Housing Revenue Account Manual

2006–2007 Edition

Communities and Local Government

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Contents

Foreword

Scope of the manual

1. This manual describes the statutory rules governing both the keeping of the Housing Revenue Account (HRA) and the payment of subsidy to support it. It applies to English housing authorities. It also briefly describes the policy behind these rules and explains their practical application. Finally, it places the HRA and HRA subsidy arrangements in the wider context of public expenditure and the local government capital finance system.

Arrangement of the manual

2. The manual is arranged in three parts:

   (i) **Part I: Introduction** – covering the recent history and development of housing finance, and the local government capital finance system;

   (ii) **Part II: The Housing Revenue Account** – covering accounting and budgeting procedures generally (for both the HRA and the Housing Repairs Account) and each HRA debit and credit Item in more detail;

   (iii) **Part III: HRA Subsidy** – covering the general principles, the overall formula and each separate component within this, and claims procedures; worked examples are provided.

3. Information on extant directions and determinations for years from 1996–1997 onwards, and on contact points, together with a glossary of terms are included in the Appendices. There is also a comprehensive index.

Use of the manual

4. The manual is primarily intended as a practitioner's guide for local housing authorities keeping a HRA and claiming HRA subsidy. It is hoped that it will also be useful to housing managers in both the private and social sectors, District Auditors, academics and others with an interest in this area.

5. The manual refers to various accounting issues and practices in general terms, where these are relevant to the statutory requirements on the keeping of a HRA. It is not, however, intended to provide detailed technical guidance on accounting practices. This can be found in the various Chartered Institute of Public Finance and Accountancy (CIPFA) publications referred to in *Chapter 4.2*.

6. This manual is intended as an informative and explanatory commentary and guide to the rules governing the keeping of the HRA and the HRA subsidy system. It is not intended as an authoritative or comprehensive statement of the law, nor a substitute for the source legislative material. It should be read in conjunction with the statutory

provisions and any determinations, directions and regulations to which it refers. It is based on established policy and does not introduce any new issues of principle.

Effective date

7. Although the manual describes some of the history and development of the current system, it is effective for subsidy claim purposes from the financial year 2006–2007.

8. The manual is being published in electronic format only. Printed copies and CDs have not been produced.

9. Comments and suggestions from local housing authorities and others on the manual would be welcome and should be sent to the address below.

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1 Statutory Background

1.1 The basis of the present system was introduced in the Local Government and Housing Act 1989, ('the 1989 Act'). This prescribed the statutory framework for a new financial regime for local authority housing, provided for the ring-fencing of the Housing Revenue Account, and introduced a new subsidy system and new controls on local authority borrowing to meet capital expenditure. This structure remains in place, although some aspects have been substantially altered by the Local Government Act 2003, ('the 2003 Act'), discussed further below.

1.2 The main objectives of introducing the system under the 1989 Act were that it should:

(i) be simpler, so that subsidy provides authorities with consistent objectives;

(ii) be fairer towards tenants and local taxpayers alike, and fairer between tenants in different areas;

(iii) allow rents to be set at levels within the reach of people in low-paid employment and with regard to what people can pay and what the property is worth;

(iv) direct subsidy to areas with the most need and provide an incentive for good management.

1.3 HRA subsidy payable in accordance with the 1989 Act is a deficit subsidy. Local authorities' entitlement is calculated by reference to a model of each authority's HRA (the notional HRA). Rent guidelines and management and maintenance allowances are calculated for each authority, reflecting variations in local circumstances such as property values and stock characteristics.

1.4 The 1989 Act has been amended twice prior to the 2003 Act. The Leasehold Reform, Housing and Urban Development Act 1993, enabled local housing authorities to account for welfare services in the HRA in accordance with proper accounting practices. Essential care services, however, are excluded from the HRA by the Housing (Welfare Services) Order 1994 (S.I. 1994/42).

1.5 The Housing Act 1996 introduced the system of final decisions as to the amount of HRA subsidy payable to an authority (section 80A). It also provided for directions to be made as to the accounting treatment of service charges where parts of a building have been disposed of and parts remain in the HRA, and as to the treatment of surpluses arising from competitive tendering of work on HRA property (no such directions have been made).

