

## SECTION 9

### 9. HOUSING REVENUE ACCOUNT

#### Introduction

- 9.1 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".
- 9.2 Expenditure charged to the HRA in 2010/11 includes:
- Repairs and maintenance;
  - Supervision and management;
  - Rent and rates; and
  - Capital charges.
- 9.3 Income credited to the account in 2010/11 includes:
- Dwelling rents;
  - Non dwelling rents;
  - Charges for services and facilities;
  - Interest receivable; and
  - HRA subsidy paid by the government.
- 9.4 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.
- 9.5 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.
- 9.6 The dwellings that the council owns at Stonebridge (transferred from the Stonebridge Housing Action Trust following the ballot in 2007) are held outside the HRA, and are not therefore included in the HRA budget. For these Stonebridge dwellings in 2010/11, the Executive on the 15<sup>th</sup> February agreed to decrease the average rents by 0.5% and to decrease the service charges by an average of 37.8%.

9.7 The Executive on 15<sup>th</sup> February 2010 also agreed an overall rent increase of 1.09% for the main properties within the stock. This is in line with the government's rent restructuring policy. The HRA budget is formally agreed by Full Council when this report is considered at its meeting on 1<sup>st</sup> March 2010.

### The Probable Outturn 2009/10

9.8 The HRA budget report shows that the estimated balance on the account at 31<sup>st</sup> March 2010 will be £1.966m in surplus, which when compared to the original budgeted balance of £400k, represents an increase in HRA balances of £1.566m. This increase in balances comprises an underspend on the HRA in 2008/09 of £1.784m (favourable variances on repairs and maintenance, provision for bad debts, interest, HRA communal service costs rechargeable to the General Fund, income from commercial rents and management costs) and a forecast overspend of £218k on the HRA in 2009/10.

### The 2010/11 Budget

9.9 The 2010/11 HRA budget includes the following:

- The government's implementation of its rent restructuring policy continues into 2010/11 and, under the national formula, individual rents should increase by  $-0.9\% + 1/3^{\text{rd}}$  towards their target rent. However, the impact on tenants will be cushioned by "caps and limits", which generally means that in 2010-11 no rent will increase by more than  $-0.9\% + £2$ .
- A decrease in housing subsidy of £1.498m (excluding stock loss and MRA Brought Forward), which takes account of a small increase in management and maintenance allowances, and an increase of £1.546m in notional income (withdrawal of subsidy).
- An inflation allowance of 0.75% for pay, 1.23% for repairs, and 0% for other prices.
- An increase in service charges of 1.23%;
- An overall average rent increase of 1.09% (average £0.87 per dwelling per week) 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 impact:

<b>Analysis of change in weekly rent from 2009/10 to 2010/11</b>	
<b>Band – decrease/increase in rent</b>	<b>No. of properties</b>
Between £-0.50 and £0	2,521
Between £0 and £0.50	305
Between £0.50 and £1	324
Between £1 and £1.50	6,071
Between £1.50 and £2	18

- Net savings of £1.271m comprising stock loss, efficiency and other savings;

- Proposals to spend £1.500m of useable one-off HRA balances, comprising:
  - £500k in respect of caps and limits in arrears subsidy (this will be re-instated in 2011/12);
  - An earmarked reserve for ALMO Round 2 Interest Adjustment £1m.
- Proposals to fund a HRA capital programme capital programme of £6m in 2010/11
- An estimated dwelling stock level (excluding Brent's Stonebridge dwellings) at 1<sup>st</sup> April 2010 of 9,220 dwellings (actual 9,344 dwellings at 1<sup>st</sup> April 2009);
- Rent collection assumed at approximately 99.6% of the rental income due; and
- A nil voluntary HRA debt repayment. Up to 2003/04 there was a statutory requirement for the repayment of HRA debt. This requirement was removed in April 2004, along with the subsidy to pay for it. There is a provision to make a voluntary repayment, but this is not subsidised. The report to the Executive on 15<sup>th</sup> February 2010 agreed a budget of £150k in 2010/11 and a further £150k in 2011/12 for debt charges to fund a £6m HRA capital programme for Health and Safety Works, and window replacement and decorations works, and if agreed, this will represent unsupported borrowing under the prudential regime in the HRA. A further £600k of HRA unsupported borrowing for Disabled Facilities Grants for council tenants is also included, and the debt management costs associated with this are met by Brent Housing Partnership. All other HRA debt charges are met in full through housing subsidy. No voluntary repayment of debt has been included in the budget for 2010/11. The current level of debt relating to the Housing Revenue Account was £333m at 31<sup>st</sup> March 2009 and is estimated to be £331m at 31<sup>st</sup> March 2010.

9.10 Taking into account the above, the HRA is estimated to show a surplus of £466k at 31<sup>st</sup> March 2011.

9.11 Details of the HRA budget are shown in Appendix L.

## **HRA Risks**

9.12 The main risk associated with the HRA budget for 2010/11 are:

- The HRA's medium and long term viability. The updated HRA Business Plan 2009 shows that there are insufficient capital resources to maintain the dwelling stock post decent homes, and also that the operational HRA is likely to be in deficit in 5 years time. This comes at time when the Government are about to report on their response to the consultation on Council Housing Finance Reform.
- Recovery of Leaseholder Service Charges (Major Work); and
- Rent Collection – maintaining high collection performance.

## **Council Housing Finance Reform**

- 9.13 The review of Council Housing Finance was launched in March 2008, and in July 2009 the Government published its consultation for a fundamental reform of the system, and this included proposals for a devolved system (self financing) in which rents are retained by councils to spend of their own services, in exchange for a one off reallocation of debt. The Government is due to issue its response to the outcome of the consultation in February 2010.