term implications
- Pre-empted the conclusions of the year long in depth review of the financing of the housing revenue account and the future of rent policy
- Ends the policy of rent restructuring and rent convergence
- Treats the tenants of Local Authorities and Housing Associations differently
- Causes administrative difficulties and costs for local authorities
- Undermines the credibility and perhaps financial viability of stock transfer housing associations

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And all this has been done without any consultation with either local authorities or tenants.

I am sure that local authorities and their tenants will await the details of these proposals with interest. I will do the same.

**Adrian Waite**  
**March 2009.**