1.6 At the conclusion of the Comprehensive Spending Review in July 1998, Ministers made clear that they wanted to encourage local authorities to take a more businesslike approach to managing their housing stock by moving to an accounting system based on a form of resource accounting. In a statement on housing and regeneration policy, the Deputy Prime Minister said:

"The current system of local authority housing accounting does not encourage efficient investment. Introducing resource accounts will put local authority housing on a more business-like footing. This will enable authorities to make better decisions about the use and maintenance of their housing assets, by making transparent the costs of capital tied up in the assets and providing resources to maintain them."

1.7 The Government subsequently issued a consultation paper, *A New Financial Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account*, in December 1998. In the light of responses to that paper, Ministers confirmed in the following June that they intended to go ahead with the introduction of resource accounting in the HRA and in the calculation of HRA subsidy.

1.8 The Local Government and Housing Act 1989 (Electronic Communications) (England) Order 2000 (S.I. 2000/3056) amended sections 80A and 87 of the 1989 Act to allow local authorities to receive determinations and final subsidy decisions electronically, rather than through the post. Determinations and final HRA subsidy decisions may also be posted on a website.

1.9 The 2003 Act gives effect to the remaining proposals included in the December 1998 consultation paper. The underlying HRA and subsidy system remains largely intact, but the requirement to account for rent rebates and rent rebate subsidy in the HRA is removed. From 1 April 2004 these will be General Fund items. Section 80(2) of the 1989 Act has been repealed. This ends the requirement to transfer amounts to the general fund where the subsidy calculation results in an overall negative amount. Instead, authorities with a negative subsidy entitlement will, from 1 April 2004, be required to pay these amounts to the Secretary of State, under section 80ZA of the 1989 Act.

1.10 The purpose of this change, sometimes referred to as 'pooling' of HRA surpluses, is to ensure that there continues to be a mechanism to ensure that authorities which are able to generate surplus rental income, even though incurring management and maintenance etc. expenditure comparable with other authorities, make a contribution towards meeting the costs of authorities which cannot generate sufficient rent income to meet such costs. The change also introduces greater transparency to the account: surpluses are no longer offset against housing benefit costs, but are available to help meet housing need.

2 The Prudential Capital Finance System

The broad framework of the capital finance system applicable to local authorities is laid down in the Local Government Act 2003 ('the 2003 Act'). Any reference in this chapter to a ***section*** *means a section of the 2003 Act, unless otherwise stated.*

The technical details are in regulations made under various powers in the 2003 Act. The major regulations are the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (S.I. 2003/3146) amended by the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2004 (S.I. 2004/534) ('the 2003 Regulations'). Any reference to a ***regulation*** *is to the 2003 Regulations, as amended, unless otherwise stated.*

Also referred to is the ***CIPFA Code****, which is a reference to the Prudential Code for Capital Finance in Local Authorities, published by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2003).*

Section 2.1 *sets out the policy and principles underlying the system*

Section 2.2 *describes the borrowing and credit arrangements*

Section 2.3 *explains the capital receipts rules*

Section 2.4 *deals with capital expenditure*

Section 2.5 *deals with accounting practices and investment*

Annex A *deals with Minimum Revenue Provision*

2.1 Policy and principles

Introduction

2.1.1 The prudential capital finance system for local authorities is implemented by Part 1 of the Local Government Act 2003 which came into force on 1 April 2004.

2.1.2 It completely replaced the system under Part 4 of the Local Government and Housing Act 1989 ('the 1989 Act') (which had operated since 1990). The new capital finance system (like the former one) sets the legal framework within which local government may undertake capital expenditure and central Government may regulate that activity.

2.1.3 The key feature of the new system, however, is that local authorities are free to raise cash or credit for capital expenditure – without Government consent – where they can afford to meet their liabilities without extra Government support. There are reserve powers for Government to set limits on borrowing and credit, but Ministers made clear during the passage of the legislation that these powers would be used only in exceptional circumstances.

Application

2.1.4 The system applies to the authorities in England listed in section 23(1) of the 2003 Act. The bodies covered by the new system are largely the same as under the former system, including, in particular, county councils, district councils, London Boroughs and the Greater London Authority, as well as police and fire authorities. As before, there is also power to bring levying and local precepting bodies into the system by regulations (section 23(2)) and regulation 32 uses this power to include specified levying bodies.

