

23 November 2007

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

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 9th JANUARY 2008,
PLEASE.**

**ANY AUDITOR-CERTIFIED CHANGES TO BASE DATA ARE REQUIRED BY NO
LATER THAN 5pm THURSDAY 20th DECEMBER.**

Dear Chief Finance Officer/ Chief Accountant,

**DRAFT HOUSING REVENUE ACCOUNT (ITEM 8) AND DRAFT HOUSING
REVENUE ACCOUNT SUBSIDY DETERMINATIONS 2008-2009**

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 9th January 2008.**

The attached Appendix gives details of the draft determinations and accompanying material. It is extremely important that you consider this letter, the appendix, commentary and enclosed determination very carefully.

You will already be aware that this consultation on the 2008-2009 draft determinations has been delayed due to the later than usual completion of the Comprehensive Spending Review exercise. It is our intention, subject to consultation responses, to make the final determination on or around 14 January 2008.

We apologise for this. The Department is acutely aware of the need for local authorities to set budgets in a timely fashion.

The Draft Housing Revenue Account Subsidy Determination 2008-2009

A commentary is attached explaining the basis of the 2008 -2009 determination. This determination is for one year only and a new determination will be issued for 2009-2010. Stakeholders may have been expecting that the current draft would be the first in a two-year settlement under the provisions introduced in 2006-2007. The recent Green Paper, *Homes for the Future: More Affordable, More Sustainable* suggested the need to explore the possibilities for wider reform of the HRA subsidy regime. Ministers are considering taking this route; hence it is not possible to set formulae for more than one financial year at this stage.

Rental Constraint Allowance

The rental constraint allowance (RCA) was a two year allowance running in 2006-2007 and 2007-2008. It has been removed from the subsidy calculation for 2008-2009. The RCA was intended to reimburse local authorities for the cost of holding increases in actual rents to the recommended 5% maximum. In the event, actual rents rose by an average 5.7% despite this measure.

Rents and Rent Restructuring

Communities and Local Government consulted on the methodology for setting guideline rents in 2008-2009 and later years over the late summer of 2007. Only two viable options were identified in the current fiscal environment: to return to rent restructuring as it existed prior to the RCA, or to return to rent restructuring with a convergence date extended beyond 2011-2012.

Fifty-nine responses were received from stakeholders. Of these just over 60% favoured the option to extend convergence. Only four authorities (7%) favoured a return to unmodified rent restructuring. The remaining 33% all favoured or suggested a number of alternative measures including the retention of the RCA, but there was no consensus as to what this should be.

Ministers are minded to apply downward pressure on the guideline rent trajectory in 2008-2009 with the aim of maintaining rent affordability for tenants.

Therefore, taking account of the representations received, Ministers propose – *solely for the purpose of calculating guideline rents for 2008-2009* - to put back the date for rent convergence under rent restructuring to 2016-2017. The likelihood is that this date will be reviewed for future determinations given that Ministers are considering the possibility of wider reform of the HRA subsidy system.

Management and Maintenance Allowances

An additional allowance of £4 per dwelling per year has been built into the Management allowance per dwelling to fund the production of Energy Performance Certificates for local authority stock. The Government's intention is that this not a one-off allowance for 2008-2009 but rather that it will form a continuing constituent part of the allowance for at least the next decade as certificates will be valid for 10 years.

Following the introduction of new management and maintenance formulae in 2004-2005, Ministers decided that each authority's allowances would be protected in real terms in 2004-2005 and 2005-2006. Full cash protection was made available for 2006-2007 and 2007-2008. Ministers propose that full cash protection should be extended into 2008-2009.

Major Repairs Allowance

There are no changes to the methodology, but archetype weights and measures of geographical variation in construction costs have been updated.

The proposed MRA per dwelling for each authority is specified in Schedule 6 to the draft determination.

Draft Item 8 Credit and Item 8 Debit (General) Determination 2008-2009

The 2008-2009 Item 8 determination is substantially the same as that issued for 2007-2008. With no substantive changes between 2007-2008 and 2008-2009, there is no commentary for the Item 8 determination for 2008-2009.

