

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 2006-07, and assesses the impact of the Housing Subsidy Determination for 2006-07 on Brent's HRA.

2.0 **The Notional HRA 2006-07**

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 2006-07, Brent's notional HRA is as follows: -

Housing Revenue (Notional) Account

Description	2006-07 £000s	2005-06 £000s
<u>Expenditure</u>		
Management and Maintenance	19,893	19,251
Charges For Capital	35,444	35,431
Other Reckonable Expenditure	4,069	3,808
Total Expenditure	59,406	58,490
<u>Income</u>		
Interest on Receipts	33	55
Notional Income From Rents	35,636	33,528
Housing Subsidy	23,737	24,907
Total Income	59,406	58,490

3.0 **HRA Subsidy Determination 2006-07**

3.1 The Government announced the final HRA subsidy determinations on 20 December 2005. This replaces the draft determinations issued on 7 November 2005.

3 Year Subsidy Settlements

3.2 It is intended that the HRA subsidy regime will move to a 3 year settlement. The initial move will be two year settlement, for 2006-07 and 2007-08, bringing the regime in line with the Spending Cycle Review. The formulae and definitions will be fixed in the first year, remaining unchanged, as far as possible, for the following years in the cycle. Each annual determination will simply refresh the base data, such as inflation and crime rates, upon which the calculations depend.

The ALMO allowance

3.3 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*).

- 3.4 The allowance represents the revenue support to finance borrowing for ALMO purposes. Brent's ALMO allowance for 2006-07 is £4.32m (was £4.32m in 2005-06). This allowance represents 8% of our total capital commitment of £54m as approved by the ODPM.
- 3.5 Capital expenditure allocations from round 3 onwards (Brent is also a partial round 4 ALMO) are treated in the same way as other allocations attracting revenue support for borrowing i.e. 50% is added to the Subsidy CFR (the mid year figure) in the year of allocation and 50% in the following year. No separate ALMO allowance will be payable. We are liaising with ODPM regarding our round 4 allocation of £14m for the years 2004-05 to 2006-07, and anticipate a special determination in due course.

Management Allowance and Maintenance Allowance

- 3.6 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 2006-07, the calculations have been further refined in respect of the measurement of crime figures and the sample period from which they are derived. On the management allowance, an amendment has been made to the way deprivation measures are tapered, to prevent steep drops in subsidy entitlement at the transition point from one point on the scale to the other. Following successful lobbying by Brent as part of the draft determination consultation process, a new partitioning factor has been introduced in the transitional measures so as to offset the disproportionate effect of the guideline rent increase in 2006-07 on those authorities protected by transitional protection. Without this new factor, Brent's position would have been £968k worse. Other transitional protection arrangements in place for 2006-07 ensure that there is cash protection (was inflation protection in 2005-06).

Management Allowance

- 3.7 Nationally, the average target allowance per dwelling for 2006-07 will increase by 9.06% compared with 2005-06. This is made up of 2.46% for inflation, and a further 6.6% to take account of rent restructuring rebasing. There is no real increase this year. The move towards targets for 2006-07 will be damped at a local level and the rebasing factor will be partitioned (so as to passport the factor into the actual allowance).
- 3.8 The following table sets out the Management Allowance for Brent for 2006-07, compared to 2005-06 (each amount is per dwelling per annum): -

Management Allowance 2005-06	£713.02
Management "Target" Allowance 2006-07	£689.10
Management Allowance 2006-07	£757.41

It can be seen that Brent's "target" Management Allowance for 2006-07 is £23.92 below the Management Allowance for 2005-06. However due to the damping mechanism and the new partitioning transitional arrangements (for rebasing), the

Management Allowance is set at £757.41 reflecting an increase in Brent's Management Allowance of £44.39 per dwelling per annum, or an increase of 6.23%.

For Brent, in 2006-07, this means that Management Allowance subsidy will be increased by £430k.

Maintenance Allowance

3.9 Nationally, the amount for Maintenance Allowance for 2006-07 has been increased by 9.06% compared with 2005-06. This is made up of 2.46% for inflation, and a further 6.6% to take account of rent restructuring rebasing. There is no real increase this year. The move towards targets for 2006-07 will be damped at a local level and the rebasing factor will be partitioned (so as to passport the rebasing into the actual allowance).

3.10 The following table sets out the Maintenance Allowance for Brent for 2006-07, compared to 2005-06 (each amount is per dwelling per annum): -

Maintenance Allowance 2005-06	£1,227.71
Maintenance "Target" Allowance 2006-07	£1,068.25
Maintenance Allowance 2006-07	£1,296.52

It can be seen that Brent's "target" Maintenance Allowance for 2006-07 is £159.46 below the Maintenance Allowance for 2005-06. However, due to the damping mechanism and the new partitioning transitional arrangements (for rebasing), the Maintenance Allowance for 2006-07 is set at £1,296.52, representing an increase of Subsidy at the rate of £68.81 per dwelling per annum, or an increase of 5.6%.

For Brent in 2006-07, this means that Maintenance Allowance subsidy will be increased by £666k.

