

APPENDIX A.3

WAVERLEY BOROUGH COUNCIL

COUNCIL MEETING - 24 FEBRUARY 2009

REPORT OF THE EXECUTIVE – 10 FEBRUARY 2009

DRAFT HOUSING REVENUE ACCOUNT REVENUE ESTIMATES **2009/10**

Introduction

- 1 Much detailed work has been carried out throughout the budget period with a view to improving the difficult financial position of the HRA. The Star Chamber process resulted in the proposed deletion of 7 posts from the service and these are listed at the attached Annexe 15.
- 2 The final housing subsidy determinations for 2009-10 were received from the Department for Communities and Local Government (CLG) on 18 December. The changes proposed in the draft Determinations were confirmed and are repeated below for Members' information.

HRA Subsidy

- 3 The HRA is driven by the Government's decisions with regard to the national housing revenue account and the housing subsidy regime. As Members will be aware, a full review of this system is taking place and is due to report to Ministers in Spring 2009. Consultation on the resultant proposals will be taken forward in the light of the timetable for the next comprehensive spending review.
- 4 Until the outcome of the review is known, Communities and Local Government (CLG) wish to avoid significant changes to the current system and maintain as stable a position as possible over the next two financial years. To this end the Subsidy Determination issued on 18 December 2008, now sets the parameters for both 2009/10 and the 2010/11 in terms of guideline rent increases – the single most influential factor.
- 5 Instead of the guideline rent increase being dependant on the prevailing level of inflation in the previous September, CLG are using a fixed average guideline rent increase for both 2009/10 and 2010/11 and adjusting the rent convergence date accordingly. The intention of this change is to protect tenants from both high and variable increases in inflation. Without this change the guideline rent increase for 2009-10 would have been around 9% leading to even higher actual rent increases. Instead the Government's national rent guideline for 2009/10 is an increase in guideline rents of 6.2%.

- 6 The impact of these proposals is that the increase in Waverley's negative subsidy in 2009/10 will be around half of what it might have been under the current subsidy rules with rent convergence by 2011/12. However, even with these proposed changes, Waverley will still be paying 48.7% of tenants' rent to the Government. Rent convergence with Housing Associations will not now occur until 2024/25.

2009-10 Draft Revenue Estimates

- 7 The fixing of the guideline rent increase for the next 2 years has given greater flexibility in the HRA revenue budget than had previously been forecast. It has been possible to introduce additional provision for preventative maintenance and also increase the minimum working balance in line with the recommendation of the Council's S151 officer. This would have resulted in an average increase in rents of 4.1%
- 8 Since the January meeting of the Executive, the Audit Commission (AC) has published its report following the inspection of Waverley's housing management services. The report makes a series of recommendations to bring about improvements to the service. These recommendations are to;
- ❖ Strengthen the focus on customer care
 - ❖ Strengthen the focus on equality and diversity
 - ❖ Strengthen the approach to value for money
 - ❖ Improve performance in service areas
 - ❖ Strengthen performance management
- Individually these improvements have minimal cost but collectively will require extra resource estimated at £120,000. This additional cost, together with other cost imperatives noted elsewhere in the report, results in an average increase in rents in 2009/10 of 5.2% as illustrated in the rent options attached at Annexe 16.

Rent Levels

- 9 An increase of 1% on average rents will generate some £223,000 of rent income but the amount of negative subsidy payable will increase by some £108,000 due to the operation of rent rebate subsidy limitation (RRSL).
- 10 The impact of the increased subsidy payable in 2009/10, the changes outlined in point 7 above and raising additional revenue to implement AC recommendations, is an average rent increase of 5.2% as illustrated at Annexe 16 together with the impact of a number of other options and at Annexe 17 the HRA budget summary.
- 11 In 2009/10 negative housing subsidy will be some £11.4m (assuming a 5.2% rent increase), which represents 48.7% of rental income. With the CLG proposals to increase guideline rents by an average 6.1% in 2010/11, basic subsidy is likely to increase again by some £700k before any consideration is given to the spending needs of the service.

The Future of the HRA

- 12 The Government's current housing finance regime prevents the Council from meeting the Decent Homes standard by 2010/11 or any time in the foreseeable future.
- 13 This pressure will continue and, unless the outcomes from the Government review of the housing subsidy system produce significant change for authorities like Waverley, the Housing Revenue Account for Waverley and a number of other Councils will be unsustainable in the medium term.
- 14 The Government review of Housing Subsidy is due to report in the spring of 2009. Unless it is significantly altered in favour of Waverley's tenants the decent homes obligations will continue not to be met.
- 15 In such circumstances, Waverley will have little choice but to undertake a further stock options review to investigate a way forward.

Observations of the Community Overview and Scrutiny Committee

- 16 The Committee agreed to recommend to the Executive that a RCCO should not be added to the rent increase to pay for additional decent homes work.

The Committee were prepared to support an average rent increase of 5.2% (Option A1 Annexe 16) in order to implement in full the Audit Commission recommendations. They were pleased to note that a lower level of housing subsidy in 2009/10 would free up some revenue that could be directed at areas such as additional preventative cyclical maintenance.

The Robustness of the Estimates

- 17 Full account has been taken of potential costs and adequate provision has been made. A prudent assessment of income has been undertaken and only income that has a high level of certainty of being received is included within the Council's budgets.
18. The Council's Financial Strategy, together with information presented at the Annual Finance Seminar and subsequent reports demonstrates the financial challenges to Waverley Borough Council and its Landlord Service in the future.
19. In addition to the detailed scrutiny by officers of the budget the Council has:
 - Critically examined Budget Variations; and
 - Established the Star Chamber to examine the budget in detail and advise on potential reductions.

20. In view of the level of awareness amongst Members and the action taken to produce the Council's Budget in 2009/10, the Deputy Chief Executive is very satisfied with the robustness of the estimates presented.
21. Given the volatility of the economy it is proposed that officers conduct a formal review of the HRA budget for the September 2009 Executive with any exception reports to earlier Executive meetings.

Adequacy of Reserves

22. A number of significant historical staff claims on the HRA during 2007/08 and 2008/09 has demonstrated the importance of adequate reserves to meet unexpected costs. In the light of this and the identified future significant pressures, the levels of the HRA working and Repairs Fund balances have been reviewed and the Council's S151 officer thought it prudent to increase the minimum working balance to £1.250m from 2009/10. The balances are considered prudent, but not excessive.

Conclusion

23. It is estimated that Waverley's HRA will need to pay a minimum of £722,000 additional subsidy to the Government in 2009/10 plus an amount of RRSL depending on the amount of rebates paid by Waverley and the exact relationship between Waverley's actual average rent and its guideline rent. Meeting these demands whilst keeping rent increases to a reasonable level and providing an improving and customer focused service places considerable pressure on the HRA.
24. The savings being proposed from the staffing budget impact on many of the individual budgets that make up the HRA and officers will need to maintain strict control throughout 2009/10 and beyond to ensure that, if approved, the required changes are delivered.
25. If the Government's review of subsidy does not result in significant benefits to Waverley's tenants, the Council will be left with no alternative but to undertake a further review of the options for managing the housing stock into the future.

The Executive

RECOMMENDS that

- 20. the Community Overview and Scrutiny Committee are thanked for their comments and that these are noted,**
- 21. the average actual rent level of Council dwellings be increased by 5.2% from 6th April 2009,**
- 22. the weekly charge for a separate garage rented by both Council and non-Council tenants be increased by 5.2% from 6th April 2009, and**

- 23. a formal review of the HRA revenue budget is carried out and reported to the September meeting of the Executive**

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