

HOUSING REVENUE ACCOUNT - BASE BUDGET and UPDATED FINANCIAL PROJECTION to 2015 (DECEMBER 2005)

	Actual 2004/05 £	Updated Estimate 2005/06 £	Projected Out-turn 2005/06 £	Original Estimate 2006/07 £	Forecast													
					2007/08 £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £						
Expenditure																		
Housing Repairs	2,884,360	2,733,080	2,890,730	2,932,730	3,028,040	3,126,450	3,228,060	3,332,970	3,441,290	3,553,130	3,668,610	3,787,840						
Capitalisation of Planned Maintenance	0	-335,000	-335,000	-335,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0
General Management	772,150	778,900	752,670	757,400	780,120	803,520	827,630	852,460	878,030	904,370	931,500	959,450						
Sheltered and Other Services	739,570	843,030	810,200	878,010	904,350	931,480	959,420	988,200	1,017,850	1,048,390	1,079,840	1,112,240						
Council Tax on Void Properties	42,870	9,470	-21,350	5,110	5,260	5,420	5,580	5,750	5,920	6,100	6,280	6,470						
Provision for Bad Debts	2,970	5,000	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500	7,500						
Capital Charges	344,390	359,110	332,630	290,500	220,930	212,240	187,170	160,350	129,890	114,250	114,250	114,250						
Payment to Government Pool	3,665,572	3,837,970	3,832,100	4,152,450	4,204,700	4,242,850	4,307,900	4,373,440	4,459,520	4,468,190	4,485,480	4,500,650						
Cost of Rebates Remaining in HRA	103,130	88,300	104,570	107,370	85,970	64,570	43,170	21,770	370	0	0	0						
Provision for Increase in Pensions	0	6,100	0	0	0	22,000	22,660	23,340	24,040	24,760	25,500	26,270						
Total Expenditure	8,555,012	8,325,960	8,374,050	8,796,070	8,901,870	9,416,030	9,589,090	9,765,780	9,964,410	10,126,690	10,318,960	10,514,670						

	Income	Forecast																
		2007/08 £	2008/09 £	2009/10 £	2010/11 £	2011/12 £	2012/13 £	2013/14 £	2014/15 £									
Rent from Dwellings	8,001,630	8,116,840	8,207,900	8,535,530	8,625,500	8,730,800	8,851,000	8,988,800	9,145,400	9,277,400	9,430,300	9,585,300						
Other Rents	83,150	95,870	94,520	97,910	99,870	101,870	103,910	105,990	108,110	110,270	112,480	114,730						
Interest - Sale of Council Houses	3,400	3,000	3,700	3,100	2,750	2,400	2,050	1,700	1,350	1,000	650	300						
Other Fees & Charges	63,270	61,820	67,010	70,720	72,130	73,570	75,040	76,540	78,070	79,630	81,220	82,840						
Other Recharges	0	0	10,000	10,270	10,480	10,690	10,900	11,120	11,340	11,570	11,800	12,040						
Interest Received from General Fund	59,660	52,860	63,400	76,500	58,180	55,891	49,289	42,226	34,205	30,086	30,086	30,086						
Supporting People Grant	322,970	315,500	315,500	315,500	315,500	315,500	315,500	315,500	315,500	315,500	315,500	315,500						
Total Income	8,534,080	8,645,880	8,762,030	9,109,530	9,184,410	9,290,721	9,407,689	9,541,876	9,693,975	9,825,456	9,982,036	10,140,796						

Projected Deficit / Surplus (-)	
	20,932
	-319,920
	-387,980
	181,401
	223,904
	270,435
	301,234
	336,924
	373,874

HRA General Reserves	
Balance b/f	1,371,852
Deficit / Surplus (-) as above	20,932
	1,350,920
	-319,920
	-387,980
	1,350,920
	1,738,900
	2,052,360
	2,334,900
	2,209,591
	2,028,190
	1,804,286
	1,533,851
	1,232,618
	895,694
	373,874

Balance c/f	
	1,350,920
	1,670,840
	1,738,900
	2,052,360
	2,334,900
	2,209,591
	2,028,190
	1,804,286
	1,533,851
	1,232,618
	895,694
	521,821