Commentary to the General Determination of Administration of Housing Revenue Account Subsidy 2004

Please note that there have been minor changes to the way Communities and Local Government *collects* payments of HRA subsidy. There are no changes to the way HRA subsidy is paid by Communities and Local Government. Authorities were notified of this change through the LogasNet system during September 2007 and they took effect with the October 2007 HRA subsidy payment run. The changes do not require a revision to the General Determination of Administration of Housing Revenue Account Subsidy 2004, but Communities and Local Government has revised the guidance in the commentary to that Determination, which is included with this exercise for information.

Paragraph 17 of the Commentary dated February 2004 should be deleted and the following revised text inserted:

Paragraph 5: Payment

- 17 Paragraph 5 makes clear that, as currently, on-account payments will be made in ten instalments. Debits of negative amounts of subsidy are expected to be received from authorities in ten instalments, but on different dates to those that payments of subsidy are made.

Consultation Procedures

Paper copies of the consultation documents and detailed authority annexes are not being 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/consult> . 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/A3, (e-mail: victoria.akeredolu@communities.gsi.gov.uk).

If your authority decides that it is no longer willing to accept electronic communication of Part VI determinations and s80A decisions, it may withdraw its notification of an e-mail address, or revoke its agreement at any time, provided that the withdrawal or revocation shall take effect on a date specified by your authority being a date no less than one month after the date on which your authority informs the Department that it wants to withdraw the notification or revoke the agreement. Any withdrawal of notification of your authority's e-mail address or revocation of an agreement relating to electronic communications should again be addressed to Victoria Akeredolu, Zone 1/A3 at the address shown in this letter (or e-mailed to victoria.akeredolu@communities.gsi.gov.uk).

I would, however, draw your attention to the significant advantages that electronic communications can bring in terms of earlier receipt of consultation material and final determinations, particularly at this time of the year. **Authorities which have indicated that they do not wish to receive correspondence by e-mail may wish to reconsider, particularly in the light of the timetable for making the HRA Subsidy Determination.** Notification of e-mail addresses should be to Victoria Akeredolu.

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/A3, 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 9th January 2008 (but please note that the deadline for making any auditor-certified changes to the base data is 5pm on 20th 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:

Somnath Chatterjee, Zone 1/A3, Eland House (tel: 020 7944 3588; e-mail somnath.chatterjee@communities.gsi.gov.uk) or **Alex Lohead**, Zone 1/A3, Eland House (tel: 020 7944 5562; e-mail alex.lohead@communities.gsi.gov.uk) on the

calculation of the proposed Management and Maintenance allowances, the MRA, and rents;

Steve McAllister, Zone 1/A3, Eland House (tel: 020 7944 3582; e-mail stephen.mcallister@communities.gsi.gov.uk) on Charges for Capital, Other Items of Reckonable Expenditure and Interest On Receipts, the draft Item 8 determination for 2008-2009;

Bryan Lea, Zone 1/A3, Eland House, (tel: 020 7944 3585; 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,

Stephen McAllister

Appendix

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

<http://www.communities.gov.uk/housing/consult>

- a. The draft **Housing Revenue Account Subsidy Determination 2008-2009**, including various Schedules showing, among other things, proposed specified amounts for 2008-2009. The proposed specified amounts are based on data supplied by authorities and their auditors in the base data returns for 2008-2009 which were received by the Department up to and including 19 November 2007;

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 2008-2009 (form 08B2) 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 Thursday 20th DECEMBER 2007.**

- b. A **commentary on the draft HRA subsidy Determination**, explaining changes proposed between 2007-2008 and 2008-2009;
- c. The **draft Item 8 Credit and Item 8 Debit (General) Determination 2008-2009**;
- d. A note setting out the proposed policy on and arrangements for making **applications for derogations** from rent rebate subsidy limitation;
- e. A worksheet (in Excel) showing the data to be used in making the calculations for each authority in respect of the proposed 2008-2009

- 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.