

## **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 2005-06, and assesses the impact of the Housing Subsidy Determination for 2005-06 on Brent's HRA.

### 2.0 **The Notional HRA 2005-06**

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 2005-06, Brent's notional HRA is as follows: -

#### **Housing Revenue (Notional) Account**

| <b>Description</b>           | <b>2005-06<br/>£000s</b> | <b>2004-05<br/>£000s</b> |
|------------------------------|--------------------------|--------------------------|
| <b><u>Expenditure</u></b>    |                          |                          |
| Management and Maintenance   | 19,251                   | 19,294                   |
| Charges For Capital          | 35,519                   | 34,395                   |
| Other Reckonable Expenditure | 3,808                    | 3,706                    |
| <b>Total Expenditure</b>     | <b>58,578</b>            | <b>57,395</b>            |
| <b><u>Income</u></b>         |                          |                          |
| Interest on Receipts         | 55                       | 68                       |
| Notional Income From Rents   | 33,528                   | 32,347                   |
| Housing Subsidy              | 24,995                   | 24,980                   |
| <b>Total Income</b>          | <b>58,578</b>            | <b>57,395</b>            |

### 3.0 **HRA Subsidy Determination 2004-05**

#### **The ALMO allowance**

3.1 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\*).

3.2 The allowance represents the revenue support to finance borrowing for ALMO purposes. Brent's ALMO allowance for 2005-06 is £4.32m (was £2.7m in 2004-05). This allowance represents 8% of our total capital commitment of £54m as approved by the ODPM.

#### **Anti Social Behaviour Allowance**

3.3 This allowance was originally introduced in 2004-05 as a flat rate allowance of £1k for 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. ODPM have confirmed that this allowance will not continue into 2005-06.

### 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.
- The ODPM have made further changes to the formulae for 2005-06 and these include, for Management, crime figures based on harassments data, use of the 2004 index of deprivation rather than the 2000 index, and re-let data has been expanded to include re-let and terminations; and for Maintenance, the formula takes account of criminal damage to dwellings, re-let data has been expanded to include re-let and terminations, and the property void rate is to be the average of the year rather than at year end.
- There will be transitional protection arrangements in place for 2005-06 which will ensure that all Authorities will receive at least an inflation level increase on their management and maintenance allowance.

### Management Allowance

- 3.5 Nationally, the average target allowance per dwelling for 2005-06 will increase by 10.43% compared with 2004-05. This is made up of a 6% real increase, plus 2.53% for inflation, and a further 1.9% to take account of the resource implications of moving guideline rents towards formula rents. However the move towards targets for 2005-06 will be damped at a local level.
- 3.6 The following table sets out the Management Allowance for Brent for 2005-06, compared to 2004-05 (each amount is per dwelling per annum): -

|                                       |         |
|---------------------------------------|---------|
| Management Allowance 2004-05          | £695.43 |
| Management "Target" Allowance 2005-06 | £666.42 |
| Management Allowance 2005-06          | £713.02 |

- 3.7 It can be seen that Brent's "target" Management Allowance for 2005-06 is £29.01 below the Management Allowance for 2004-05. However due to the damping mechanism the Management Allowance is set at £713.02 reflecting an increase in Brent's Management Allowance of £17.59 per dwelling per annum, or an increase of 2.53%.

**For Brent in 2005-06, this means that Management Allowance subsidy will be increased by £175k.**

### Maintenance Allowance

- 3.8 Nationally, the amount for Maintenance Allowance for 2005-06 has been increased by 10.43% compared with 2004-05. This is made up of a 6% real increase, plus 2.53% for inflation, and a further 1.9% to take account of the resource implications of moving guideline rents towards formula rents. However the move towards targets for 2005-06 will be damped at a local level.
- 3.9 The following table sets out the Maintenance Allowance for Brent for 2005-06, compared to 2004-05 (each amount is per dwelling per annum): -

|  |           |
|--|-----------|
| Maintenance Allowance 2004-05          | £1,197.42 |
| Maintenance "Target" Allowance 2005-06 | £1,062.30 |
| Maintenance Allowance 2005-06          | £1,227.71 |

- 3.10 It can be seen that Brent's "target" Maintenance Allowance for 2005-06 is £135.12 below the Maintenance Allowance for 2004-05. However, due to the damping mechanism, the Maintenance Allowance for 2005-06 is set at £1,227.71, representing an increase of Subsidy at the rate of £30.29 per dwelling per annum, or an increase of 2.53%.

