

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

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 9 DECEMBER 2008,
PLEASE.**

**ANY AUDITOR-CERTIFIED CHANGES TO BASE DATA ARE REQUIRED BY NO
LATER THAN 5pm TUESDAY 2ND DECEMBER.**

Dear Chief Finance Officer/ Chief Accountant,

**DRAFT HOUSING REVENUE ACCOUNT (ITEM 8) AND DRAFT HOUSING
REVENUE ACCOUNT SUBSIDY DETERMINATIONS 2009-2010**

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 9 December 2008.**

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

In our pre-determination consultation, which ended on 10 October, we stated that the draft determination would include more than one set of figures to illustrate the different rent-setting options. For this reason, also included with this package is a set of figures illustrating the effects of a 'default' option based on September 2008 RPI and with the original rent restructuring convergence date of 2011-12. Because September 2008 RPI is 5%, and the convergence date in this scenario is earlier, it produces some very high average guideline rent increase figures. Authorities may wish to use this option, which would not be the preferred one for Communities and Local Government, for comparison with that of fixing the average guideline rent increases for 2009-10 and 2010-11 and not linking these to the current rate of inflation.

It is extremely important that you consider this letter, the appendix, commentary and enclosed determination very carefully.

Background and context

Until the outcome of the current joint Communities and Local Government and HM Treasury Review of Council Housing Finance (the Review) is known, we propose that significant changes to the current system should be avoided. The Review is expected to report to Ministers in Spring 2009, with consultation on proposals taken forward in the light of the timetable for the next Spending Review. In developing thinking for the Review, we will also need to have regard to the housing reform agenda, the planned green paper, and the outcome of DWP's review of Housing Benefit and the role of the Tenant Services Authority. In the meantime, we want to maintain as stable a position as possible over the next two years. To this end, it is our intention to continue to issue new HRA Subsidy and Item 8 Determinations annually but we are setting this year the parameters by which we intend the 2010-11 determination will be constructed as well as the parameters for 2009-10.

It is our intention, therefore, that the formulae and definitions used in this 2009-10 determination will remain unchanged for 2010-11 except where there are agreed annual updates to the data.

We also wish to create some certainty in the level of rent increases over the next two years and so instead of guideline rent increases being dependent on the level of inflation prevailing in September this year, and September next year for the 2010-11 determination, we propose to use fixed average percentage rent increases in both the current determination and that for 2010-11.

To maintain the fixed percentage increase of 6.1% the rent formula for 2010-11 may be different to that proposed for the current determination round as we may have to readjust the convergence date depending on the underlying rate of inflation at the time

This initial two-year approach will bring the determination cycle back in line with that for the Comprehensive Spending Review and any outcomes from the Review of Council Housing Finance currently under way.

Local Government Reorganisation

A number of local housing authorities are involved in the formation of new Unitary Authorities that will come into existence on 1 April 2009. We propose, for 2009-10 only, to issue the Determination to these authorities with the data broken down to reflect the pre-existing authorities' base data as supplied over the summer of 2008, rather than combining data to produce average allowances and guideline rents for the new authority.

The new Unitary Authorities will therefore each receive a single HRA Subsidy determination and a single Item 8 Determination, but with detailed individual annexes reflecting the local government structure existing in 2008-09. This transitional approach will allow time for both the Department and those authorities involved in reorganisation to address a number of issues concerning the amalgamation of multiple HRAs and diverse rent and allowance levels, and other relevant issues.

Although the data is to be provided in this disaggregated manner for 2009-10 only, it is in no way suggested that the new authorities will be constrained to apply the data strictly to the existing local authority districts and budgeting will be a matter for local treasury management as always.

The Draft Housing Revenue Account Subsidy Determination 2009-2010

A commentary is attached explaining the basis of the 2009-10 determination.

