

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 2007-08, and assesses the impact of the Housing Subsidy Determination for 2007-08 on Brent's HRA.

2.0 **The Notional HRA 2007-08**

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 2007-08, Brent's notional HRA is as follows: -

Housing Revenue (Notional) Account

Description	2007-08 £000s	2006-07 £000s
<u>Expenditure</u>		
Management and Maintenance	19,924	19,893
Charges For Capital	34,989	35,444
Other Reckonable Expenditure	3,149	4,069
Total Expenditure	58,062	59,406
<u>Income</u>		
Interest on Receipts	26	33
Notional Income From Rents	37,685	35,636
Housing Subsidy	20,351	23,737
Total Income	58,062	59,406

3.0 **HRA Subsidy Determination 2007-08**

3.1 The Government's support for Council HRA's is set out annually in the HRA Subsidy Determinations. The Communities and Local Government Department (CLG) published the HRA subsidy determinations on 19 December 2006 (these replaced the draft determinations issued on 30 October 2006).

The ALMO allowance

3.2 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*).

3.3 The allowance represents the revenue support to finance borrowing for ALMO purposes. Brent's ALMO allowance for 2007-08 is £4.32m (was £4.32m in 2006-07). This allowance represents 8% of our total capital commitment of £54m as approved by the CLG.

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.
For 2007-08, there is no change in the formulae used, although some source data have been updated.

Management Allowance

- 3.5 Nationally, the average target allowance per dwelling for 2007-08 will increase by 3.7% compared with 2006-07. This is made up of 2.7% for inflation, and a further 1% to take account of rent restructuring rebasing. There is no real increase this year. The move towards targets for 2007-08 will be damped at a local level which will include a minimum freeze at 06-07 levels in cash terms plus the rebasing factor will be partitioned, so as to passport the factor into the actual allowance.
- 3.6 The following table sets out the Management Allowance for Brent for 2007-08, compared to 2006-07 (each amount is per dwelling per annum): -

Management Allowance 2006-07	£757.41
Management "Target" Allowance 2007-08	£746.61
Management Allowance 2007-08	£764.68

It can be seen that Brent's "target" Management Allowance for 2007-08 is £10.80 below the Management Allowance for 2006-07. However due to the damping mechanism and the partitioning transitional arrangements (for rebasing), the Management Allowance is set at £764.68 reflecting an increase in Brent's Management Allowance of £7.27 per dwelling per annum, or an increase of 1%.

For Brent, in 2007-08, this means that Management Allowance subsidy will be increased by £70k.

Maintenance Allowance

- 3.7 Nationally, the amount for Maintenance Allowance for 2007-08 has been increased by 3.7% compared with 2006-07. This is made up of 2.7% for inflation, and a further 1% to take account of rent restructuring rebasing. There is no real increase this year. The move towards targets for 2007-08 will be damped at a local level which will include a minimum freeze at 06-07 levels in cash terms plus the rebasing factor will be partitioned, so as to passport the rebasing into the actual allowance.
- 3.8 The following table sets out the Maintenance Allowance for Brent for 2007-08, compared to 2006-07 (each amount is per dwelling per annum): -

Maintenance Allowance 2006-07	£1,296.52
Maintenance "Target" Allowance 2007-08	£1,160.40
Maintenance Allowance 2007-08	£1,307.82

It can be seen that Brent's "target" Maintenance Allowance for 2007-08 is £136.12 below the Maintenance Allowance for 2006-07. However, due to the damping

mechanism and the partitioning transitional arrangements (for rebasing), the Maintenance Allowance for 2007-08 is set at £1,307.82, representing an increase of Subsidy at the rate of £11.30 per dwelling per annum, or an increase of 0.9%.

For Brent in 2007-08, this means that Maintenance Allowance subsidy will be increased by £109k.

