

## 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 2004-05, and assesses the impact of the Housing Subsidy Determination for 2004-05 on Brent's HRA.
- 1.2 Along with the usual uplifts to take account of inflation and rent restructuring, there are significant changes in 2004-05 in respect of the formulae for Management and Maintenance allowances, and in the subsidy support for capital financing.
- 1.3 Rent Rebates (expenditure and subsidy) will no longer be credited/debited to the HRA and will instead be credited/debited to the General Fund. However Rent Rebate Subsidy Limitation Rule will continue into 2004-05 and this rule may have a significant impact on any decision to increase or decrease rents in Brent. A detailed analysis of what this rule will mean for Brent in 2004-05 is contained at paragraphs 3.21 and 3.22.

### 2. The Notional HRA 2004-05

- 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 up to an annual limit; most rent rebate expenditure, 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 An important change this year is the removal of Rent Rebate Expenditure and Rent Rebate Subsidy (included within Housing Subsidy) from the HRA. These items will be charged/credited to the General Fund from April 2004.
- 2.3 Based upon the HRA Subsidy Determination 2004-05, Brent's notional HRA is as follows: -

#### Housing Revenue (Notional) Account

<b>Description</b>	<b>2004-05 £000s</b>	<b>2003-04 £000s</b>
<u>Expenditure</u>		
Management and Maintenance	19,294	19,208
Charges For Capital	34,395	40,453
Rent Rebates	0	24,773
Other Reckonable Expenditure	3,706	3,654
<b>Total Expenditure</b>	<b>57,395</b>	<b>88,088</b>
<u>Income</u>		
Interest on Receipts	68	84
Notional Income From Rents	32,347	31,067
Housing Subsidy	24,980	56,937
<b>Total Income</b>	<b>57,395</b>	<b>88,088</b>

### 3.0 HRA Subsidy Determination 2004-05

#### The ALMO allowance

3.1 The ALMO Allowance is a new allowance, 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\*).

3.2 The allowance represents the revenue support to finance borrowing for ALMO purposes. Brent's ALMO allowance for 2004-05 is £2.70m (was £2.34m in 2003-04, which was covered by a separate special Brent HRA determination).

#### Anti Social Behaviour Allowance

3.3 This is a flat rate allowance of £1k for Brent (and other Housing Authorities) to take account of the costs of the new statutory requirement to prepare and publish policies and procedures in relation to anti-social behaviour.

#### 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.

During 2003, the ODPM completed a consultation on proposals to make extensive changes to the formulae and they have now implemented changes for 2004-05 which will bring about significant changes to an authorities target allowance. . The changes include communal area and medium/high rise flats factors, crime data, factors for voids and re-lets, and updated geographical cost adjustments. There will be transitional protection arrangements which will ensure that all Authorities will receive at least an inflation level increase in 2004-05 and 2005-06.

#### Management Allowance

3.5 Nationally, the average target allowance per dwelling for 2004-05 will increase by 10.74% compared with 2003-04. This is made up of a 6% real increase, plus 2.46% for inflation, and a further 2.28% to take account of the resource implications of moving guideline rents towards formula rents. However the move towards targets for 2004-05 will be damped at a local level.

3.6 The following table sets out the Management Allowance for Brent for 2004-05, compared to 2003-04 (each amount is per dwelling per annum): -

Management Allowance 2003-04	£678.73
Management "Target" Allowance 2004-05	£591.95
Management Allowance 2004-05	£695.43

3.7 It can be seen that Brent's "target" Management Allowance for 2004-05 is £86.78 below the Management Allowance for 2003-04. However due to the damping mechanism the Management Allowance is set at £695.43 reflecting an increase in Brent's Management Allowance of £16.70 per dwelling per annum.

