

Interim Director of Finance and Compliance

Desmond Gray

Victoria Akeredolu
Department for Communities and
Local Government
Zone 1/A3
Eland House
Bressenden Place
London
SW1E 5DU

Your Ref: HRAS Consultation
Our Ref:
Contact: Brian Dillon
Direct Line: 01438 242375
Fax: 01438 242621
E-mail: Brian.Dillon@stevenagehomes.org.uk
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Dear Mrs Akeredolu

DRAFT HRA (ITEM 8) AND HRA SUBSIDY DETERMINATION 2010

I am commenting on the Draft HRA Determination 2010 on behalf of Stevenage Homes Ltd (SHL), the ALMO managing the housing stock of Stevenage Borough Council (the Council).

SHL is delivering a good and improving service to the Council's tenants and wishes to maintain that quality in the future by ensuring that the HRA is adequately resourced.

Reserves held by the Council's HRA are sufficient to cover costs and income risks during 2010/11 but the further pressure resulting from an increased housing subsidy withdrawal set out in the Draft HRA Determination could in our view seriously threaten the viability of the HRA over the medium-term.

We do appreciate that the housing subsidy system may well change from 2011/12 but for the present our financial forecasts of the Council's HRA assume a continuation of the current system and its likely impact.

In particular there are 2 elements of the subsidy calculation within the draft determination which if left unaddressed by the CLG would create a substantial financial burden for the Council's already hard-pressed HRA in 2010/11.

1. The calculation of the guideline rent

The HRA is faced with a serious problem which can be attributed primarily to its decision to follow the Government's guidance in the Special Determination issued in March 2009 and its use of Option Z for (re)setting rents during the year 2009/10.

Whilst the application of Option Z reduced the Council's average rent increase to less than inflation it also reduced the Council's guideline rent and limit rent for 2009/10 and this has created serious problems for 2010/11 when taken with the Government's decision to shorten to 3 years the remaining period for achieving rent restructuring.

Had the original rent increase and guideline rent (based on an RPI of 5%) been adopted by the Council for the year 2009/10 the baseline would have been substantially higher with a consequent smaller increase in the gap between the guideline rent and the actual rent for the following year (2010/11).

If the gap between the guideline rent and the actual rent is to increase only by £1.15 per week, in line with the draft HRA subsidy determination 2010-11, this will result in a projected loss to the HRA of £496,000 for the year (the actual rent increase will generate £ 32,806,000 whereas the guideline rent withdrawal will amount to £32,184,000).

SHL and the Council appreciate that a reduction in the subsidy withdrawal for 2010/11 under the caps and limits mechanism cannot be paid by the Government until 2011/12. However given the impending change in the subsidy system (assuming self-financing does proceed) and the likely tough controls on public sector finances from 2011/12 we seek your assurance that all monies due to this Council under the caps and limits mechanism will be paid in full and on time in 2011/12.

Should there continue to be a differential between the guideline rent and the increase under the rent convergence formula, this would result in significant further savings being required within the HRA. The subsidy withdrawal in 2010/11 as a result of the 3.1% increase in the guideline rent was £496,000 or 50% of the projected HRA balances as at 31 March 2010.

2. The rate assumed for Interest on Receipts

The rate of interest (2% LIBID) assumed for 2010/11 is 0.66% higher than the average interest rate forecast to be achieved by the Council's Treasury Management section.

The HRA has a negative Capital Financing Requirement, which when adjusted for the 2010/11 Decent Homes funding means investment interest on £15.8million (Mid Year subsidy Credit Ceiling, MYSCC) If the Government's assumed (notional) interest rate is left unchanged the Council's HRA will bear a net charge £104,000 in the form of subsidy withdrawal and SHL and the Council seek a supplementary determination to change the assumed LIBID rate to that achieved for 2010/11 by the Council.

I hope that I have been able to explain fully the serious implications for Stevenage Borough Council's HRA at this time, but in the event that further discussion is necessary would be happy to arrange an urgent meeting with you at your earliest convenience.

Yours sincerely

Desmond Gray
Interim Director of Finance and Compliance