

**BABERGH DISTRICT COUNCIL**

**FROM:** Director of Finance

**REPORT NUMBER** **J4**

**TO:** COUNCIL

**DATE OF MEETING** 21 April 2009

**REDUCTION IN COUNCIL HOUSE RENTS INCREASE FOR 2009/10**

1. **PURPOSE OF REPORT**

To determine the Council's approach to the Government's revised proposals for Council House rent increases for 2009/10.

2. **RECOMMENDATIONS**

- 2.1 That notwithstanding the decision of Council on the 24 February 2009 to increase Council House rents for 2009/10 by 6.7% in accordance with the Government rent guidelines applicable at that time, the principle of a revised increase for the year of between 3.1% and 3.6% be approved.
- 2.2 That authority be delegated to the Director of Finance in consultation with the Chairman of the Council to reduce the level of Council House rents for 2009/10 following issue of the final Government rent guidelines amending determination and to determine the effective date for implementation.
- 2.3 That pursuant to recommendation 2.2, the Director of Finance be authorised to amend the HRA Budget accordingly.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There will be additional administrative costs to the HRA of implementing the reduction, which the Government expects Councils to accommodate within existing budgets. These are estimated to amount to no more than £5,000.
- 3.2 More significantly, it is estimated that there will be a cost of around £75,000 in relation to implementing the Government's revised proposal of a 3.1% average rent increase in place of the 6.7% that was originally implemented under the Government's original proposals for the year. Although this could be accommodated by adjusting budgets and/or taking more from HRA reserves in the current year, that ongoing annual cost will clearly impact on future HRA Budgets.
- 3.3 It is also estimated that costs of up to £10,000 in relation to managing and administering the necessary Housing Benefit changes will arise in backdating to the rent reduction to the start of the year. This cost would fall on the General Fund. This is a very broad initial assessment as it is very difficult to predict the actual impact. The Government has indicated it will consider meeting some or all of these costs.

#### 4. **RISK MANAGEMENT**

- 4.1 This report is most closely linked with Significant Business Risk no.7 – Financial, Performance and Risk Management. Key risks associated with this report are:-

<b>Risk Description</b>	<b>Likelihood</b>	<b>Seriousness or Impact</b>	<b>Mitigation Measures</b>
The Government does not agree to increase subsidy to meet the cost to the Council of implementing the rent reduction	Significant	Marginal	The Council's response to clearly articulate the problem and the impact, requesting an amendment to their proposals

#### 5. **KEY INFORMATION**

- 5.1 The Government issued a revised HRA subsidy determination on the 26 March (revised on the 7 April), which sets out the arrangements for amending the 2009/10 average rent increase and the detailed application at individual Councils. The key elements of the proposals are as follows:

- A significant reduction in the average rent increase of 6.7% originally implemented, to be backdated to the start of the financial year
- An indication that costs relating to administering the resulting Housing Benefit changes could be met by the Government
- That the administrative costs to the HRA of implementing the change will not be met by the Government

- 5.2 In simple terms, this would result in the average weekly increase in rents for Babergh tenants being reduced from 6.7% to 3.1% or from £4.50 to just over £2 a week (52 week basis).

- 5.3 However, these proposals do not take into account local variations in average rent compared to national guideline rents. It is estimated that this will result in an estimated cost of around £75,000 a year due to loss of rent income that would not be fully compensated for by increased Government subsidy. This will have to be met by the HRA.

- 5.4 In essence, the Government's proposals do not take into account an additional local variation of 0.5% (in Babergh's case) in the average rent increase compared to the Government's national guideline. This could result in a 3.6% average rent increase if the Government were to allow for this variation. Although the additional rent income would not fully offset the subsidy position, it should reduce the net cost to the HRA to around £15,000 - £20,000, which is more acceptable and manageable.

5.5 In order to rectify the position, therefore, the Government would need to amend their proposals to allow for these local average rent variations and compensate Councils accordingly. It is understood that there are likely to be a number of Councils in the same position as Babergh who will be asking for a similar 'dispensation'.

5.6 The Strategy Committee's views are as follows:

- That Babergh request that the Government amends their proposals to fully compensate for the loss of rent income not covered by subsidy
- That, notwithstanding the above, the Council should implement the rent reduction accordingly, which is likely to be between 3.1% and 3.6%
- That any final cost implications be met by adjusting the use of HRA reserves and/or specific elements of the HRA Budget in 2009/10 (NB: current and future repairs, maintenance and/or capital work may have to be scaled back accordingly)
- That the reduction be implemented as quickly as possible, taking into account the Government's final proposals and the need to give tenants 4 weeks notice of the variation.

5.7 Clearly, the Council's response will need to highlight the imperative need to compensate Councils fully for the costs/loss of income involved, but it must be accepted that this may not be the actual outcome and that an estimated cost to the HRA of up to £75,000 a year could still arise, based on a 3.1% average rent increase.

6. **APPENDICES**

None

7. **BACKGROUND PAPERS REFERRED TO:**

Government subsidy amending determination 2009/10.

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