2.2 Borrowing and credit

Borrowing power (section 1)

2.2.1. The long-established power of an authority to borrow for purposes relevant to its functions is preserved. But the 2003 Act goes further and clarifies that there is power to borrow for normal treasury management purposes (e.g. to refinance existing debt).

Affordable borrowing limit (section 3)

2.2.2 This provision forms the heart of the new prudential borrowing system. It first imposes a broad duty for authorities to determine and keep under review the amount they can afford to borrow. The section then empowers the Secretary of State to define that duty in more detail in regulations, which may in turn require authorities to have regard to specified codes of practice, laying down the practical rules for deciding whether borrowing is affordable.

2.2.3 Relying on this power, regulation 2 specifies the *Prudential Code for Capital Finance in Local Authorities* ('the CIPFA Code), issued by CIPFA (the Chartered Institute of Public Finance and Accountancy) as the code of practice to which local authorities are

to have regard when setting and reviewing their affordable borrowing limit (sections 3(1) and 3(5) of the Act). The duty automatically applies to any subsequent editions of the Code.

2.2.4 The limit is to be set and reviewed by the full council (section 3(8) of the Act), except in the case of the Greater London Authority and its functional bodies, where the duty falls upon the Mayor of London (section 3(2)), who is also required by regulation 2 to have regard to the CIPFA Code.

2.2.5 It will be for each authority to set its own prudential limit in accordance with these rules, subject only to the scrutiny of its external auditor. In doing so, authorities must look at the long-term cost of servicing their debts (taking account of both the interest charges and the provision needed to repay the principal). They will also have to look at the revenue resources (including Government grant) they expect to have available to meet these liabilities, having allowed for their obligations to meet other spending commitments, both existing and anticipated. The CIPFA Code does not lay down prescriptive rules for this affordability assessment, but identifies broad indicators to guide and inform the process.

2.2.6 The authority will then be free to borrow up to that limit without Government consent. The authority will also be free to vary the limit during the year, if there is good reason, again subject to the approval of the full Council. Breach of the limit is prohibited by section 2(1)(a) (see *paragraph 2.2.11* below).

2.2.7 Requirements in existing legislation for authorities to balance their revenue budgets prevent the long-term financing of revenue expenditure by borrowing. However, the new system, like the present one, will confer limited capacity to borrow short-term for revenue needs in the interests of cash-flow management (see *paragraph 2.2.17*).

Government borrowing limits (section 4)

National Limit

2.2.8 The Government has a reserve power to impose longstop limits for national economic reasons on all authorities' borrowing and these would override authorities' self-determined prudential limits (set under section 3). Such limits (implemented by regulations) would only be imposed if authorities' total borrowing, albeit locally prudent, was increasing to a level which threatened the country's overall economic interests. No such limit was set for the first year of the new system, 2004–2005.

Transfer of headroom under national limit

2.2.9 If there were ever a national limit in force and an individual authority did not wish to undertake the full amount of borrowing permitted to it under that limit, it would have power to transfer the spare "headroom" to any other authority, which would thereby have its borrowing capacity increased (subject to still complying with its own prudential limit).

Local limit

2.2.10 There is also power to impose a borrowing limit (by direction in this case) on an individual authority, to prevent it borrowing more than it could afford. In practice, this power would only be likely to be used if an authority ignored or blatantly breached the CIPFA Code or was clearly incapable of setting its own prudential limit in accordance with the CIPFA Code.

Control of borrowing (section 2)

2.2.11 Section 2(1) makes it a duty not to breach the borrowing limits under sections 3 and 4. Section 8(1) makes clear that those limits apply not just to borrowing but to other forms of credit as well (see *paragraph 2.2.19*).

Sources of loans

2.2.12 Authorities are free to seek loans from any source, but remain prohibited (by section 2(3)) from borrowing in foreign currencies without the consent of Treasury (since adverse exchange rate movements could leave them owing more than they had borrowed).

2.2.13 The Public Works Loan Board (PWLB), now integrated with the Debt Management Office (an agency of the Treasury) will continue to make long-term loans available to local authorities, at favourable interest rates. The introduction of the prudential system therefore does not oblige authorities to borrow from the private sector, though they remain free if they wish to take commercial bank loans and raise cash through the issue of money market instruments.

