

Chief Financial Officers/Chief
Accountants,
Local Housing Authorities, England
Treasury advisers

Our Ref:
Your Ref:

January 2011

I should be grateful if you would pass a copy of these papers to your Chief Housing Officer/Director of Housing as soon as possible, please.

Dear Chief Finance Officer/ Chief Accountant, Treasury Advisers

THE HOUSING REVENUE ACCOUNT SUBSIDY AND THE ITEM 8 CREDIT AND ITEM 8 DEBIT (GENERAL) DETERMINATIONS 2011-2012

Introduction

My letter of 4 November enclosed drafts of, among other things,

- the Housing Revenue Account Subsidy Determination 2011-2012, and
- the Item 8 Credit and Item 8 Debit (General) Determination 2011-2012

for consultation.

Ministers have now considered the comments and representations received and have decided to confirm the proposals in the consultation.

The attached Appendix gives details of the Determinations and accompanying material which are today being sent to your authority by e-mail and placed on the Department for Communities and Local Government's website. These Determinations will have effect for 2011-2012.

On 5 October Ministers announced their intention to replace the existing HRA subsidy system with a reformed, 'self-financing', system of council housing finance. We expect to implement the reformed system through powers in the Localism Bill. Until a new system is implemented the existing HRA subsidy system will remain in place.

The Housing Revenue Account Subsidy Determination 2011-2012

A commentary is attached explaining the basis of the 2011-2012 Determination.

Inflation factors

You are reminded that in calculating formula rents and setting actual rents for their tenants, authorities should note that 'caps' on formula rents will increase by RPI + 1% where RPI is the *all-items* increase as at September of the preceding year. For 2011-2012, the September 2010 figure of **4.6%** should be used for RPI. The same

rate of **4.6%** also applies for 2011-2012 to the limit on individual rent changes of RPI + 1/2% + £2.

You will also wish to note that the GDP deflator which has been used in calculating Management and Maintenance allowances and the Major Repairs Allowance has increased to **2.25%** in the final Determination, giving many authorities an increase in their allowances over those notified in the consultation on the draft HRA Subsidy Determination.

Rents and Rent Restructuring - Average 6.8% guideline rent increase for 2011-2012

The rent convergence policy – together with a formula for setting annual council and housing association rent increases – was introduced in the early 2000's with the aim that local authority and housing association tenants will eventually pay similar rents for similar properties in similar areas. At the time, it was thought this would take around 10 years to implement.

Ministers have decided to stay with rent convergence policy and to use the existing formula to determine the average guideline rent increase for 2011-2012. The rent increase has, therefore, been established according to RPI inflation at September 2010, which was 4.6%, combined with a factor for convergence. The Determination is based on convergence within 5 years, a measure which gained support in consultation responses. A 2015-2016 convergence timeframe is consistent with the Department's work on self-financing.

These inflation and convergence factors have been used to calculate 2011-2012 guideline rents, and have resulted in a national average increase of 6.8%. The Department has considered all representations received during consultation on the draft HRA Subsidy Determination. Our conclusion is that the 6.8% average guideline rent increase should be confirmed.

Management and Maintenance Allowances

This HRA Subsidy Determination continues the principle introduced for 2009-2010 that the Department would adopt measures to reduce volatility in the system in relation to the calculation of allowances. As with the Determination for 2010-2011, this Determination continues the use of a three-year average for the crime data inputs and the use of a three-year average to smooth changes in the BCIS building cost adjustment index.

Major Repairs Allowance

The Major Repairs Allowance (MRA) for 2011-2012 also continues to incorporate a three-year average building cost adjustor but retains the original national base weights. Allowances for MRA have been up rated by the forecast GDP deflator for 2011-2012, currently 2.5%. The proposed MRA per dwelling for each authority is specified in Schedule 6 to the Determination.

Arms Length Management Organisations (ALMOs) and Decent Homes Allocations

In 2011-2012 authorities who have been receiving an ALMO expenditure allowance under Rounds 1 and 2 of the ALMO programme will receive Supported Capital Expenditure (Revenue) (SCE(R)) to give an upwards adjustment of their Subsidy Capital Finance Requirement that equates to the total ALMO capital funding support they had received. The attached HRA Subsidy Determination spreadsheet includes these figures for the relevant authorities.

Please note that, as advised in my letter of 4 November, we do not as yet have HRA Supported Capital Expenditure (Revenue) - SCE(R) – allocations for Decent Homes for 2011-2012. Special determinations will be issued to the relevant authorities as quickly as possible after new capital allocations are agreed.

Charges for Capital

This section of the Determination sets out the calculation for subsidy entitlement for those authorities with a positive Subsidy Capital Financing Requirement (SCFR). That is, those that are deemed to be paying the costs of servicing debt. Schedule 8 in the determination spreadsheet sets out each authority's SCFR. G is the same as the number in Schedule 8 except where it is changed by the calculation under paragraph 5.2, which takes account of stock disposals over the previous two years. If during those two years the authority has received sufficient capital receipts from stock disposals to turn their SCFR negative, and their stock levels have now fallen below the threshold at which we expect them to maintain an open HRA (50 dwellings) – in other words they have transferred their stock - G for them is also zero. Such authorities are likely to apply to close the HRA, and this calculation ensures their negative SCFR will not be taken into account under the 'Interest on Receipts' calculation in the Determination.