APPENDIX 2

ANALYSIS OF HOUSING SUBSIDY

ALLOWANCES DUE TO THE COUNCIL

	<u>Estimate</u> <u>2005/06</u>	<u>Probable</u> <u>2005/06</u>	<u>Estimate</u> <u>2006/07</u>	<u>Estimate</u> <u>2007/08</u>	<u>Forecast</u> <u>2008/09</u>	<u>Forecast</u> <u>2009/10</u>	<u>Forecast</u> <u>2010/11</u>	<u>Forecast</u> <u>2011/12</u>	<u>Forecast</u> <u>2012/13</u>	<u>Forecast</u> <u>2013/14</u>	<u>Forecast</u> <u>2014/15</u>
Management & Maintenance Allowance											
Number of Properties	3,310	3,310	3,239	3,179	3,119	3,071	3,023	2,987	2,951	2,927	2,903
Multipled by the Management Allowance	341	341	378	394	410	427	444	461	480	499	519
Multipled by the Maintenance Allowance	716	716	802	837	870	905	941	979	1,018	1,059	1,101
Total M and M Allowance 1	3,497,379	3,497,379	3,824,482	3,913,166	3,992,881	4,088,690	4,185,775	4,301,365	4,419,505	4,558,904	4,702,384

Charges for Capital

Mid Year Subsidy Credit Ceiling	9,249,121	9,249,121	9,525,402	10,025,000	10,025,000	10,025,000	10,025,000	10,025,000	10,025,000	10,025,000	10,025,000
Multipled by Cost of Borrowing	0.0480	0.0456	0.0453	0.0475	0.0475	0.0475	0.0475	0.0475	0.0475	0.0475	0.0475
Add Specified Amount for Debt Management	38,597	38,597	39,662	39,662	39,662	39,662	39,662	39,662	39,662	39,662	39,662
Add Provision for Debt Repayment	43,344	43,345	21,672	0	0	0	0	0	0	0	0
Total Capital Allowance 2	525,899	503,702	492,835	515,850	515,850	515,850	515,850	515,850	515,850	515,850	515,850

Other Items of Reckonable Expenditure

Lease Rentals	0	0	0	0	0	0	0	0	0	0	0
Landlord Interest	100,058	100,058	88,182	64,007	58,795	43,754	27,659	9,386	0	0	0
Total - Other Expenditure Allowance 3	100,058	100,058	88,182	64,007	58,795	43,754	27,659	9,386	0	0	0

TOTAL ALLOWANCES DUE TO THE COUNCIL (1 to 3) 4

	4,123,336	4,101,139	4,405,498	4,493,022	4,567,526	4,648,293	4,729,283	4,826,600	4,935,354	5,074,754	5,218,234
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ESS - Assumed Rent Income

Number of Properties	3,310	3,310	3,239	3,179	3,119	3,071	3,023	2,987	2,951	2,927	2,903
Multipled by Guideline rent per dwelling (per year)	2,444	2,444	2,695	2,783	2,873	2,966	3,063	3,162	3,241	3,323	3,406
Less a Void Allowance of 2%	161,825	161,825	174,587	150,384	152,341	154,871	157,405	160,585	162,616	165,326	168,070
Total - Assumed Rent Income 5	7,929,205	7,929,205	8,554,777	8,695,724	8,808,880	8,955,198	9,101,722	9,285,616	9,403,046	9,559,737	9,718,385

ESS - Assumed Interest on Investments 6

	3,974	3,974	3,179	2,000	1,500	1,000	1,000	500	500	500	500
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PAYMENT TO THE NATIONAL POOL (4.5-6) 3,809,843 3,832,040 4,152,457 4,204,702 4,242,854 4,307,904 4,373,439 4,459,516 4,468,192 4,485,483 4,500,652

APPENDIX 3

HOUSING FINANCE: THE NATIONAL FUNDING SYSTEM

1. The Housing Revenue Account

- 1.1 Every council that owns and manages housing is required to maintain a Housing Revenue Account (HRA), which is an account of council housing income and expenditure. This account is '**ring fenced**' (that is, separate) from the council's other main account, i.e. the General Fund.
- 1.2 The ring fence is defined by a fairly complex set of rules that govern the operation of the account. Its most obvious effect is to prevent councils using income that is raised locally from taxation (council tax) to subsidise council housing services (and vice versa).

2. Housing Subsidy

- 2.1 The Government subsidises housing at a national level. The government, through the distribution of Housing Subsidy, largely determines the amount of money a council has to spend on council housing services.
- 2.2 The total amount of subsidy distributed to councils nationally is determined by the size of the national budget for council housing. Councils receive a share of the total available resources.
- 2.3 HRA subsidy is determined by central government, according to a mathematical estimate of councils' **assumed** income and expenditure needs – their '**notional HRA**'. This system has been in place for the last 15 years.
- 2.4 Many councils are entitled to less than zero subsidy – termed '**negative subsidy**.' Instead of receiving subsidy, councils provide money out of locally raised income to the Government (**the national pool**) for redistribution. The majority of the negative subsidy that councils pay into the centre is redistributed to a smaller number of other councils.
- 2.5 Councils in negative subsidy have a **notional** surplus of income over expenditure. These councils are seen as having relatively low costs, houses that are generally in good condition with low demand and smaller outstanding debt. This is effectively the position for South Derbyshire, which makes a payment to the national pool.
- 2.6 Councils with higher **assumed** operating costs or large outstanding debts are likely to receive a positive amount of HRA subsidy to balance their accounts.