Rents and Rent Restructuring

The proposals in the draft HRA Subsidy Determination reflect the Communities and Local Government's preferred option of fixed guideline rent increases for this Determination and the next. The principle of fixing increases for two years was proposed in the Department's pre-determination consultation issued on 29 August. The majority of responding authorities expressed a preference for this option over a possible alternative of allowing guideline rent increases to be established by using September 2008 RPI, and returning to rent convergence in 2011-12, the original date.

We estimate that the alternative option would have led to high average guideline rent increases of around 9% in 2009-10, which would be likely to lead to unacceptably high actual rent increases.

Ministers' intention in using the fixed increases, therefore, is to protect tenants from both high and variable increases in inflation, while continuing to deliver our rent convergence policy. As a further measure to keep rents at affordable levels, we also propose a limit on actual rent rises above 7%. Councils will be compensated for loss of income where Communities and Local Government calculations show they would otherwise have had actual rent increases of higher than 7% if rent restructuring principles, as currently operated, were adhered to. The precise details of how this will work are explained in the Commentary. We expect very few authorities to be affected by this constraint.

Under the fixed option, the rent convergence date will change depending on what the actual rate of inflation is in the September prior to the draft determination being issued. For 2009-10 using a fixed average guideline rent increase of 6.2% the convergence date has to be pushed back to 2024-25 to accommodate the RPI for September at 5%. In the current economic environment it is plausible that inflation in September 2009 would be lower than current levels and this would have the impact of bringing the convergence date forward. For example, if RPI in September 2009 is 4% convergence in 2015-16 would accommodate a 6.1% increase in guideline rents. Similarly, if RPI falls to 3% the applicable convergence date would be 2013-14.

Therefore, taking account of the representations received, Ministers propose that average *guideline* rent increases for each local authority are based on an average of 6.2% in 2009-10 and 6.1% in 2010-11.

Management and Maintenance Allowances

In the pre-determination consultation views were invited from local authorities on measures to reduce volatility in the system in relation to the calculation of allowances, for instance through introduction of a three-year rolling average for

building costs data. The majority of responding authorities were in favour of these measures and so Ministers propose to use these for the 2009-10 HRA Subsidy Determination calculations. The key changes from 2008-09 to note are the return to 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

Major Repairs Allowance

The MRA for 2009-10 also incorporates a three-year average building cost adjustor but retains the original national base weights. Allowances for MRA have been uprated by the GDP deflator which currently stands at 2.75% for 2009-10.

In keeping with the Department's attempts to reduce volatility, the Determination continues to use existing base weights rather than the revised data available since 2007.

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 2009-2010

The 2009-10 Item 8 determination is substantially the same as that issued for 2008-09. With no substantive changes between 2008-09 and 2009-10, there is no commentary for the Item 8 determination for 2009-10.

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/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/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 9 December 2008 (but please note that the deadline for making any auditor-certified changes to the base data is 5pm on 2nd 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 **Will Rawstone**, Zone 1/A3, Eland House (tel: 020 7944 5562; e-mail william.rawstone@communities.gsi.gov.uk) on the calculation of the proposed Management and Maintenance allowances, the MRA, and rents;

Ann Williams, Zone 1/A3, Eland House (tel: 020 7944 3582; 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 2009-2010;

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,

Ann Williams

Appendix

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

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

- a. The draft **Housing Revenue Account Subsidy Determination 2009-2010**, including various Schedules showing, among other things, proposed specified amounts for 2009-2010. The proposed specified amounts are based on data supplied by authorities and their auditors in the base data returns for 2009-2010 which were received by the Department up to and including 27 October 2008;

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 2009-2010 (form 09B2) 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 TUESDAY 2ND DECEMBER 2008.**

- b. A **commentary on the draft HRA subsidy Determination**, explaining changes proposed between 2008-2009 and 2009-2010;
- c. The **draft Item 8 Credit and Item 8 Debit (General) Determination 2009-2010**;
- 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 2009-2010

- 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.