The Consolidated Rate of Interest

In response to our questions about the treatment of finance leases for the purposes of the Capital Financing Requirement and the Consolidated Rate of Interest calculations, the Department received a number of representations, including concerns about the changes to the way local authorities are required to account for leases under IFRS. The representations asked that credit arrangements are taken out of the CFR and so CRI calculations.

We have considered this issue very carefully and have decided that, as our intention is for this to be the final determination round under the current system, we should not make any significant changes. We will be issuing detailed proposals for the reformed, 'self-financing', system in January and this will include advice on the treatment of the Consolidated Rate of Interest.

Interest on Receipts

Interest on receipts have been calculated in the same way as for the 2010-2011 HRA Subsidy Determination.

Item 8 Credit and Item 8 Debit (General) Determination 2011-2012

The 2011-2012 Item 8 Determination is substantially the same as that issued for 2010-2011.

Debt Repayment and Management Costs

We have re-introduced an element, 'F', into the calculations for Debt Repayment and Management Costs to allow local authorities to charge amounts voluntarily set aside for repayment of debt or credit arrangements, to the HRA. We have also adjusted paragraph 6.3, the Mid-year Capital Financing Requirement, to reflect this.

New build schemes under s80B

The Department has received queries from some authorities about funding the depreciation charge for new build properties built through a scheme under s80B of the Local Government and Housing Act 1989. Depreciation on HRA assets other than housing stock is fully reversed out; under the subsidy system depreciation of housing stock is adjusted so that it equals MRA. Because there is nothing in MRA for these new build properties, there will be no bottom line hit for the depreciation on them in the HRA, but also no funds in the Major Repairs Reserve (MRR) to meet expenditure on them.

We have allowed for voluntary set aside in the new Item 8 ('F' in the Debt Repayment and Management Costs calculations). But although set aside achieves the repayment of debt, it does not provide a spending resource.

As authorities will be receiving rents on their s80B new build properties (and there are no assumptions in the subsidy calculations in relation to the rents on the properties) we consider there should be funds available to meet a depreciation charge. There cannot actually be a bottom line hit for depreciation because of the reversal mentioned above. But it is open to authorities to put an amount equal to depreciation into a revenue reserve, which could be used for exactly the same purposes as the MRR (and indeed other purposes as well). We consider this would achieve the same result as MRR. The key is that the rent from new properties is not deducted in calculating subsidy and hence is available to the HRA, and that we anticipate it should be sufficient to cover a depreciation charge in addition to the other expenditure the houses will generate.

However, we would be open to investigating other possibilities if this does not appear to provide an adequate solution.

Adjustment A

We have also clarified that, where the calculations for Adjustment A for the general Capital Financing Requirement result in a negative figure, Adjustment A should be nil. This is to avoid any unintended upward impact on authorities' Minimum Revenue Provision.

You may wish to note that this letter and Appendix comprise 6 pages in total.

Queries and advice

If you have any queries you wish to discuss with the Department, or are seeking advice on any aspects of the above, please contact:

Paul Crittenden, Zone 1/J10, Eland House (tel: 0303 44 44286; e-mail paul.crittenden@communities.gsi.gov.uk) or **Chris Stennett**, Zone 1/J10, Eland House (tel: 0303 44 42406; e-mail chris.stennett@communities.gsi.gov.uk) on the calculation of the proposed Management and Maintenance allowances, the MRA, and rents;

Ann Williams, Zone 1/J10, Eland House (tel: 0303 44 43724; e-mail ann.williams@communities.gsi.gov.uk) on Charges for Capital, Other Items of Reckonable Expenditure and Interest On Receipts, and the Item 8 Determination for 2011-2012;

Bryan Lea, Zone 1/J10, Eland House, (tel: 0303 44 43726; e-mail bryan.lea@communities.gsi.gov.uk) on policy relating to management and maintenance allowances, or transitional arrangements for former negative subsidy authorities;

Yours faithfully,

Ann Williams

Appendix

The following documents are available on the Department's web site at

[\[http://www.communities.gov.uk/housing/publications/consultations\]](http://www.communities.gov.uk/housing/publications/consultations)

- a. The **Housing Revenue Account Subsidy Determination 2011-2012**, including various Schedules showing, among other things, specified amounts for 2011-2012. The specified amounts are based on data supplied by authorities and their auditors in the base data returns for 2011-2012 which were received by the Department up to and including 10 December 2010;
- b. A **commentary on the HRA subsidy Determination**, explaining changes proposed between 2010-2011 and 2011-2012;
- c. The **Item 8 Credit and Item 8 Debit (General) Determination 2011-2012**;
- d. A **commentary of the Item 8 Determination**, explaining the changes proposed between 2010-2011 and 2011-2012
- e. A note setting out the proposed policy on and arrangements for making **applications for derogations** from rent rebate subsidy limitation;
- f. A worksheet (in Excel) showing the data to be used in making the calculations for each authority in respect of the 2011-2012
 - formula rent,
 - guideline rent,
 - limit rent,
 - management and maintenance allowances,
 - major repairs allowance,
 - Subsidy Capital Financing Requirement,
 - interest on receipts,

Authorities will be able to use that spreadsheet to produce Annexes specific to their authority.