

Briefing Paper

Housing Revenue Account Subsidy Determination 2010/11

December 2009

Introduction

The draft Housing Revenue Account Subsidy Determination for 2010/11 was issued by 'Communities & Local Government' on 10th December 2009 – the day following the Pre-Budget Report. The issuing of the draft determination had been delayed so that it would not precede the pre-budget report.

Local Authorities, and others, have until 25th January 2010 to respond to the consultation, but any authorities that wish to submit changes to the base data must do so by 18th January 2010.

As expected, Communities & Local Government proposes that significant changes to the current system should be avoided until the final outcome of the work on the Reform of Council Housing Finance is known. Therefore, they intend to issue the 2010/11 Housing Revenue Account Subsidy and item eight determinations constructed using similar parameters to those used in previous years. The formulae and definitions used in the 2010/11 determination are based on those used for the original 2009/10 subsidy determination issued in December 2008.

John Healey MP, Minister of Housing, has indicated that he will announce the terms on which local authorities will be able to leave the housing revenue account subsidy system in February 2010.

Rents

In September 2009 Communities & Local Government contacted local authorities to provide information on the housing revenue account subsidy determination 2010/11. On guideline rents it was stated that:

“The review of the 2010/11 average guideline rent increase is continuing, but we are not yet in a position to report on conclusions reached. Local authorities should be aware that guideline rent increases proposals will not be put forward until a draft Housing Revenue Account determination is issued for consultation. We expect this will be towards the end of October. Should more than one option be proposed, separate draft determinations will be issued to demonstrate the impact on authorities' subsidy position.”

In February 2009, Communities & Local Government had promised to review the previously established average guideline rent increase for 2010/11 of 6.1%. As a result of that review they have decided to consult on an average guideline rent increase of 3.1%. This is to take account of the continuing economic conditions, the September Retail Price Index of -1.4% and the current rent restructuring policy.

Fixing the reduced guideline rent increase has been achieved by changing the convergence date. To achieve a specific guideline rent increase it has been necessary to use a convergence date of three years. The government now intends to bring about rent convergence in 2012/13.

Formula rents have been reduced by 0.9% (reflecting a 1.4% reduction to follow the Retail Price Index and a 0.5% real increase). However, this reduction is applied to the original calculation of formula rent made in 2009/10 based on a 5.5% increase. Furthermore, because most authorities have guideline rents that are below formula this results in an average increase in guideline rents of 3.1%.

It is understood that discussions took place between HM Treasury and Communities & Local Government over the funding of the lower than planned increase in guideline rents. A Whitehall source was quoted in 'Inside Housing' as saying:

"Communities & Local Government has apparently made a sizeable contribution to the Treasury to allow this cut to 3.1% to happen."

Stuart MacDonald, the Editor of 'Inside Housing' added:

"On the face of it (the pledge to cap local authority rent increases at 3.1%) this move is good for Council tenants, who wont see massive rent hikes from cash strapped local authorities; and for landlords, which now at least know this income stream will significantly exceed the rate of inflation and will avoid repeating the fiasco of earlier this year when rent notices had to be issued twice.

"There are two problems, however. This 3.1% cap is in stark contrast to the 0.9% cut that the average housing association tenant will receive, which does nothing for the ideal of a more equal social housing domain. Plus, the Communities & Local Government Department must underwrite some of the predicted loss in rental income which had originally been capped at 6.1%. This is said by Whitehall sources to run into hundreds of millions of pounds and will have to come from somewhere."

For the 2010/11 rent increase calculation, Communities & Local Government has specified the Retail Price Index for September 2009 which is -1.4%. This makes a maximum increase for individual tenants in 2010/11 of -0.9% + £2 per week based on a standard 52 week basis. This means that, in practice, most local authorities will not be able to increase their rents by as much as the increase in the guideline.

The documents do not make reference to caps and limits compensation regarding the 2010/11 rent increase. Past practice would have been to receive this in 2011/12. However with the election imminent it is considered to be important by many authorities to know that this can be relied on.