**For Brent in 2004-05, this means that Management Allowance subsidy will be increased by £170k.**

Maintenance Allowance

- 3.8 Nationally, the amount for Maintenance Allowance for 2004-05 has been increased by 10.74% compared with 2003-04. This is made up of a 6% real increase, plus 2.46% for inflation, and a further 2.28% to take account of the resource implications of moving guideline rents towards formula rents. However the move towards targets for 2004-05 will be damped at a local level.
- 3.9 The following table sets out the Maintenance Allowance for Brent for 2004-05, compared to 2003-04 (each amount is per dwelling per annum): -

Maintenance Allowance 2003-04	£1,168.67
Maintenance "Target" Allowance 2004-05	£ 989.58
Maintenance Allowance 2004-05	£1,197.42

- 3.10 It can be seen that Brent's "target" Maintenance Allowance for 2004-05 is £179.09 below the Maintenance Allowance for 2003-04. However, due to the damping mechanism, the Maintenance Allowance for 2004-05 is set at £1,197.42, representing an increase of Subsidy at the rate of £28.75 per dwelling per annum.

**For Brent in 2003-04, this means that Maintenance Allowance subsidy will be increased by £293k.**

Notional/Guideline Rents

- 3.11 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.
- 3.12 The calculation of the guideline rent for 2004-05 continues to take account of the national rent formula, which is being phased in over 10 years. The approach adopted is in line with the rent restructuring proposals.
- 3.13 Nationally, guideline rents for 2004-05 have been increased by 3.96%, which represents 2.46% assumed inflation plus a 1.5% increase in local authority rents as assumed in the spending review 2002. A further adjustment is then made, to reflect rent restructuring changes, which moves the guideline rent 1/8th 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). Finally adjustments have been made to take account of the caps on formula rents, and the RPI + 1/2 +/- £2 limit on annual rent changes.
- 3.14 The effects of the above changes on Brent's guideline rent for 2004-05 compared to 2003-04 are as follows (each amount is per dwelling, per annum): -

Guideline Rent 2003-04	£3,045.24
Guideline Rent 2004-05	£3,234.43

- 3.15 It can be seen that Brent's rent guideline for 2004-05 has increased by £189.19 per annum or £3.64 per week when compared to 2003-04. A 2% allowance for voids is taken into account in determining the notional income - which decreases the subsidy withdrawal to £185.41 per unit per annum or £3.57 per week. This reflects a 6.2% increase.

**This means that in 2004-05 Housing Subsidy will be withdrawn at the rate of £185.41 per dwelling, per annum. This gives rise to a reduction in subsidy of £1,892k for 2004-05.**

#### Rent Rebates and Rent Rebate Subsidy Limitation

- 3.16 From 1 April 2004, subsidy for rent rebates granted to tenants of HRA dwellings will be paid into and accounted for in the general fund. Rent rebate expenditure will also be charged to the general fund from April 2004. This is in line with one of the proposals for the introduction of Resource Accounting in the HRA and specifically the proposal to remove rent rebates from the HRA in order to make it a pure landlord account.
- 3.17 Following the transfer of rent rebates from the HRA to the General Fund from April 2004, unsubsidised "incentive area" costs will no longer be a charge to the HRA but will instead fall to be met from the General Fund. Transitional arrangements have been put in place to enable authorities to adjust to the new arrangements over a two year period. In order to do this, authorities will be allowed to make transfer between the HRA and general fund. These transfers will allow authorities to phase in the impact on their General Fund or HRA budgets. The ODPM is using audited 2001-02 data, which shows for Brent, that the unsubsidised incentive area costs as £617,560. Specifically, the determinations provide that Brent can transfer any amount up to £617,560 and £308,780 in 2004-05 and 2005-06 respectively, from the HRA to the general fund. The HRA draft budget for 2004-05 includes a contribution of £600k to be made to the General fund.
- 3.18 Although Rent Rebates are being removed from the HRA, the Rent Rebate Subsidy Limitation Rule will continue into 2004-05. 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.
- 3.19 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. Nationally, limit rents for 2004-05 have been increased by 3.96%, which represents 2.46% assumed inflation plus a 1.5% increase in local authority rents assumed in the spending review 2002. A further adjustment is then made, to reflect the continuing implementation of rent restructuring, which moves the limit rent 1/8th down 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). Finally adjustments have been made to take account of the caps on formula rents, and the RPI + 1/2 +/- £2 limit on annual rent changes.