Protection of lenders (section 6)

2.2.14 The long-established protection for lenders known informally as the 'safe harbour' is preserved by section 6. This ensures that debts can still be enforced even if it turns out that the authority borrowed unlawfully and means that potential lenders do not need to make detailed enquiries about authorities' borrowing powers.

Security for loans (section 13)

2.2.15 Section 13(3) maintains the vital principle that all of a local authority's revenues serve as security for its borrowing.

2.2.16 The mortgaging of property will continue to be prohibited – section 13(1). It will also remain unlawful to 'securitize', that is, to sell future revenue streams such as housing rents for immediate lump sums (this is implicit in section 13(1)).

Temporary borrowing (section 5)

2.2.17 The system allows authorities to borrow temporarily to meet their **revenue** costs, pending the receipt of sums due to them (for example, while waiting for council

tax payments). Foreseeable requirements for temporary revenue borrowing will be allowed for when borrowing limits are set by the authority under section 3 (or by the Government under section 4). Section 5 then allows extra flexibility in the event of unforeseen needs, by providing for the borrowing limits to increase by the amounts of any payments which are due to the authority in the year but have not yet been received.

Credit background

2.2.18 A main aim of the former capital finance system introduced in 1990 was to regulate the innovative property leasing and hire purchase deals which some authorities used before that date to evade the controls on borrowing then in force. Such transactions, known collectively as **credit arrangements**, have the same crucial effects as borrowing – they both increase public expenditure and create significant long-term revenue commitments at the local level.

Treatment of credit arrangements (section 7)

2.2.19 Credit arrangements (as defined in section 7) continue to be treated like borrowing under the new system. Section 8 ensures that the affordability assessment under section 3 must take account not only of borrowing but also of credit arrangements. In addition, any national limit imposed under the reserve powers in section 4 would apply to both borrowing and credit. (See *paragraph 2.2.21* below on the cost of credit arrangements).

Definition

2.2.20 The definition of credit arrangements relies on the accounting concept of liabilities. Section 7 identifies the **qualifying liabilities** which are to give rise to credit arrangements – these are meant to be long-term liabilities arising from the acquisition of capital assets. There is power to refine that definition by regulations, to target it more precisely, and the following regulations have been made:

(a) **Non-capital liabilities** – regulation 3 excludes from the definition all liabilities other than those arising from transactions involving the recognition of a fixed asset on the balance sheet. The aim is to exempt long-term liabilities recognised in authorities' accounts which have nothing to do with capital expenditure (e.g. liabilities to return deposits paid by building contractors as performance bonds; and contingent liabilities to make payments following court proceedings).

(b) **Retirement benefits** – regulation 4 has a similar aim and its effect is that liabilities in respect of pensions are not to be treated as credit arrangements. Though pension liabilities are, for accounting purposes, long-term liabilities, they have nothing to do with the acquisition of capital assets and therefore should not be affected by the capital finance system. However, it is arguable that some pension liabilities might be linked with capital expenditure, since major works projects will include in their rolled up costs some attributable to pension provision. Regulation 3 may be insufficient to deal with the problem, hence the need for this separate regulation.

(c) **Varied transactions** – regulation 5 ensures that if existing contracts are varied to become credit arrangements, they have to be treated as such under the new system and must come within the authority's affordable borrowing limit.

Cost of credit arrangements (section 8)

2.2.21 Regulation 6 relies on the power in section 8(3) to provide how credit arrangements are to be treated for the purposes of applying the prudential limit (section 3(1)) and any limits that the Government might impose (section 4). The emphasis is on accounting practices. The amount of the liability shown in the accounts – the **cost of the credit arrangement** – is to be treated as a sum borrowed by the authority. The authority may only enter into the liability if incurring this additional cost does not breach the section 3 or section 4 limits.

2.2.22 **Operating leases** (as defined in CIPFA's *Statement of Recommended Practice* – see regulation 31), which create no liability in this sense, will not themselves score against the limits under sections 3 and 4, but will need to be taken into account, along with other revenue commitments, in the assessment of affordability when the authority is setting its borrowing limits. There is no longer any need for the special rules in the 1989 Act system relating to certain kinds of leases (such as those for ten years or less) and there is nothing comparable in the new system.

