

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

Our Ref:
Your Ref:

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.

COMMENTS ARE REQUIRED BY NO LATER THAN 5pm 16th DECEMBER 2010, PLEASE.

ANY AUDITOR-CERTIFIED CHANGES TO BASE DATA ARE REQUIRED BY NO LATER THAN 5pm WEDNESDAY 10th DECEMBER.

Dear Chief Finance Officer/ Chief Accountant, Treasury Advisers

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

Introduction

Under Section 87(2) of the Local Government and Housing Act 1989, the Secretary of State is required to consult representatives of local government and relevant professional bodies before making new directions and determinations, or before varying existing determinations.

The purpose of this letter is to notify you of the start of consultation on the determinations mentioned above. **Consultation ends at 5pm on 16th December 2010.**

The attached Appendix gives details of the draft determinations and accompanying material.

Background and context

On 5 October Ministers announced their intention to replace the existing HRA subsidy system with a reformed 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.

It is our intention, therefore, to issue the 2011-2012 HRA Subsidy and Item 8 Determinations constructed using similar parameters to those used in earlier years.

Existing policy is to establish the percentage local authority average guideline rent increase by applying RPI inflation at the previous September, and a convergence factor to reflect the number of years to rental convergence with the housing association sector.

September 2010 RPI inflation was 4.6%. This has been used to calculate guideline rents. The draft determination is based upon convergence within 5 years, by 2015-16. This is consistent with the Department's work on self-financing.

This produces an average guideline rent increase for 2011-12 of 6.8% the increase which has been used for calculating 2011-2012 subsidy entitlement in this draft consultation.

Base Data

Each year the draft and final determinations are calculated using audited base data supplied by authorities on the base data forms, which were completed over the summer and audited by 11 October. There are inevitably some circumstances each year which require the Department to make assumptions when setting the draft and final determinations, where reliable data have not been returned in time for inclusion in the calculations.

As usual, the Department will write separately to individual authorities with audit qualifications on their base data forms. Where these qualifications appear to us to be significant we will be asking authorities to resolve the issue and advise the Department of action taken and give the opportunity for re-certification. We will consider authorities' representations, but authorities are reminded that where the Department has to make assumptions at any stage to calculate the draft and final determinations, it will make such assumptions as it deems necessary to protect the Exchequer in accordance with s85 of the Local Government and Housing Act 1989. This action will become more likely where an authority's forms have previously been qualified for the same reason.

Authorities will continue to be able to request that base data forms be unlocked for recertification by auditors until close on 10th December.

You are reminded that the Department's policy is that once pre-set amounts have been calculated and issued with the final determination, we will not revisit the calculations underlying those pre-set amounts unless it can be shown that the Department itself has made an error.

The Draft Housing Revenue Account Subsidy Determination 2011-2012

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

Management and Maintenance Allowances

This draft determination continues the principle introduced for 2009-10 that the Department would adopt measures to reduce volatility in the system in relation to the calculation of allowances. As with the determination for 2009-10, this draft 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 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 1.9%. The proposed MRA per dwelling for each authority is specified in Schedule 6 to the draft determination.

ALMOs and Decent Homes Allocations

In 2011-12 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.

Allocations of new supported borrowing for Decent Homes funding in 2011-2012 following the Spending Review will be determined following a process of consultation and bidding to be managed by the Homes and Communities Agency. At this stage we do not expect to be able to include new capital allocations in the final subsidy determination. 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

The Department has received some representations from local authorities raising concerns about the impact of credit arrangements, and in particular finance leases, on the CFR and consequently on the CRI. There is added concern arising from the changes to the way local authorities are required to account for leases under IFRS. The representations have asked that credit arrangements are taken out of the CFR and so CRI calculations.

The Department is unclear how many authorities might be affected and what the impact of such a change could be for individual authorities and across the sector. It would, therefore, be helpful to have feedback on this from authorities and their Treasury Advisers.

Interest on Receipts

Interest on receipts will be calculated in the same way as for the 2010-2011 subsidy determination.

Draft 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.

However, 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.

Views are invited on these proposals, and on the wordings set out in the attached draft 2011-2012 Item 8 determination.

Consultation Procedures

Paper copies of the consultation documents and detailed authority annexes are not routinely issued (unless your authority specifically requested them). Instead, the documents referred to in this letter are being made available on the Department's web site at the following address:

<http://www.communities.gov.uk/housing/publications/consultations>. Documents will be available either in *Adobe Acrobat* format or, in the case of numeric information, as Excel files, which can be freely downloaded from the web-site. The documents will also be e-mailed (along with this letter) to authorities which have notified us of a suitable e-mail address. In case of difficulty accessing the material on the web site or with e-mail, please contact Victoria Akeredolu, Zone 1/J10, (e-mail: victoria.akeredolu@communities.gsi.gov.uk).

Consultation responses

Where to Send Comments on the Draft Determinations Etc.

I would be grateful if you could please send any comments on the proposals contained in the draft determinations and direction to: Victoria Akeredolu, Department for Communities and Local Government, Zone 1/J10, Eland House, Bressenden Place, London, SW1E 5DU (e-mail victoria.akeredolu@communities.gsi.gov.uk) to be received by the Department **BY NO LATER THAN 16th DECEMBER 2010 (but please note that the deadline for making any auditor-certified changes to the base data is 5pm on 10th DECEMBER**. If you are sending comments by e-mail, could I please ask that they are given a heading of **HRAS Consultation**: this will enable us to process them more easily.

Please indicate whether you wish your comments to be treated as confidential. Otherwise the Department will assume that you are content for a copy to be made publicly available in the department's libraries and the House of Commons Library.

You may wish to note that this letter and Appendix comprise 7 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 **Mark Williams-Jones**, Zone 1/J10, Eland House (tel: 0303 44 44059; e-mail mark.williams-jones@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, the draft 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 consultation 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 draft **Housing Revenue Account Subsidy Determination 2011-2012**, including various Schedules showing, among other things, proposed specified amounts for 2011-2012. The proposed 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 11 October 2010;

You are advised to check carefully the figures used in the calculations of the specified amounts for your authority against the information provided by your authority and, if provided by the above date, that certified by your auditor on the auditor-certified return for 2011-2012 (form 11B2) and any earlier years. You are advised to bear in mind the policy on specified amounts set out in the enclosed commentary on the determinations. If your authority has been issued a special HRA subsidy determination that has affected your SCFR, you are advised to check any amendment has been reflected.

If you wish to amend any of the data used in the calculations, please provide amendments via your auditor. **All amendments must be submitted via LogasNet. The Department will not accept any amendments submitted by disk, email, fax or on paper copies of the form.** A certificate from your auditor and a full explanation as to why changes to the data are required should accompany any amended data submitted. **AUDITOR-CERTIFIED AMENDMENTS MUST BE SUBMITTED AS SOON AS POSSIBLE AND NO LATER THAN 5 p.m. ON 10th DECEMBER 2010.**

- b. A **commentary on the draft HRA subsidy Determination**, explaining changes proposed between 2010-2011 and 2011-2012;
- c. The **draft Item 8 Credit and Item 8 Debit (General) Determination 2011-2012**;
- d. A **commentary of the draft 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 proposed 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.