In many authorities including London Boroughs almost all rents would be capped in 2010/11 under the guidance that limits individual rent rises. Councils can only apply these caps if they have a guarantee that the policy will not be changed. With increases in the base Retail Price Index being so low and increases in guideline rents' being so high it is expected that many councils will be in this position. Some authorities consider that they cannot make a rent decision without this information on future compensation for observing the limits on increases in rents.

Management and Maintenance Allowances

In September 2009 Communities & Local Government contacted local authorities to provide information on the housing revenue account subsidy determination 2010/11. On management and maintenance allowances it was stated that:

"It is our intention to continue in the 2010-11 determination with the arrangements introduced for the 2009-10 HRA subsidy determination of limiting unnecessary volatility, particularly with regard to the distribution of allowances between local authorities.

"Specifically we intend to:

- *Update the Regional Crime Adjustment Factor with data for 2008-09 and continue to use a three year average of this indicator to as an input into the calculation of management and maintenance allowances.*
- *To continue to use a three year average of Building Cost Adjustment indicators in order to smooth unnecessary volatility for individual local Authorities between years.*
- *Continue to use the 2004 Index of Multiple Deprivation to adjust both management and maintenance allowances in order to reduce additional uncertainty.*
- *Continue for 2010-11 with the arrangements for transitional protection, whereby no authority receives less in management and maintenance allowances on a per dwelling basis than in the previous year.*

"As in previous years a forecast of the Gross Domestic Product deflator will be used for allowance calculations."

The draft determination continues the principle introduced in 2009/10 that measures would be adopted to reduce volatility in the system in relation to the calculation of allowances.

Management and Maintenance Allowances will increase by 3.05% on average.

Major Repairs Allowance

In September 2009 Communities & Local Government contacted local authorities to provide information on the housing revenue account subsidy determination 2010/11. On major repairs allowances it was stated that:

"It is our intention to continue in the 2010-11 determination with the arrangements introduced for the 2009-10 HRA subsidy determination of limiting unnecessary volatility, particularly with regard to the distribution of allowances between local authorities.

"Specifically we intend to:

- *Continue to use existing Major Repairs Allowance Base Allowances and not introduce new Major Repairs Allowance Base Allowances which were produced in 2007.*
- *To continue to use a three year average of Building Cost Adjustment indicators in order to smooth unnecessary volatility for individual local Authorities between years.*

“As in previous years a forecast of the Gross Domestic Product deflator will be used for allowance calculations.”

The Major Repairs Allowance for 2010/11 continues to include a three year average building cost adjuster but retains the original national base weights. The Major Repairs Allowance has been updated by the forecast Gross Domestic Product deflator for 2010/11 that currently stands at 2.25%. Consequently, Major Repairs Allowances will increase by 2.25% on average.

Charges for Capital

The 2010/11 item eight determination is substantially the same as that issued for 2009/10. However, there are some minor changes due to the implementation of International Financial Reporting Standards.

Interest on Receipts

Communities & Local Government are using an estimated interest rate of 2% to calculate interest on receipts.

Technical Matters

For the first time, for those authorities choosing to claim caps and limits adjustments, the caps and limits spreadsheet is required to be completed and audited.

For unitary authorities that came into existence on 1st April 2009, transitional arrangements will not continue and they will be issued with a single housing revenue account subsidy determination and item eight determination.

Financial Implications

It is calculated that the Housing Revenue Account Subsidy determination for 2010/11 will result in the Treasury taking £100million out of Housing Revenue Accounts nationally. This is a similar amount to that taken out in 2009/10.

Implications for Individual Authorities

The national average figures referred to above conceal quite different implications for different authorities. Examples follow.

