

SECTION 8

8. HOUSING REVENUE ACCOUNT

Introduction

- 8.1 The Housing Revenue Account (HRA) is a record of revenue expenditure and income, relating to the authority's own housing stock, i.e. it reflects the council's landlord role. The statutory framework for the operation of the HRA is provided in the Local Government and Housing Act 1989 and this Act prescribes the categories of income and expenditure to be included in the HRA, hence the "ring-fenced HRA".
- 8.2 Expenditure charged to the HRA in 2005/2006 includes:
- Repairs and maintenance;
 - Supervision and management;
 - Rent and rates; and
 - Capital charges.
- 8.3 Income credited to the account in 2005-06 includes:
- Dwelling rents;
 - Non dwelling rents;
 - Charges for services and facilities;
 - Interest receivable; and
 - HRA subsidy paid by the government.
- 8.4 Any balances on the HRA at the end of the year are carried forward within the HRA to the next year. There is no general discretion to transfer sums into the HRA or to support the General Fund with contributions from the HRA i.e there can be no cross-subsidy between the General Fund and the HRA, although legitimate charges flow between the accounts.
- 8.5 The council must agree and publish an annual budget for the HRA and this budget must avoid a deficit. This process is often referred to as rent setting, as the final component in agreeing a balanced HRA is setting the level of dwelling rents. If, during the year, it seems that the account is moving into deficit, the council must take all reasonably practicable steps to bring the account back into balance, including the consideration of additional rent rises. To the extent that it is not possible to find savings or increase income, then a debit balance should be carried forward to the following year and the council must budget to eliminate the deficit during that year.
- 8.6 A separate detailed report on the HRA budget for 2005/2006 is to be considered by the Executive on 14 February 2005. That report sets out proposals for an overall rent increase of 3.8% for the main properties within the stock. The HRA budget is formally agreed by the council when this report is considered at the Full Council meeting on 28 February 2005.

The Probable Outturn 2004/2005

8.7 The HRA estimates report shows that the estimated balance on the account at 31st March 2005 will be £398k in surplus, which is in line with the original budgeted balance of £400k.

The 2005/2006 Budget

8.8 The 2005/2006 HRA budget includes the following:

- (a) A decrease in housing subsidy of £1.574m, which takes account of national uplifts for management and maintenance allowances, and guideline rents. The decrease also includes uplifts on these components to reflect the Governments subsidy proposals to influence rent restructuring.
- (b) A decrease in subsidy of £222k to take account of the transitional scheme for the abolition of the requirement for the HRA to contribute to the authority's minimum revenue provision and associated subsidy changes.
- (c) An increase in subsidy to support the capital costs of our ALMO Year 3 programme, and subsidy granted to top up the original ALMO bid for resources. This will provide subsidy for capital expenditure of £20.247m on the decent homes programme in 2005/2006.
- (d) A switch in the funding of capital expenditure from revenue (the repairs budget) to capital of £1.45m.
- (e) An inflation allowance of 2.95% for pay and 2% for prices;
- (f) An increase in service charges of 3.4%;
- (g) An overall average rent increase of 3.8% for the main properties within the stock. This increase is to be applied taking full account of the government's rent restructuring guidance. The following table sets out the number of tenants who will receive the increase in bands of £1:

Table 8.1 Analysis of Cash Term Change in Net Rent from 2004/2005 to 2005/2006

Increase in Weekly Rent	Number of Tenants Affected
£0.01-£0.99	186
£1 to £2	976
£2 to £3	4,975
£3 to £4	3,025
£4 to £5	560
£5 to £6	9

- (h) Agreed growth of £190k, and additional savings of £1.038m;

- (i) A reduction of £300k expenditure in the transitional scheme to compensate the general fund in respect of the transfer of rent rebates and rent rebates subsidy to the General Fund.
- (j) An estimated dwelling stock level at 1st April 2005 of 9,721 dwellings (9,931 dwellings at 1st April 2004); and
- (k) Rent collection assumed at 99.3% of the rental income due.

8.9 Taking into account the above the HRA is estimated to show a surplus of £400k at 31st March 2006.

8.10 Details of the HRA budget are shown in Appendix G.

Debt Repayment

8.11 Under the financial regime in existence up to and including 2003/2004, the HRA makes provision for the repayment of debt under two mechanisms. Firstly there is a statutory requirement to set aside a "*Minimum Revenue Provision*" (MRP) of 2% of outstanding debt each year. Secondly the reserved part of capital receipts (75% of right to buy sales and 50% of HRA land sales) must be set aside for the repayment of debt.

8.12 Under the new financial regime which took effect from 1st April 2004 both of these mechanisms were been removed. The statutory obligation to make a MRP has been abolished together with the subsidy to pay for it. The HRA budget has no MRP included within it. The reserved part of capital receipts are now "*pooled*", which in effect means they are paid to the government. The consequence is that there is no provision for repayment of debt within the HRA.

8.13 The Director of Finance believes this position to be unsustainable in the long term. The level of planned additional capital expenditure over the foreseeable future will ultimately lead to a situation where rising interest payments will progressively reduce the council's capacity to maintain and improve its stock and set affordable rent levels.

8.14 Therefore as part of the budget making process each year the Director of Finance recommends that Members consider the need to make explicit provisions for debt repayment notwithstanding the withdrawal of government subsidy. In respect of 2005/2006, the Director of Finance advises that whilst making some provision would be advisable and good practice, taking a repayment holiday for a short period will not undermine the viability of the HRA if other objectives (e.g. investment in stock) are a higher priority. Each year that passes without making any provision for debt repayment will make the issue progressively more urgent. The current level of debt relating to the Housing Revenue Account is estimated to be £232m at 31st March 2004 and £271m at 31st March 2005.