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 government's 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 & rent increase

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 £6,152k for 2010/11. This compares to £6,575k for 2009/10.

	2009/10 Estimate £'000	2010/11 Estimate £'000
HRA subsidy payable (including MRA)	18,887	19,134
Less Notional Rent Income from council tenants	(25,462)	(25,286)
Equals Negative Subsidy payable	(6,575)	(6,152)

4 Housing rents are based on a formula for rent setting created by central government. Under the original formula similar properties should be charged similar rents by 2012 regardless of who owns the property. This is known as rent convergence. This formula rent takes account of various factors including the number of bedrooms a property has, property valuation, average earnings and the date at which all rents are expected to converge. The guideline rent increase for 2010/11 is 3.1% with convergence due to be achieved in 2012/13. The actual average rent increase for this council, taking all these factors into account, is expected to be 1.83%.

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.

6 In October 2009 the Executive Member agreed to submit a bid to the Homes and Communities Agency for grant to build in the region of 18 new family council houses. We have just received confirmation that this bid has been successful, therefore the HRA will undertake prudential borrowing during 2010/11, which will be funded from the rental income stream received from the new properties.

7 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 2010/11.

8 The result of all the adjustments outlined within this report is an in-year surplus of £662k. Together with the budgeted brought forward working balance of £8,254k and after making a contribution to the capital programme, this leaves a working balance of £8,918k on the account.

9 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 2009/10 outturn position. Members are reminded that the HRA surplus is needed to fund expenditure in future years.

10 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 2010/11.