

15 January 2008

Chief Financial Officers/Chief Accountants, Our Ref:
Local Housing Authorities, England 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.

Dear Chief Finance Officer/ Chief Accountant,

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

Stephen McAllister's letter of 23 November 2007 enclosed drafts of, among other things,

- the Housing Revenue Account Subsidy Determination 2008-2009, and
- the Item 8 Credit and Item 8 Debit (General) Determination 2008-2009

for consultation. This was then supplemented by Stephen McAllister's email of 10 December 2007 which included an amended version of the draft HRAS determination to correct errors in the guideline rent levels and the MRA.

Ministers have now considered the comments and representations received and, subject to taking account of later information where necessary, they have decided to confirm the proposals in the consultation (as amended by the email of 10 December 2007).

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 Communities and Local Government's website.

You will already be aware that the determination process has been delayed due to the later than usual completion of the Comprehensive Spending Review exercise. We apologise for this. The Department is acutely aware of the need for local authorities to set budgets in a timely fashion.

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 2008-2009, the September 2007 figure of **3.9%** should be used for RPI, as it was in the draft determination.

The same rate of **3.9%** also applies for 2008-09 to the limit on individual rent changes of RPI + 1/2% + £2.

As a result of the Chancellor's Pre Budget Report, 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 is **2.75%** in the final Determination, as it was in the draft determination.

Please note that in line with previous practice, the HRA SCE(R) for 2008-2009 that feed into the calculation of the SCFR for 2008-2009 have been updated in the final determination. This is simply because final details are not available at the time the draft was issued. In addition, the final determination contains the latest agreed ALMO SCE(R) values for 2007-2008 and 2008-2009. This may cause variance between the draft and final SCFR and ALMO allowances for ALMO authorities where the 2007-2008 or 2008-2009 value for ALMO supported borrowing was modified or agreed between the issue of the draft and final HRA subsidy determination.

The 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. As noted in Stephen McAllister's earlier letter, stakeholders may have been expecting that the current determination would be the first in a two-year settlement under the provisions introduced in 2006-2007. The 2007 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; since then Ministers have announced their intention to commission a full review of the HRA subsidy system. We appreciate that some authorities may experience a degree of frustration at the competing requirements of financial planning and a single-year settlement, but it is not possible to set formulae for more than one financial year when the review is underway.

We would envisage as part of this review that local authorities may be asked for information and views on aspects of housing finance and the HRA over the course of the Review. While not wishing to burden local authorities further with information requests, we would hope that local authorities would support the review process.

Rental Constraint Allowance

A significant number of authorities responding to the consultation expressed concern at the withdrawal of the rental constraint allowance (RCA) in 2008-2009 without a clear indication of what would replace it. To remove any ambiguity, the ending of the RCA will mean a return to the Caps and Limits regime, with the loss of income for local authorities that results from application of this protection being taken account of through an adjustment to the guideline rent in the year following that loss of income.

It is the Department's intention to circulate a spreadsheet shortly which will allow authorities to reassure themselves that relative movements between constrained and unconstrained transitional rents will be accounted for in 2009-2010.

Rents and Rent Restructuring

Maintaining rent affordability for tenants continues to be a concern for Ministers, who have decided to apply downward pressure on the guideline rent trajectory in 2008-2009 with the aim of addressing this issue.

Solely for the purpose of calculating guideline rents for 2008-2009, Ministers have decided to put back the date for rent convergence under rent restructuring to 2016-2017. With the forthcoming wider review of the HRA subsidy system, it is very likely that this convergence date will be revisited again in future determinations.

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.

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 have confirmed that full cash protection shall be extended into 2008-2009.

Major Repairs Allowance

There are no changes to the methodology. The determination adopts the approach taken in the revised draft HRAS determination sent out on 10 December 2007 which used the same data as in 2007-2008.

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

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

The 2008-2009 Item 8 determination is the same as that issued for 2007-2008 – the only difference is that we have rolled all the years forward one year so that 2007-2008 becomes 2008-2009. With no 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.

Distribution Procedures

Apart from this letter, paper copies of the Determinations, accompanying 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 Communities and Local Government's web site, in accordance with the provisions of section 87(5) of the 1989 Act, at the following address: <http://www.communities.gov.uk/housingfinance>.

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, Eland House (tel: 020 7944 3602; 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 Communities and Local Government 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** at the address shown in this letter (or e-mailed to victoria.akeredolu@communities.gsi.gov.uk).

Queries and advice

If you have any queries you wish to discuss with Communities and Local Government, 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 **Will Rawstone** Zone 1/A3, Eland House (tel: 020 7944 5562; e-mail william.rawstone@communities.gsi.gov.uk) on the Management and

Maintenance allowances, the MRA, and rents (paragraphs 4 and 8 of the Subsidy determination);

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, and the 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;

Copies of any of the papers mentioned here can be obtained by telephoning Bryan Lea.

Yours faithfully,

Anne Kirkham

Appendix

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

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

- a. The **Housing Revenue Account Subsidy Determination 2008-2009**, including various Schedules showing, among other things, specified amounts for 2008-2009. The 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 20 December 2007;
- b. A **commentary on the HRA subsidy Determination**, explaining changes made between 2007-2008 and 2008-2009;
- c. The **Item 8 Credit and Item 8 Debit (General) Determination 2008-2009**;
- d. A note setting out the 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 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.