

SECTION 6

6. HOUSING REVENUE ACCOUNT

Introduction

- 6.1 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".
- 6.2 Expenditure charged to the HRA in 2004-05 includes:
- Repairs and Maintenance;
 - Supervision and Management;
 - Rent and Rates; and
 - Capital Charges.
- 6.3 Income credited to the account in 2004-05 includes:
- Dwelling rents;
 - Non Dwelling Rents;
 - Charges for Services and Facilities;
 - Interest Receivable; and
 - HRA Subsidy paid by the Government.
- 6.4 Rent rebate expenditure, and the corresponding rent rebate subsidy (included within HRA Subsidy), which up to and including 2003-04 has been debited and credited respectively to the HRA will, from 2004-05, transfer to the General Fund, in order to make the HRA a pure landlord account.
- 6.5 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.
- 6.6 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.

6.7 A separate detailed report on the HRA budget for 2004-05 is to be considered by the Executive on 9 February 2004. That report sets out proposals for an overall rent increase of 3.7% for the main properties within the stock. The HRA budget is formally agreed by the Council when this report is considered at the Council meeting on 1st March.

The Probable Outturn 2003/2004

6.8 The HRA estimates report shows that the estimated balance on the account at 31st March 2004 will be £1,238k in surplus, which when compared to the original budgeted balance of £400k, represents an increase in HRA balances of £838k.

The 2004/2005 Budget

6.9 The 2004/2005 HRA budget includes the following:

- (a) A decrease in Housing Subsidy of £1,429k, 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 £415k to take account of the abolition of the requirement for the HRA to contribute to the authority's Minimum Revenue Provision and associated transitional measures.
- (c) an inflation allowance of 3.5% for pay and 2% for prices;
- (d) an increase in service charges of 2.8%;
- (e) an overall average rent increase of 3.7% for the main properties within the stock. This increase is to be applied taking full account of the Government's rent restructuring guidance and therefore the impact of this at property level will result in a rent decrease for 7 tenants and a rent increase for 9,625 tenants. The following table sets out the number of tenants who will receive a decrease/increase in bands of £0.50p:

Analysis of Cash Term Change in Net Rent from 2003/04 to 2004/05	
Band	Count
£-0.50 to £-0.01	7
0.00 to £0.50	244
£0.51 to £1	1,210
£1.01 to £1.50	1,693
£1.51 to £2	482
£2.01 to £2.50	759
£2.51 to £3	811
£3.01 to £3.5	1,165
£3.51 to £4	1,868
£4.01 to £4.50	1,150
Over £4.50	243
Total	9,632

- (f) agreed growth of £2,379k, and additional savings of £2,930k;
- (g) Rent rebates and rent rebates subsidy have transferred to the general fund from April 2004. The HRA budget takes account of the transitional scheme to compensate the general fund in 2004-05 for £600k.
- (h) an estimated dwelling stock level at 1st April 2004 of 10,037 dwellings (10,207 dwellings at 1st April 2003);
- (i) rent collection assumed at 99.3% of the rental income due; and
- (j) the Major Repairs Allowance for 2004-05 at £7,486 (£7,985 for 2003-04).

6.10 Taking into account the above the HRA is estimated to show a surplus of £400k at 31st March 2005.

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

Debt Repayment

6.12 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 Reserve 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.

6.13 Under the new financial regime which takes effect from 1st April 2004 both of these mechanisms have 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. (In theory they are redistributed to local authorities, but there is no evidence that this is in fact happening). The consequence is that there is no provision for repayment of debt within the HRA.

6.14 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.

6.15 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 2004/2005, 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.