



## **Draft Housing Revenue Account Subsidy 2008-2009 - Consultation Paper – Response**

### **Background**

The Northern Housing Consortium welcomes the opportunity to respond to the CLG's proposals for the Draft Housing Revenue Account Subsidy Determinations for the financial year 2008-2009.

The Northern Housing Consortium (previously the Northern Consortium of Housing Authorities 1974 - 2002) was established in April 2002. It is an independent non-party political, not for profit organisation working to improve and promote housing services across the North. Its 183 members include Local Authorities, Registered Social Landlords (RSLs), Arms Length Management Organisations (ALMOs) and other organisations involved in housing.

The Northern Housing Consortium is governed by its members, who between them manage around 90% of social housing in the North, around 1.4 million homes. These organisations are drawn from the three Northern Government Office regions - the North East, the North West and Yorkshire & Humberside, as well as the Housing Corporation (North) area for RSLs.

### **1. General issues**

- 1.1 The commentary states that essentially the formula remains the same as for 2007-08 except for the withdrawal of the rent constraint allowance. However this removes some £100m from the Housing Revenue Accounts (HRA) of local authorities, which therefore leaves a deficit in the authorities' base budgets of £100m, prior to any other further subsidy withdrawal in 2008-09.
- 1.2 The guideline rent and the actual rent are converging due to the restructuring formula being implemented therefore under current arrangements there are only minimal resources available (0.2% for 2008-09) to be re-distributed as additional management and maintenance (M&M) allowances. DCLG previously promised to better

reflect the true need to spend by increasing M&M allowances above inflation. In fact due to the proposed transitional protection, those authorities that were above their deemed apportioned share of M&M allowances will be even more over than in 2007-08. This is grossly unfair on those authorities that are, and have been, under-funded for several years now. Under the current arrangements of redistributing only the difference of guideline to actual rents there will be even less resources available in future as the two rent levels converge. The difference between the guideline rent increase and the M&M allowances should be being distributed.

- 1.3 The latest data should always be used unless the use of such data compromises the original declared intention of simplifying the subsidy arrangements. Whilst the revised major repairs allowances have now been substituted for the original data for 2008-09, more accurate data should be used in future as this is stated as now being available.
- 1.4 Inflation used for setting rent increases is declared to be 3.9% and for management & maintenance and the major repairs allowance as being 2.75%. A consistent inflation rate should be used in future in order to avoid confusion when the system is being explained to members and to tenants.
- 1.5 The DCLG estimate of each component element of HRA subsidy should be declared as part of the final determination, in order to comply with open government principles. Tenants will be seeing actual rent increases higher than ever before and therefore should be able to see whether subsidy payable to Government has increased by more than inflation, and if so by how much.

## **2. Management & maintenance allowances**

The commentary rightly states that the M&M allowances are a key expenditure item. However the increase at local authority level is lower than the rent guideline increase, therefore resulting in withdrawal of subsidy from the HRA of the authority.

The DCLG have always stated that the M&M allowances are not intended to reflect the true need to spend on actual management and maintenance; it is merely an apportionment of what they can afford to allow. However as income (guideline rents) more closely reflects the actual rents levied, surely it is only correct that the expenditure (allowances) should also better reflect the actual position.

Tenants are seeing large rent increases being imposed on them and at the same time resources available for spending on their housing service being restricted, due to the subsidy withdrawal. Simple mathematics will show that 4.4% of the guideline rent income (average £60.34) is far greater than 2.77% of the M&M allowances (average £31.92), which results in a significant increase in the negative entitlement to subsidy. In addition there is also the £100m withdrawal of rent constraint allowance.

### **3. Rent increases**

The Government should be applauded for taking cognisance of the responses to the consultation paper relating to extending the rent restructuring timescale. The impact of equating the convergence to target rent from a further 4 years to 9 years will result in lower annual increases for all tenants.

The consultation paper states that this extension is being used in calculating guideline rents only, however the “draft HRA outputs” spreadsheet issued with the determinations shows that the limit rent is also extended by a further 5 years to 2017. Any Authority that uses the 2012 target date will therefore run the risk of increasing actual rents only to see the limit rent exceeded and the rebate reimbursement being restricted. If 66% of tenants are on rebate for every £3 rent increase above the limit only £1 of income to the HRA will be generated. The final determinations should highlight this fact to warn any authority that complies with the Government’s original rent policy that it may be very detrimental in value for money terms.

In the spreadsheet that shows the calculation of the assumed national average actual rent it can be seen that the DCLG has also assumed that actual rents follow the suggested arrangements of extending the period to year 2017. Government should take a stronger lead, in the interest of affordability, and openly state in the final determinations that Authorities are expected to follow the path of extending restructuring to 2017. This would then alleviate any chance of inadvertently exceeding the limit rent level. If authorities are allowed to continue with the previous arrangements, up to 2012, then the national average actual rent generated will be greater than that shown in the draft determinations and would increase the amount available for redistribution of M&M allowances significantly above the 0.2% specified.

### **4 Major Repairs Allowance**

The draft determinations state that more accurate data is now available relating to the cost of maintaining dwellings at a decent standard. DCLG are not now using this data for 2008-09, however they should therefore consult on this issue as soon as possible with a view to implementing the latest data available for future years.

The resulting calculation should not be scaled down as it is in the draft determinations. The excuse being that the total cost should reflect English authorities only, and the base index includes all the UK. Each English authority should get the allowance as calculated on their own stock, which should be paid at 100%. The fact that the base data includes authorities outside the DCLG subsidy budget should have no bearing on the calculated amount if the MRA is supposedly reflecting the full cost of maintaining the life of a property at a fully decent level.

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30<sup>th</sup> December 2007