

# Commentary on the Item 8 Determination for 2011-2012

## Introduction

1. This commentary outlines any changes made to the Item 8 Determination for 2011-2012.
2. The main change reflects the re-introduction into the formula for the calculation of Debt Repayment and Management Costs of an element to allow amounts voluntarily set aside by local authorities for repayment of debt and credit arrangements incurred for a housing purpose to be accounted for in the HRA.

## Citation and Commencement (paragraph 1 of the determination)

3. The determination will apply for 2011-2012 only. Work is currently going forward on the reform of the system of council housing finance and, as part of this, consideration is being given to the impact of the changes on Item 8 and what any new general determination may look like. We expect to implement the reformed system through powers in the Localism Bill, including a power to make a determination setting out the levels of the one-off payments between Government and each landlord which will be a condition of ending the current system. The determination would be subject to consultation.
4. References to various dates and years in the determination have been updated where appropriate.

## Item 8 Debit to the Account (paragraph 4 of the determination)

### **Capital Asset Charges**

5. No changes from the 2010-2011 HRA Item 8 determination are proposed to the Capital Asset Charges section of the 2011-12 Item 8 debit determination.

### **PFI Scheme Payments**

6. No changes from the 2010-2011 Item 8 determination are proposed to the PFI Scheme Payments section of the 2011-12 Item 8 debit determination.

### **Consolidated Rate of Interest**

7. No changes from the 2010-2011 HRA subsidy determination are currently proposed to the Consolidated Rate of Interest section of the 2011-12 Item 8 debit determination. But local authorities should refer to the paragraph relating to the Consolidated Rate of Interest in the letter to Chief Finance Officers covering this determination package.

### **Mid-Year Capital Financing Requirement**

8. The mid-year HRA CFR for 2011-2012 is calculated by taking the opening HRA CFR for 2011-2012 - as defined in paragraph 7 of the 2011-2012 Item 8 determination - and adding certain items while deducting others.

### **Items to be Aggregated with and Deducted from the Mid-Year Capital Financing Requirement**

9. Consistent with the re-introduction of an element relating to voluntary set aside in the Debt Repayment and Management Costs section of the determination ('F' in the formula, paragraph 4.4), local authorities will be expected to deduct from the mid-year HRA CFR half of any amount voluntarily set aside for repayment of debt or credit arrangements in 2011-2012.

### **Items to be Aggregated with and Deducted from the Opening Capital Financing Requirements**

10. No changes from the 2010-2011 Item 8 determination are proposed to the calculations for the opening HRA Capital Financing Requirement.

## **Adjustment A**

11. In response to queries raised with the Department, we have concluded that for the purposes of calculating the CFR andCRI Adjustment A may not be less than nil.
12. Minimum Revenue Provision (MRP) regulations allowed for Adjustment A to be a negative amount. However, this works to authorities' disadvantage by increasing their MRP liability. When introducing the new MRP regime in 2004, as part of the Prudential system, the Government's policy aim was that the move from the former MRP scheme should not itself increase any authority's

MRP liability. The intended result of the calculations was to identify the amount (Adjustment A) by which the CFR at 31 March 2004 exceeded the credit ceiling for MRP purposes at the start of the new system. Reducing the CFR by Adjustment A provides a basis for calculating MRP which gives a result no higher than under the old system. We believe that a negative Adjustment A would result in an anomalous and disadvantageous result, and accordingly that where Adjustment A is negative it should be nil.