

## LOCAL GOVERNMENT AND HOUSING COMMITTEE

### HOUSING REVENUE ACCOUNT – CONSIDERATION OF SUBSIDY FOR 2002-03

#### Purpose

1. This paper informs the Committee of the main decisions which need to be taken in respect of the Housing Revenue Account Subsidy (HRAS) for council housing for 2002-03.

#### Recommendation

2. The Committee is invited to note the key proposal to consult local authorities on a guideline rent increase of 3.5% for HRA subsidy purposes for 2002-03.

#### Timing

3. There is a need to consult soon on how the Housing Revenue Account Subsidy will operate for 2002-03 in order that local authorities can make their budget and rent setting decisions within necessary timescales.

#### Background

4. The Housing Revenue Account (HRA) records income and expenditure on items such as rents, management and maintenance, loan charges etc in respect of a council's housing stock. An authority's HRA operates on an actual basis, whilst for the Assembly's subsidy calculation purposes a "notional" account is used. Attached at **Annex 1** is an example of an authority's "notional" account compared with its "actual" account.

5. The objective of the subsidy is to meet any shortfall between income and expenditure on an authority's "notional" HRA. In estimating the annual amount of subsidy certain assumptions have to be made. The key ones are guideline rent levels and management and maintenance allowances. In respect of the former, Treasury advise that the assumption should be based on a guideline rent increase of 3.5% for the coming financial year. The assumption for management and maintenance is founded on a complex statistical model which is agreed with Treasury annually.

6. A decision needs to be made on whether priority should again be given to maximising

resources available to local authorities for management and maintenance rather than reducing the level of guideline rent increases. It is intended to keep the guideline rents at the 3.5% indicated by Treasury thereby maximising authorities' ability to spend on repairs and improvements to their housing stock. This decision is being made in the knowledge of the poor condition of local authority housing stock in Wales and the significant investment needed to bring it up to acceptable modern day standards.

7. There is an expectation that rents will be increasing next year by about 3.5%. The Assembly nevertheless, has the option of imposing a guideline rent level above or below 3.5%. If the guideline rent is increased by less than 3.5% authorities will have less money available for management and maintenance, as the overall subsidy budget must be agreed by Treasury and cannot be exceeded. A change above, or below, the proposed 3.5% would result in a proportionate increase or decrease in the management and maintenance allowance for 2002-03 (after taking account of the effect of rent rebates). In addition, if the guideline rent is increased above 3.5%, the Assembly will have to find the resultant costs of additional rent rebates from its own resources.

## **Compliance**

8. The relevant powers to set the rules for calculating entitlement to HRA subsidy and the framework for making determinations and directions have been transferred to the Assembly and are set out in the Local Government and Housing Act 1989:

Section 80 deals with the calculation of HRA subsidy

Section 87 covers the framework for making determinations and directions

9. These powers have been delegated to the Assembly Minister. There are no issues of regularity or propriety. The Assembly Compliance Office is content.

## **Financial Implications**

10. HRAS is Annually Managed Expenditure. Any unspent resources cannot be used to increase the Assembly's Departmental Expenditure Limit. Guideline rents and management and maintenance allowances will be set at amounts to ensure that expenditure is kept within the overall limits agreed with Treasury. Financial Planning Division have been consulted about this submission and noted that there are no additional financial implications for the Assembly. The Housing Directorate are in full agreement with the proposed 3.5% guideline rent increase.

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Annex 1

<b>HRA: COMPARISON OF "NOTIONAL" AND ACTUAL</b>		<b>ACCOUNT</b>	
<b>Example:</b>			
		<u>LA</u>	<u>Assembly</u>
		<u>Actual</u>	<u>Notional</u>
		£m	£m
<b>Income:</b>			
Rents		8.7	8.8
Service Charges		0.4	0
Total Income:	(A)	<b>9.1</b>	<b>8.8</b>
<b>Expenditure:</b>			
Management & Maintenance		4.2	4.6
Service Charges		0.4	0
Loan Charges		1.9	1.8
Total Expenditure	(B)	<b>6.5</b>	<b>6.4</b>

Surplus before rent rebates (A - B)	2.6	2.4
Rent rebates (Housing Benefit)	-5.8	-5.8
Sub-total	<b>-3.2</b>	<b>-3.4</b>
HRAS entitlement	3.4	3.4
Overall surplus	0.2	0

Note: Notional HRA always comes to nil, because

HRAS entitlement is the balancing figure