2.3 Capital receipts rules

Background

2.3.1 Capital receipts are basically the proceeds of property sales by authorities. The 1989 Act rules requiring part of housing capital receipts to be set aside for debt redemption are replaced by arrangements for the **pooling of a proportion of housing receipts** (section 11(2)(b)), so that spending power can be redistributed to those authorities in areas with a greater need for new housing investment. Receipts not subject to pooling may be used freely for any capital expenditure.

Definition (section 9)

2.3.2 There is power to vary this definition by regulations, either to extend it or restrict it, (section 9(3)) and the following regulations rely on that power:

(a) **Repayment of loans** – regulation 7 extends the definition to cover repayments to the authority of loans and grants which they have made to other bodies for capital expenditure by those bodies (e.g. loans to housing associations to build dwellings). The making of those loans and grants will have counted as capital expenditure for the authority (see *paragraph 2.4.2*) and could well have been funded by long-term loans taken out by the authority. Therefore, when the money is repaid to the authority, it is important that it counts as a capital receipt and thus cannot be used for revenue purposes (see *paragraph 2.3.5*). If that were allowed, the authority would, in effect, be paying its running costs with borrowed money, contrary to the 'golden rule'.

(b) **Disposal of mortgage portfolios** – regulation 8 ensures that where an authority sells its council housing mortgage portfolio, for example, to a bank or building society, the sale proceeds count as a housing capital receipt for the purposes of the pooling provisions (see *paragraph 2.3.6* below).

(c) **Payment to redeem landlord's share** – regulation 9 relates to payments made to an authority by a tenant under a shared ownership arrangement to buy more of the equity in the dwelling. The regulation removes any possible doubt that such sums are to count as housing capital receipts for the authority for the purposes of the pooling provisions (regulation 12).

(d) **Social HomeBuy receipts** – regulation 9A relates to premiums received by a local authority in respect of a Social Homebuy disposal. The regulation removes any possible doubt that such sums are to count as housing capital receipts for the purposes of the pooling provisions (regulation 12).

(e) **Capital receipts not exceeding £10,000** – regulation 10 says that sums which would otherwise be capital receipts are not to be so treated if they do not exceed £10,000. It should be noted that if a single disposal generates a number of receipts at different times, they must be aggregated and, if they total more than £10,000, the regulation does not apply. The regulation continues the concession under the 1989 Act system, but the threshold is increased from £6,000. It also applies to capital receipts which authorities are treated as receiving by virtue of regulations 7, 8, 9 (see above) and 22 (see *paragraph 2.3.6*).

(f) **Operating and finance leases** – regulation 11 ensures that if an authority grants a lease on any property, the payments it receives are treated fully in accordance with current accounting practice. Amounts that accounting practice requires to be taken to a revenue account will not count as capital receipts.

Timing of receipts (section 9(4))

2.3.3 Capital receipts are treated as received when they become payable to the authority, rather than, as before, when actually paid. This change is simply part of the general approach of bringing definitions in line with accounting practice (see *paragraph 2.5.2*) and should have no practical implications.

Use of capital receipts (section 11)

2.3.4 Regulation 23 relies on the power in section 11(2)(a) and mainly carries forward the 1989 Act rules on applying usable capital receipts. The regulation covers the use of all non-housing receipts and any housing receipts not pooled under regulation 12.

2.3.5 The effect is that such receipts may be used to pay for any kind of **capital expenditure**, or, if the authority prefers, as provision to **repay debt**. Receipts may also be used to meet **premiums** on early debt repayment. In addition, they may be used to meet **liabilities under credit arrangements**, provided that these do not have to be charged to a revenue account in accordance with proper practices – for example, liabilities equivalent to interest charges. Finally, receipts may be used to

make the **pooling payments** due under regulation 12 and any **interest** due under regulation 13.

Pooling of housing receipts (section 11)

2.3.6 Regulations 12 to 22 rely upon the power in sections 11(2)(b) and 11(3) to require all or part of a capital receipt from council housing sales to be paid to the Secretary of State. This pooling of housing receipts replaces the requirement under the 1989 Act for a proportion of such receipts to be set aside as provision for credit liabilities. The aim is to preserve and strengthen the principle of redistributing the spending power generated by sales of housing assets. Pooling can apply not only to cash receipts, but also to those obtained in non-money form (regulation 22, made under section 10). Interest is payable on late payments (regulation 13). (See *Chapter 3* for more details of the pooling arrangements).

