Annex 12

Housing Revenue Account (HRA)

1 Local Authorities are required, by legislation, to keep a HRA. The Local Government and Housing Act 1989 stated that items of income and expenditure only relating to Council housing must be contained within the account. Thus the terms "ring fenced" or "landlord account" are now referred to, as transfers between the HRA and General Fund are normally prevented.

2 The Act also outlined the arrangements whereby subsidy is allocated on a "notional" HRA. This account is based on the Governments assessment of what local authorities should charge in rents and spend on management and maintenance, rather than what they actually do charge and spend.

3 Authorities have a duty to ensure that the HRA balances, to keep the budget under review and to take all reasonable steps to avoid a deficit.

HRA Negative Subsidy

4 The two major sources of funding HRA expenditure have been Government Subsidy and rent income. Following the removal of the payment of rent rebates through the HRA there is now a net surplus on the notional HRA as the rent income now exceeds the subsidy payable by the Government for HRA expenditure on management, maintenance, etc. This results in a "negative" subsidy payable by the authority to the Government of £6,575k for 2009/10. This compares to £5,349k for 2008/09.

	2008/09 Estimate £'000	2009/10 Estimate £'000
HRA subsidy payable (including MRA)	18,941	18,887
Less Notional Rent Income from council tenants	(24,290)	(25,462)
Equals Negative Subsidy payable	(5,349)	(6,575)

HRA Borrowing and Debt Repayment

5 From 1 April 2004 authorities can determine for themselves what capital investment is required and have the freedom to borrow (within prudential principles) to deliver housing services. Some supported borrowing continues and the interest charges for the elements used to fund HRA capital expenditure is paid from the HRA and refunded

through subsidy. Prudential borrowing which takes place over and above the (supported) capital financing requirement is “unsupported” in that the authority must find the means of paying back interest and principal from within its own resources. There are no proposals to undertake prudential borrowing for HRA purposes in 2009/10.

6 Previously authorities were required to make a revenue provision to repay 2% of net HRA debt and this was funded through HRA subsidy. Authorities are no longer compelled to make this provision and any voluntary contribution will not be paid by subsidy. Guidance suggests it is advisable to make a voluntary contribution and as a result since 2004/05 a provision of 2% has been made on outstanding HRA debt. This will continue in 2009/10.

7 The result of all the adjustments outlined within this report is an in-year surplus of £509k. Together with the projected brought forward working balance of £7,547k and after making a contribution to the capital programme, this leaves a working balance of £8,056k on the account.

8 This surplus is broadly in line with that forecast in the HRA business plan. The HRA surplus needs to remain on the account to be reviewed once the HRA business plan is updated to reflect both the budget detailed in this report and the 2008/09 outturn position. Members are reminded that the HRA surplus is needed to fund expenditure in future years.

9 A review of the operation of both the HRA and the current subsidy system is currently being undertaken by the department of Communities and Local Government (CLG). This review is looking at all aspects of housing finance, however it is not expected that there will be any impact on the HRA in 2009/10. The current subsidy system will remain in place until 2010/11.