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 2006-07 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. Additionally, the recommendations of the Government's 3 year review of rent restructuring will be implemented, including bigger differentials for larger properties and an adjusted formula to bring council and housing association rents into line. The impact of implementing the review in 2006-07 will be cushioned by limiting rent increases to an average of 5% and the ODPM will publish proposals to achieve this 5% limit in the new year.

3.13 Nationally, guideline rents for 2006-07 have been increased by 3.2%, which represents 2.7% assumed inflation (RPI) plus a 0.5% increase in local authority rents. As mentioned previously, adjustments to the formula have been made to take account of the Government's 3 year review. A further adjustment is then made, to reflect rent restructuring changes, which moves the guideline rent 1/6th 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). Adjustments have been made to take account of the caps and limits.

- 3.14 The effects of the above changes on Brent's guideline rent for 2006-07 compared to 2005-06 are as follows (each amount is per dwelling, per annum): -

Guideline Rent 2005-06	£3,445.00
Guideline Rent 2006-07	£3,750.76

It can be seen that Brent's rent guideline for 2006-07 has increased by £305.76 per annum or £5.88 per week when compared to 2005-06. A 2% allowance for voids is taken into account in determining the notional income - which decreases the subsidy withdrawal to £299.64 per unit per annum or £5.76 per week. This reflects an 8.88% increase.

This means that in 2006-07 Housing Subsidy will be withdrawn at the rate of £299.64 per dwelling, per annum. This gives rise to a reduction in subsidy of £2.905m for 2006-07.

Rent Rebates and Rent Rebate Subsidy Limitation

- 3.15 Rent Rebates Expenditure and the associated Subsidy transferred to the General Fund in April 2004. Transitional arrangements to enable authorities to adjust to the new arrangements over a two year period (2004-05 and 2005-06) were put in place. Under these arrangements, the HRA made a contribution to the General Fund of £600k in 2004-05, and £300k in 2005-06. As the transitional arrangements have now ceased, no contribution will be made in 2006-07.
- 3.16 Although Rent Rebates have been taken out of the HRA, the Rent Rebate Subsidy Limitation Rule will continue into 2006-07. 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. Nationally, limit rents for 2006-07 have been increased by 3.2%, which represents 2.7% assumed inflation (RPI) plus a 0.5% increase in local authority rents. As mentioned previously, adjustments to the formula have been made to take account of the Government's 3 year review. A further adjustment is then made, to reflect the continuing implementation of rent restructuring, which moves the limit rent 1/6th 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 and limits.

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

	Description	£
1	Limit Rent 2005-06	75.77
2	Limit Rent Increase 2006-07	4.28
3	Limit Rent 2006-07	80.05
4	Estimated Actual Rent 2006-07 (prior to any increase/decrease)	75.77
5	Difference between "3" and "4".	4.28

The limit rent for 2006-07, when compared to 2005-06, has increased by 5.6%.

3.19 The impact of the subsidy limitation rule on any proposal to increase or decrease rent at Brent for 2006-07 is set out below: -

3.19.1 **Rent Increase** - Average rents (excluding Service Charges) can be increased by up to £4.28 per week per dwelling, or 5.6%, in 2006-07, with no impact on Rent Rebate Subsidy Limitation.

An increase in average rent (excluding Service Charges) which exceeds £4.28 per week or 5.6% will trigger the effects of rent rebate subsidy limitation.

For each £1.00 that exceeds £4.28, 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 £4.28, 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 2006-07 will have no impact on Rent Rebate Subsidy Limitation, as the estimated Actual rent (prior to any decision to increase/decrease rents in 2006-07) is already less than the limit rent.

Special Case Exemption

3.20 The ODPM has indicated that they will consider requests for a special determination in respect of 2006-07 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 ten 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)

3.21 The MRA, which was introduced in 2001-02, will continue into 2006-07. The MRA represents the estimated long-term average amount of capital spending required to maintain the stock in its current condition. Nationally, the MRA has increased by 2.63%. At a local level, MRA unit values for Brent for 2006-07 represent, through the MRA formula, a decrease of increase of 0.6%. The total MRA for Brent in 2006-07 will be £7.145m (£7.365m in 2005-06). The reduction reflects the decrease mentioned above plus the impact of stock loss.

Charges for Capital

- 3.22 The HRA supported Capital Expenditure for 2006-07 is £6.500m (was £6.224m in 2005-06). This means that the Interest charges for an HRA capital Programme of up to £6.500m in 2006-07 will be fully subsidised.
- 3.23 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 £222k in 2006-07 (was £445k in 2005-06). We will lose this £222k subsidy in 2007-08 as the transitional come to an end.

4.0 Conclusion

- 4.1 The following table summarise the impact of the HRA subsidy determination on Brent's HRA for 2006-07:-

Item	Subsidy Changes £'000
Management Allowances	-430
Maintenance Allowances	-666
Notional Income	2,905
Sub Total	1,809
Admissible Allowance	222
Total	2,031

This table shows that our main subsidy components will reduce by £2.031m in 2006-07, when compare to 2005-06.

- 4.2 In addition, our MRA for 2006-07 has been confirmed at £7.145m (was £7.365m in 2005-06) and our HRA Supported capital Expenditure for 2006-07 is £6.500m (was £6.224m in 2005-06)

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