Cheltenham Borough Council is affected as follows:

- Management Allowance increases by 3.6%
- Maintenance Allowance increases by 4.2%
- Major Repairs Allowance increases by 2.3%
- Guideline Rents increase by 2.5%
- Adverse effect on housing subsidy of £30,000

Rochdale Borough Council is affected as follows:

- Management Allowance increases by 4.6%
- Maintenance Allowance increases by 2.7%
- Major Repairs Allowance increases by 0.1%
- Guideline Rents increase by 3.0%
- Subsidy receivable reduces by £1.3million

Appleby Business Centre, Bridge Street, Appleby in Westmorland, Cumbria. CA16 6QH.
Telephone: 017683-52347 or 52165. Mobile: 07971-321863. Fax: 017683-54005.
E-Mail: Adrian.waite@awics.co.uk. Websites: www.awics.co.uk and www.awics.eu

Wigan Borough Council is affected as follows:

- Allowances for expenditure on Management, Maintenance, and Major Repairs increased by 2.5% - slightly less than the national average
- Guideline Rents for Subsidy purposes increased by 5.65% - significantly more than the national average
- The Arms Length Management Organisation Allowance was retained for 2010/11
- The Housing Revenue Account has to pay £1.3million to the government in 2010/11 compared with receiving £1.2million in 2009/10. This shift is significant and represents a net reduction in Housing Revenue Account Subsidy of £2.5million between 2009/10 and 2010/11.

The average weekly rent for 2009/10 in Wigan is £56.92 on a 52 week basis. Application of the rent increase limit formula to each individual dwelling calculates that the 2010/11 rent increase will be an average of 2.56%. If there were no limits in place then the rent increase that would comply with the rent restructuring policy would be 3.99%.

The limit of 2.56% (as opposed to 3.99%) restricts the Council's ability to fully comply with rent restructuring policy and also means that the income raised is lower by approximately £900,000. The 2.56% increase will raise an additional £1.7million that is less than the £2.5million loss in subsidy.

Comprehensive Spending Review 2010 and Housing Revenue Account Subsidy Determinations for 2011/12 and subsequent years

The next Comprehensive Spending Review period will start in 2011/12 and it is already clear from the pre-budget report that the government is planning reductions in expenditure growth during that period to allow for the repayment of the loans taken out during the recession. Revenue expenditure is expected to grow more slowly than the previous plan of 1.9% a year and capital investment is expected to be reduced by £14billion or more. If the government maintains its commitments to the National Health Service this implies reduced resources for other services including housing. Furthermore, if the recession proves to be worse than the government anticipates this would result in even greater reductions in expenditure in 2011/12 and beyond.

It is expected that the government will make local authorities an offer on self financing in February 2010 and this may lead to the end of the Housing Revenue Account Subsidy system. If this happens it is unlikely that many will mourn the end of a system which is universally regarded as over complex, poorly understood and unfair to tenants.

Comment

The Housing Revenue Account Subsidy Determination for 2010/11 is the final determination of the 2008/11 Comprehensive Spending Review period. It was therefore expected to follow on from those of 2008/09 and 2009/10 with few changes to the allowances and a continuation of negative subsidy.

Overall, it is calculated that this determination will be broadly neutral with negative subsidy of about £100million at national level as in 2009/10. However, there are variations between individual authorities and some northern metropolitan councils, in particular, appear to have received adverse housing revenue account subsidy determinations for 2010/11 compared with 2009/10.

The decision to increase guideline rents by 3.1% was clearly the most difficult for ministers to take. In view of ministerial statements about rent increases and the fact that 2010 will be an election year some people predicted a lower level of increase. However, a lower level of increase would have to have been funded and resources were not available.

In practice the rent limit of inflation plus 0.5% plus £2 a week will constrain the ability of many local authorities to increase rent by as much as the increase in guideline rent leading to a moderation in rent increases and a reduction in resources available in the Housing Revenue Account.

All You Want to Know about Local Authority Housing Finance 2010

We are running a series of seminars in each region of England during 2010 on 'All You Want to Know about Local Authority Housing Finance' that will provide an introduction and overview of local authority housing finance. They will include consideration of the housing revenue account subsidy determination for 2010/11. Further information is available on our website at:

http://www.awics.co.uk/RegionalSeminars/ViewCourse/all_you_want_to_know_about_local_authority_housing_finance_2010

Adrian Waite
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