

Housing Revenue Account (HRA) Subsidy - Technical Appendix

1.0 **Introduction**

1.1 This paper describes the technical elements of Housing Subsidy, and in particular sets out the notional HRA for 2009-10, and assesses the impact of the Housing Subsidy Determination for 2009-10 on Brent's HRA.

2.0 **The Notional HRA 2009-10**

2.1 An authority's entitlement to HRA Subsidy is calculated on the basis of a notional HRA. This is a model of each authority's HRA, which comprises notional entries for rental income and management and maintenance; loan charges; and certain other specific income and expenditure. These entries are calculated in accordance with an annual subsidy determination and differ in important respects from the corresponding entries in the authority's actual HRA. Subsidy is payable to meet the difference between income and expenditure on the notional HRA.

2.2 Based upon the HRA Subsidy Determination for 2009-10, Brent's notional HRA is as follows (the original notional HRA 2008-09 is shown for comparison): -

Housing Revenue (Notional) Account

Description	2009-10 £000s	2008-09 £000s
<u>Expenditure</u>		
Management and Maintenance	19,850	20,115
Charges For Capital	33,578	33,545
Other Reckonable Expenditure	1,865	2,411
Total Expenditure	55,293	56,071
<u>Income</u>		
Interest on Receipts	17	23
Notional Income From Rents	41,740	40,069
Housing Subsidy	13,536	15,979
Total Income	55,293	56,071

3.0 **HRA Subsidy Determination 2009-10**

3.1 The Government's support for Council HRA's is set out annually in the HRA Subsidy Determinations. The Communities and Local Government Department (CLG) published the HRA subsidy determinations on 18 December 2008. In light of the current review of Council Housing Finance (expected to report to Ministers in Spring 2009) no significant changes are included in the determinations.

The ALMO allowance

3.2 The ALMO Allowance is payable to Local Authorities in Rounds 1 and 2 of the ALMO programme, where the Housing Inspectorate has rated the ALMO either good (2*) or excellent (3*). Brent's ALMO is on round 2 of the programme, and has been rated excellent (3*).

3.3 The allowance represents the revenue support to finance borrowing for ALMO purposes. Brent's ALMO allowance for 2009-10 is £4.32m (was £4.32m in 2008-09). This allowance represents 8% of our total capital commitment of £54m as approved by the CLG.

Management Allowance and Maintenance Allowance

- 3.4 The total amount of subsidy available for distribution to authorities for the management and maintenance of housing stock is a fixed amount, determined annually by the public expenditure settlement.
The total amount for distribution does not match the actual amount authorities choose to spend. Instead assumptions are made in the overall subsidy calculation about the "relative" amount an authority needs to spend. The method for calculating this is based on a formula that is known as the Management Allowance and the Maintenance Allowance.
For 2009-10, there are changes in the methodology used in order to reduce year to year volatility, and some sources data have been updated.

Management Allowance

- 3.5 Nationally, the average target allowance per dwelling for 2009-10 will increase by 2.85% compared with 2008-09. This is made up of 2.75% for inflation, and a further 0.1% to take account of rent restructuring rebasing. There is no real increase this year. An additional £4 per dwelling has been built into the formula to fund the production of Energy Performance Certificates for local authority stock - this results in an additional £38k subsidy.
- 3.6 The following table sets out the Management Allowance for Brent for 2009-10, compared to 2008-09 (each amount is per dwelling per annum): -

Management Allowance 2008-09	£787.35
Management "Target" Allowance 2009-10	£782.38
Management Allowance 2009-10	£791.35

It can be seen that Brent's "target" Management Allowance for 2009-10 is £4.97 below the Management Allowance for 2008-09. This means that our allowance for 2009-10 should decrease. However, due to the damping mechanism under the transitional scheme, the Management Allowance for 2009-10 is cash protected at £787.35, and the sum of £4 for Energy Performance Certificates is added, giving rise to an allowance of £791.35 for 2009-10. .

For Brent, in 2009-10, this means that Management Allowance subsidy will be increased by £38k.

Maintenance Allowance

- 3.7 Nationally, the amount for Maintenance Allowance for 2009-10 has been increased by 2.85% compared with 2008-09. This is made up of 2.75% for inflation, and a further 0.1% to take account of rent restructuring rebasing. There is no real increase this year.
- 3.8 The following table sets out the Maintenance Allowance for Brent for 2009-10, compared to 2008-09 (each amount is per dwelling per annum): -

Maintenance Allowance 2008-09	£1,307.82
Maintenance "Target" Allowance 2009-10	£1,254.85
Maintenance Allowance 2009-10	£1,307.82

It can be seen that Brent's "target" Maintenance Allowance for 2009-10 is £52.97 below the Maintenance Allowance for 2008-09. This means that our allowance for 2009-10 should decrease. However, due to the damping mechanism under the transitional scheme, the Maintenance Allowance for 2009-10 is set at £1,307.82 – a cash freeze or real terms decrease.

For Brent in 2009-10, this means that Maintenance Allowance subsidy will be the same as in 2008-09 – representing a cash freeze.