Notional/Guideline Rents

- 3.9 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.
- 3.10 The calculation of the guideline rent for 2007-08 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. Like 2006-07, the Government is encouraging Authorities to limit rent increases at 5%, and this is cushioned in the subsidy system through the rent constraint allowance.
- 3.11 Nationally, guideline rents for 2007-08 have been increased by 7.4%. This takes account an inflation uplift of 3.6% plus a real increase of 0.5%. The balance, 3.3%, is derived from the implementation of the rent restructuring formula, which includes an adjustment that moves the guideline rent 1/5th 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 also been made to take account of the caps and limits.
- 3.12 The effects of the above changes on Brent's guideline rent for 2007-08 compared to 2006-07 are as follows (each amount is per dwelling, per annum): -

Guideline Rent 2006-07	£3,750.76
Guideline Rent 2007-08	£4,017.24

It can be seen that Brent's rent guideline for 2007-08 has increased by £266.48 per annum or £5.12 per week when compared to 2006-07. A 2% allowance for voids is taken into account in determining the notional income - which decreases the subsidy withdrawal to £261.15 per unit per annum or £5.02 per week. This reflects a 7.1% increase.

This means that in 2007-08 Housing Subsidy will be withdrawn at the rate of £261.15 per dwelling, per annum. This gives rise to a reduction in subsidy of £2.513m for 2007-08.

- 3.13 Rent Constraint Allowance – A new Rent Constraint Allowance (RCA) was introduced in 2006-07, and will continue into 2007-08. This allowance provides compensation, in year, for the Governments caps and limits re rent restructuring. The main component being the compensation for limiting the average rent increase at 5%. This RCA has been estimated at £200k in 2006-07 and 2007-08.

Rent Rebates and Rent Rebate Subsidy Limitation

- 3.13 Although Rent Rebates have been taken out of the HRA, the Rent Rebate Subsidy Limitation Rule will continue into 2007-08. 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 2007-08 have been increased by 4.1%, which represents 3.6% assumed inflation (RPI) plus a 0.5% increase in local authority rents. A further adjustment is then made, to reflect the continuing implementation of rent restructuring, which moves the limit rent 1/5th 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 and limits.
- 3.18 The key data for Brent for Subsidy Limitation purposes is set out in the following table:

	Description	£
1	Limit Rent 2006-07	80.05
2	Limit Rent Increase 2007-08	2.83
3	Limit Rent 2007-08	82.88
4	Estimated Actual Rent 2006-07 (prior to any increase/decrease)	78.83
5	Difference between "3" and "4".	4.05

The limit rent for 2007-08, when compared to 2006-07, has increased by 3.5%.

- 3.19 The impact of the subsidy limitation rule on any proposal to increase or decrease rent at Brent for 2007-08 is set out below: -
- 3.19.1 **Rent Increase** - Average rents (excluding Service Charges) can be increased by up to £4.05 per week per dwelling, or 5.1%, in 2007-08, with no impact on Rent Rebate Subsidy Limitation.

An increase in average rent (excluding Service Charges) which exceeds £4.05 per week or 5.1% will trigger the effects of rent rebate subsidy limitation.

For each £1.00 that exceeds £4.05, 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 £4.05, 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 2007-08 will have no impact on Rent Rebate Subsidy Limitation, as the estimated Actual rent (prior to any decision to increase/decrease rents in 2007-08) is already less than the limit rent.

Special Case Exemption

- 3.20 The CLG has indicated that they will consider requests for a special determination in respect of 2007-08 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 CLG will take into account the fact that authorities have had more than eleven 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 2007-08. 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 2.7%. At a local level, MRA unit values for Brent for 2007-08 represent, through the MRA formula, an increase of 2.5%. The total MRA for Brent in 2007-08 will be £7.267m (£7.145m in 2006-07). The increase reflects the increase mentioned above plus the impact of stock loss.

Charges for Capital

- 3.22 The HRA Supported Capital Expenditure for 2007-08 is £6.500m (was £6.500m in 2006-07). This means that the Interest charges for an HRA capital Programme of up to £6.500m in 2007-08 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 (now CLG) introduced transitional arrangements in the form of an admissible allowance, payable until 2006-07. This allowance ended in 2006-07 and will not get any admissible allowance in 2007-08 (we got £222k in 2006-07).

4.0 Conclusion

- 4.1 The following table summarise the impact of the HRA subsidy determination on Brent's HRA for 2007-08:-

Item	Subsidy Changes £'000
Management Allowances	-70
Maintenance Allowances	-109
Notional Income	2,513
Sub Total	2,334
Admissable Allowance	222
Total	2,556

This table shows that our main subsidy components will reduce by £2.556m in 2007-08, when compared to 2006-07.

- 4.2 In addition, our MRA for 2007-08 has been confirmed at £7.267m (was £7.145m in 2006-07) and our HRA Supported capital Expenditure for 2007-08 is £6.500m (was £6.500m in 2006-07)

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