3. Housing Rents

- 3.1 The main source of income to the HRA is rent paid by tenants. Central government exerts a strong influence on council rents through the national rent regime, which gives councils and housing associations increasingly limited scope to vary rents if they are to comply with the target rents set by government.

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Rent Restructuring

- 3.2 Under the government's national rent structure introduced in 2002, the rent is set in relation to local earnings, property size and value. This rent is known as the **formula rent**. Actual rents currently paid by individual tenants differ from their formula due to local and historic circumstances.
- 3.3 Therefore, the formula rent is being phased in for individual tenants. The target date for actual rents to reach the formula rent is 2012.
- 3.4 Within the notional HRA, a council's rental income is estimated using a **guideline rent** per dwelling. The guideline rent is calculated with reference to the formula rent, but like actual rents paid by tenants, currently differs from the formula figure.
- 3.5 However, the guideline rent is also set to converge with the formula rent by 2012 under the rent-restructuring regime. Application of the government's guideline rent per dwelling, less 2 per cent for vacant property, provides an estimate of the council's overall rental income.
- 3.6 A council's real income will vary from the estimate for many different reasons. Before rent restructuring, councils had more discretion and flexibility in setting rents and yearly increases were not necessarily in line with the Government's guideline. Consequently, after 15 years, in many instances, actual rents now vary compared to guideline rents.

4. Expenditure

- 4.1 The main costs incurred in providing council housing are repairs, maintenance and the management of the housing stock. The Government provides support to these costs via the subsidy system, i.e. a **management and maintenance allowance**. Money is also provided in the form of a **Major Repairs Allowance** that is designed to help councils meet decent homes targets.
- 4.2 A council's management and maintenance allowance represents its share of the national budget for basic housing services. Actual expenditure is subject to varying local pressures and may differ from the allowance.
- 4.3 The government introduced a new method of estimating councils' allowances in 2004. Councils' spending needs were related to past expenditure, but the new system is based on an estimate of spending needs and takes into account a variety of factors. They include:
- The number and type of dwellings
 - Area cost variations
 - Property turnover
 - Crime levels
- 4.4 The new system is primarily buildings based and so takes little account of the variance in management costs associated with particular tenant populations.

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4.5 Councils such as South Derbyshire gained compared to the previous system. However, overall there is insufficient money in the national pool to pay extra allowances to all councils. The Government have therefore been phasing in increases in order to protect those councils who are worse off under the new system.

5. Housing Debt

5.1 Most council's still have financial commitments in relation to debt from earlier years. Councils have incurred housing debt because central government for many years earmarked and allocated capital to councils in the form of borrowing approvals to undertake major improvements

5.2 Such borrowing approvals were accompanied by a long-term increase in HRA subsidy sufficient to finance the debt. Within each local authority, debts are managed through the General Fund, using rules to ensure that the housing debt is kept separate.

5.3 Over the longer term, these debt repayments represent a significant cost to the national HRA. Councils' outstanding debt levels differ substantially because of past capital allocations and receipts. This is one of the factors that affect the extent of redistribution of revenue between councils in the national HRA.

5.4 In practice, similar to rents, management and maintenance, the actual cost of capital financing may vary from the allowance, for example, where councils have voluntarily paid off some of their debts faster than anticipated by the government, or where councils have not taken out loans to the full value they were allowed.

6. Housing Benefit

6.1 Council's, as landlords, receive housing benefit (known as rent rebate) in place of rent for those tenants who are eligible to receive it. Prior to 2004, this was initially a cost to the HRA, but was reimbursed by central government through the subsidy system.

6.2 However, not all payments were reimbursed. Government subsidy was limited to a council's guideline rent level. Where actual rents were above the guideline, the percentage difference was used to scale back reimbursement for benefit payments. This became a cost on the HRA as was known as **rent rebate subsidy limitation**.

6.3 As from 2004, rent rebates are now accounted for in the General Fund and Government subsidy is transferred across to the HRA. However, the rebate limitation (as explained above) still remains in the HRA, but this will be phased out by 2012 as actual and guideline rents converge under rent restructuring.

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7. Summary

- 7.1 The allocation of revenue through the notional HRA system is considered to be a very complex rationing and redistribution system. Since it was introduced over 15 years ago, significant change has occurred.
- 7.2 In particular, almost all housing authorities had stock, council-housing capital was earmarked and there were no business plans or national targets for decent homes. However, the system's core purpose has remained unchanged.