Notional/Guideline Rents

- 3.9 Guideline rents are used to calculate notional rental income, which is the main negative component in the subsidy calculation (i.e. it represents withdrawal of subsidy, and accordingly any increase in guideline rent reduces subsidy). As with Management and Maintenance Allowances, the subsidy formula is based upon notional figures, with the total assumed rental income across all authorities being derived from the annual public expenditure settlement.
- 3.10 The calculation of the guideline rent for 2009-10 continues to take account of the national rent formula. In years prior to 2008-09, this has been based upon rent convergence in 2011-12. In 2008-09, for one year only, for the purpose of calculating guideline rents, the date for convergence has been put back to 2016-17. Now, for 2009-10, the date for convergence has been set at 2023-24. This means that less subsidy will be withdrawn than if this change had not been made.
- 3.11 Brent's Guideline rent for 2009-10 has been increased by 5.8% when compared to 2008-09. This takes account an inflation uplift of 5.0% plus a real increase of 0.5%. The balance, 0.3%, is derived from the implementation of the rent restructuring formula, which includes an adjustment that moves the guideline rent 1/15th up towards the formula rent (the formula rent is a concept under rent restructuring and is based upon 70% relative earnings and 30% relative property value).
- 3.12 The effects of the above changes on Brent's guideline rent for 2009-10 compared to 2008-09 are as follows (each amount is per dwelling, per annum): -

Guideline Rent 2008-09	£4,254.57
Guideline Rent 2009-10	£4,499.98

It can be seen that Brent's rent guideline for 2009-10 has increased by £245.41 per annum or £4.72 per week when compared to 2008-09. A 2% allowance for voids is taken into account in determining the notional income - which decreases the subsidy withdrawal to £240.50 per unit per annum or £4.63 per week. This reflects a 5.77% increase.

This means that in 2009-10 Housing Subsidy will be withdrawn at the rate of £240.50 per dwelling, per annum. This gives rise to a reduction in subsidy of £2.276m for 2009-10.

Rent Rebates and Rent Rebate Subsidy Limitation

- 3.13 Although Rent Rebates have been removed from the HRA, the Rent Rebate Subsidy Limitation Rule will continue into 2009-10. The underlying intention of the limitation rule is that HRA subsidy is not paid on any additional rent rebate expenditure that

results from an authority increasing its average rent by more than the limit rent increase.

3.17 Since 2002-03, the limit rent increase has been a separate formula from the guideline rent increase, and this is to reflect the rent restructuring proposals impact on subsidy limitation.

3.18 The key data for Brent for Subsidy Limitation purposes is set out in the following table:

	Description	£
1	Limit Rent 2008-09	87.94
2	Limit Rent Increase 2009-10	5.28
3	Limit Rent 2009-10	93.22
4	Estimated Actual Limit Rent 2008-09 (prior to any increase/decrease)	87.80
5	Difference between "3" and "4".	5.42

The limit rent for 2009-10, when compared to 2008-09, has increased £5.28 or 6.0%, while the limit rent for 2009-10 exceeds the estimated actual limit rent 2008-09 by £5.42.

3.19 The impact of the subsidy limitation rule on any proposal to increase or decrease rent at Brent for 2009-10 is set out below: -

3.19.1 **Rent Increase** - Average rents (excluding Service Charges) can be increased by up to £5.42 per week per dwelling, or 6.2%, in 2009-10, with no impact on Rent Rebate Subsidy Limitation.

An increase in average rent (excluding Service Charges) which exceeds £5.42 per week or 6.2% will trigger the effects of rent rebate subsidy limitation.

For each £1.00 that exceeds £5.42, only £0.40p will be generated as additional income, because any rent increase above limitation thresholds for tenants on housing benefit (rent rebates) will not be matched by an increase in subsidy.

Examining this issue from a different direction, the implication is that for every £1 additional net growth in excess of the £5.42, rents will have to be increased by £2.50 (£1 / £0.40) or 2.5%. Essentially, any additional growth would be the burden of those tenants who are not on benefit.

3.19.2 **Rent Decrease** - A decrease in rent for 2009-10 will have no impact on Rent Rebate Subsidy Limitation, as the estimated Actual rent (prior to any decision to increase/decrease rents in 2009-10) is already less than the limit rent.

Special Case Exemption

3.20 The CLG has indicated that they will consider requests for a special determination in respect of 2009-10 to dis-apply the limitation rule in whole or in part, where an authority is able to demonstrate that, due to exceptional circumstances outside their control, the authority needs to increase its average rent by more than the subsidy limit. Taking account of the Special case Exemption guidance, it is considered very unlikely that Brent would be successful in seeking an exemption in 2009-10.

Major Repairs Allowance (MRA)

- 3.21 The MRA, which was introduced in 2001-02, will continue into 2009-10. The MRA represents the estimated long-term average amount of capital spending required to maintain the stock in its current condition. For 2009-10 the MRA incorporates a three year average building cost adjuster, but retains the original national base weights. Allowances have been uprated by the GDP deflator, which in September 2008, stood at 2.75% for 2009-10. At a local level, MRA unit values for Brent for 2009-10 represent, through the MRA formula, an increase of 6.3%. The total MRA for Brent in 2009-10 will be £7.556m (£7.216m in 2008-09) representing an net increase of £340k when compared to 2008-09. This increase also takes account of the impact of stock loss.

Charges for Capital

- 3.22 Since 2005-06, general HRA Supported Capital Allocations have only been made to Local Authorities for formal decent homes purposes. As Brent's formal decent homes programme has now been completed, the HRA Supported Capital Expenditure allocation for 2009-10 is £0 (was £0 in 2008-09)

4.0 Conclusion

- 4.1 The following table summarise the impact of the HRA subsidy determination on Brent's HRA for 2009-10:-

Item	Subsidy Changes £'000
Management Allowances	-38
Maintenance Allowances	0
Notional Income	2,276
Total	2,238

This table shows that our main subsidy components will reduce by £2.238m in 2009-10 as a result of the subsidy determination, when compared to 2008-09.

- 4.2 In addition, our MRA for 2009-10 has been confirmed at £7.556m (was £7.216m in 2008-09) and our HRA Supported capital Expenditure for 2009-10 is £0 (was £0 in 2008-09)

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12 January 2009