Amounts set aside under the 1989 Act

2.3.7 The repeal of the former set-aside regime did not in itself create access to any additional resources for authorities. However, the set-aside rules had already been relaxed for authorities becoming **debt-free**, allowing them to spend (for capital purposes) any remaining sums set aside for debt redemption.

2.3.8 To protect authorities which were already debt-free, with such sums still in hand, when the 1989 Act system ended on 31 March 2004, regulation 33 has been made (under section 21). The regulation allows such authorities to treat the accumulated sums as if they were spendable capital receipts, up to the amount by which their 1989 Act credit ceiling was negative on 31 March 2004.

2.4 Capital expenditure

Definition (section 16)

2.4.1 Section 16 deals with the definition of capital expenditure. This is normally to be based upon proper accounting practices, but there is power to amend it, for individual authorities (by direction) or more generally (by regulations).

Regulations

2.4.2 The power to vary the definition by regulations has been used as follows:

(a) Regulation 25 **extends** the definition of capital expenditure. The main effect is to allow authorities to finance additional kinds of costs either out of capital receipts or (subject to affordability) by borrowing. The costs brought within the definition are: expenditure on **computer software**; the making of **loans or grants for capital expenditure** by another body (see also *paragraph 2.3.2* above); the **repayment of a capital grant** (for example, to the Government); and expenditure on the improvement of **land which the authority does not own** (for example, improving contaminated land).

(b) Regulation 26 provides that certain expenditure which under accounting practice would be of a capital nature, is **not to be treated as capital expenditure**. It specifies that loans to local authority officers are not capital expenditure. So authorities cannot borrow to fund loans to staff (e.g. for car purchase) – expenditure on such loans must be charged to revenue. It follows that when the repayments of such loans are made to authorities, they do not score as capital receipts, thus simplifying the accounting process.

Capitalisation directions

2.4.3 Capitalisation directions may be issued to individual authorities under section 16(2)(b), in the form of a letter. The effect is that specified revenue expenditure may be treated as capital expenditure. Directions will continue to be given only in exceptional circumstances. There is power (section 20) to attach conditions to directions, and directions may be varied or revoked as required by a subsequent direction.

2.5 Accounting practices and investment

Local authority companies (section 18)

2.5.1 The former system ensured that borrowing by companies owned or influenced by local authorities was brought within the capital controls. That broad principle is preserved under the new system. Section 18 confers the powers necessary to achieve that end and relies upon definitions used in the former system in Part 5 of the Local Government and Housing Act 1989, (which remains in force). If a national borrowing limit were ever imposed under section 4, regulations would ensure that an authority had to treat borrowing and credit transactions by its companies as its own and keep such transactions within its share of the limit. Under the normal prudential regime, an authority also needs to take account of any transactions by its companies which potentially impact on the authority's revenue resources, since they will affect the authority's capacity for affordable borrowing.

Accounting practices (section 21)

2.5.2 The new system as far as possible takes standard local authority accounting practices and concepts as its starting point, thereby avoiding the need for special definitions in the legislation. Section 21 provides a framework for identifying the accounting codes which are to constitute 'proper practices'. The codes so identified will have that status for the purposes of the capital finance system and other existing legislation.

2.5.3 Proper practices are relevant to key provisions in Part 1 of the Act (sections 7 and 16 – see *paragraphs 2.2.19 and 2.4.1*). In addition, they are referred to in other legislation. Regulations made under the *Audit Commission Act 1998* require local authorities' annual statements of accounts to be prepared in accordance with proper practices. Various specific accounts or financial calculations also have to be prepared in accordance with proper practices. Examples are the Housing Revenue Account and the calculation of the net proceeds of road user charges.

2.5.4 Regulation 31 has therefore been made to identify the documents that rank as 'proper practices' under section 21(2)(b). The *Statement of Recommended Practice* ('the SORP') is the comprehensive statement of accounting practices to be followed in preparing a local authority's annual statement of accounts. The *Best Value Accounting Code of Practice* contains provisions on the classification of local authority expenditure and costing practices that supplement the SORP.