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

	Description	£
1	Limit Rent 2003-04	70.30
2	Limit Rent Increase 2004-05	2.58
3	Limit Rent 2004-05	72.88
4	Estimated Actual Rent 2003-04 (prior to any increase/decrease)	69.80
5	Difference between "3" and "4".	3.08

The limit rent for 2004-05, when compared to 2003-04, has increased by 3.7%.

The impact of the subsidy limitation rule on any proposal to increase or decrease rent at Brent for 2003-04 is set out below: -

3.21 **Rent Increase** - Average rents (excluding Service Charges) can be increased by up to £3.08 per week per dwelling in 2004-05 with no impact on Rent Rebate Subsidy Limitation.

An increase in average rent (excluding Service Charges) of £3.08 or more will trigger the effects of rent rebate subsidy limitation. For each £1.00 that exceeds £3.08, only £0.40p will be generated as additional income, because any rent increase 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 £3.08, rents will have to be increased by £2.50 (£1 / £0.40). Essentially, any additional growth would be the burden of those tenants who are not on benefit.

3.22 **Rent Decrease** - A decrease in rent for 2004-05 will have no impact on Rent Rebate Subsidy Limitation, as the estimated Actual rent (prior to any decision to increase/decrease rents in 2003-04) is already less than the limit rent.

#### Special Case Exemption

3.23 The ODPM has indicated that they will consider requests for a special determination in respect of 2004-05 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. However the guidance comments that ODPM will take into account the fact that authorities have had more than eight years to identify the means of reducing expenditure to allow them to set a rent increase at the rent limit level.

#### Major Repairs Allowance (MRA)

3.24 The MRA, which was introduced in 2001-02, will continue into 2003-04. The MRA represents the estimated long-term average amount of capital spending required to maintain the stock in its current condition.

MRA unit values for 2004-05 are those for 2003-04 uplifted by 2.46% (inflation) and then adjusted for stock loss. The total MRA for Brent in 2004-05 will be £7,486k (£7,985k in 2003-04). The reduction reflects stock loss and re-ordering some components in the MRA formula.

Charges for Capital

- 3.25 The Local Government Act 2003 introduced a new capital finance regime into local government accounts. Credit ceiling and credit approvals have been abolished. The measure of HRA debt for subsidy purposes, the mid year subsidy credit ceiling, has been replaced by the Subsidy Capital Financing Requirement. This is calculated in a similar manner, but there are some changes. These are:
- Reserved receipts are not taken into account
  - Basic Credit approvals have been abolished and in their place, authorities will be told about the amount of capital expenditure that will attract revenue support. This will be £5.264m for Brent in 2004-05.
  - Set a side has been abolished and therefore it is no longer taken into account (also see below).
- 3.26 From 2004-05, the requirement for the HRA to contribute (known as HRA set a side) to the authority's Minimum Revenue Provision, is abolished. At the same time, the corresponding subsidy element has been removed. The HRA set a side calculation was based on a percentage (2%) of the subsidy, and HRA credit ceilings. In some authorities, where the subsidy credit ceiling was higher than the HRA credit ceiling, removal of both the charge and the subsidy element represents a net loss to the authority. This is the case at Brent, where the loss (to the HRA) would be £1.082m. Brent raised concerns about this as part of the consultation process. In light of concerns raised, ODPM have introduced transitional arrangements in the form of an admissible allowance, payable until 2006-07. Brent will receive an admissible allowance of £667k in 2004-05, which will reduce our loss to £415k in that year. We will lose a further £333k in each of the years 2005-06 and 2006-07 as the transitional arrangements come to an end.

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