**For Brent in 2005-06, this means that Maintenance Allowance subsidy will be increased by £300k.**

#### 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 2005-06 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 2005-06 have been increased by 4.03%, which represents 2.53% assumed inflation plus a 1.5% increase in local authority rents. A further adjustment is then made, to reflect rent restructuring changes, which moves the guideline rent 1/7th 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 + ½% +/- £2 limit on annual rent changes.
- 3.14 The effects of the above changes on Brent's guideline rent for 2005-06 compared to 2004-05 are as follows (each amount is per dwelling, per annum): -

|                        |           |
|------------------------|-----------|
| Guideline Rent 2004-05 | £3,234.43 |
| Guideline Rent 2005-06 | £3,445.00 |

- 3.15 It can be seen that Brent's rent guideline for 2005-06 has increased by £210.57 per annum or £4.05 per week when compared to 2004-05. A 2% allowance for voids is taken into account in determining the notional income - which decreases the subsidy withdrawal to £206.36 per unit per annum or £3.97 per week. This reflects a 6.51% increase.

**This means that in 2005-06 Housing Subsidy will be withdrawn at the rate of £206.36 per dwelling, per annum. This gives rise to a reduction in subsidy of £2,049,347 for 2005-06.**

#### Rent Rebates and Rent Rebate Subsidy Limitation

- 3.16 Rent Rebates Expenditure and the associated Subsidy transferred to the General Fund in April 2004. Transitional arrangements were put in place to enable authorities

to adjust to the new arrangements over a two year period and under these arrangements, authorities are allowed to make transfer between the HRA and general fund (subject to a special determination from ODPM. These transfers allow authorities to phase in the impact on their General Fund or HRA budgets. Under the scheme, 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 budget for 2004-05 includes a contribution of £600k to be made to the General fund and the HRA draft budget for 2005-06 includes a contribution of £300k to be made to the General fund.

- 3.17 Although Rent Rebates have been taken out of the HRA, the Rent Rebate Subsidy Limitation Rule will continue into 2005-06. 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.
- 3.18 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 2005-06 have been increased by 4.03%, which represents 2.53% assumed inflation plus a 1.5% increase in local authority rents. A further adjustment is then made, to reflect the continuing implementation of rent restructuring, which moves the limit rent 1/7th 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 + ½% +/- £2 limit on annual rent changes.
- 3.19 The key data for Brent for Subsidy Limitation purposes is set out in the following table:

|   | Description  | £     |   |
|---|--|-------|---|
| 1 | Limit Rent 2004-05   | 72.88 | The limit rent for 2005-06, when compared to 2004-05, has increased by 4.0%.              |
| 2 | Limit Rent Increase 2005-06                                    | 2.89  |   |
| 3 | Limit Rent 2005-06   | 75.77 |   |
| 4 | Estimated Actual Rent 2004-05 (prior to any increase/decrease) | 72.88 | The impact of the subsidy limitation rule on any proposal to increase or decrease rent at |
| 5 | Difference between "3" and "4".                                | 2.89  |   |

Brent for 2004-05 is set out below: -

- 3.20 **Rent Increase** - Average rents (excluding Service Charges) can be increased by up to £2.89 per week per dwelling, or 4%, in 2005-06, with no impact on Rent Rebate Subsidy Limitation.

An increase in average rent (excluding Service Charges) which exceeds £2.89 per week or 4% will trigger the effects of rent rebate subsidy limitation.

For each £1.00 that exceeds £2.89, 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 £2.89, 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.

- 3.21 **Rent Decrease** - A decrease in rent for 2005-06 will have no impact on Rent Rebate Subsidy Limitation, as the estimated Actual rent (prior to any decision to increase/decrease rents in 2004-05) is already less than the limit rent.

#### Special Case Exemption

- 3.22 The ODPM has indicated that they will consider requests for a special determination in respect of 2005-06 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 nine 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)

- 3.23 The MRA, which was introduced in 2001-02, will continue into 2005-06. 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 Brent for 2005-06 represent, through the MRA formula, an increase of 1.1%. The total MRA for Brent in 2005-06 will be £7.365m (£7.486m in 2004-05). The reduction reflects the increase mentioned above offset by stock loss.

#### Charges for Capital

- 3.24 The HRA supported Capital Expenditure for 2005-06 is £6.224m (was £5.264m in 2004-05). This means that the Interest charges for an HRA capital Programme of up to £6.224m in 2005-06 will be fully subsidised.
- 3.25 The requirement for the HRA to contribute (known as HRA set a side) to the authority's Minimum Revenue Provision, was abolished from 2004-05. At the same time, the corresponding subsidy element was 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 was the case at Brent, where the loss (to the HRA) was calculated at £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 £445k in 2005-06 (was £667k in 2004-05). We will lose a further £222k in each of the years 2006-07 and 2007-08 as the transitional arrangements come to an end.