2.5.5 Some special accounting treatments are also needed for the purposes of the capital system and there is power for the Secretary of State to specify accounting practices by regulation (section 21(1)). Regulation 30 is made under this power. It allows local authorities to apply best accounting practice for pensions while ensuring that the ultimate charge in respect of retirement benefits is based solely on the requirements of the statutory pension schemes. (Under the 1989 Act system, the same result is achieved by regulation 12B (made under section 42 of the 1989 Act and inserted in the *Capital Finance Regulations 1997* by SI 2003/515).)

2.5.6 Regulations 27 to 29 on Minimum Revenue Provision (see *Annex A*) also rely on the power in section 21(1).

External funds (section 17)

2.5.7 The main effect here is to ensure that transactions by local government pension funds will continue to be outside the capital controls. Separate regulatory systems apply.

Information (section 14)

2.5.8 This requirement to provide information in practice mainly means that authorities have to complete regular statistical returns to the Secretary of State.

Investment power (section 12)

2.5.9 Section 12 confirms that authorities have power to invest their surplus funds, not only for any purpose relevant to their functions, but also for the purpose of the prudential management of their financial affairs.

Investments guidance (section 15)

2.5.10 Authorities are required to have regard to guidance on investments issued or identified in accordance with section 15 (guidance can given be on any capital finance matter under that power, but it has so far been used only in relation to investments). The aim is to encourage authorities to invest prudently, thus preserving the safeguards of the former system but allowing greater flexibility and more local discretion.

2.5.11 Regulation 24 relies on the power (in section 15(b)) to specify existing guidance and accordingly names CIPFA's *Treasury Management Code*, which is already widely used by authorities. This is quite separate from the CIPFA Code, mentioned in *paragraph 2.2.3* above. However, the Treasury Management Code helpfully complements

the guidance in that code, covering good practice on the administration of debt, investments and related aspects of financial management.

2.5.12 In addition, the Secretary of State has issued his own guidance on investments (under the power in section 15(a)). This asks authorities to prepare an Annual Investment Strategy, to be approved by the full Council, setting out their investment policies and their procedures for assessing and managing risk. Subject to that, they have wide discretion as to how and where they invest their funds. The full text of the guidance is on The Communities And Local Government Website

Applicable regulations

2.5.13 Regulation 25(1) (d) provides that acquiring **share or loan capital** in a company is capital expenditure. The intention is to discourage authorities from undertaking speculative investments in shares and corporate bonds. Because these investments are defined as capital expenditure, they would have to be funded out of capital resources, just as if the money had been spent; and when the investment was cashed in a capital receipt would be generated. This acts as a disincentive.

2.5.14 However, regulation 25(1)(d) has been amended (by SI 2004/534) to exclude two forms of investment which would otherwise be caught by this definition – investments in **money market funds** and in **multilateral development banks**. In both cases, it is possible to reduce the risks to acceptable levels, subject to proper assessments of creditworthiness in accordance with the Secretary of State's guidance.

Annex A: Minimum Revenue Provision

Introduction

1. Under the 1989 Act capital finance system authorities had to set aside a minimum amount from revenue each year as provision to meet credit liabilities – known as **Minimum Revenue Provision** (MRP).

2. A broadly similar duty to make MRP continues in relation to general fund transactions, though, following the introduction of the Major Repairs Allowance for housing, there is no longer a similar requirement in relation to the HRA.

3. The new MRP calculation depends as far as possible on concepts derived from standard accounting practice. The basis of the calculation will not be the **credit ceiling**, which ceases to exist following the repeal of Part 4 of the 1989 Act, but the **Capital Financing Requirement** (**CFR**) introduced and defined in the CIPFA Code. This operates in much the same way as the credit ceiling, but can be derived directly from the balance sheet.

4. The new rules are in regulations 27 to 29, which rely upon the power in section 21(1) to modify accounting practice.

Duty to make revenue provision (regulation 27)

5. Regulation 27(1)(a) contains the basic MRP requirement. Regulation 27(1)(b) enables authorities, as before, to make a higher charge to revenue than required by the MRP rules, without upper limit. The same regulation allows authorities the discretion to finance capital expenditure from revenue in the year it is incurred.

6. Parish councils and charter trustees are not liable to charge MRP. Instead their obligations to charge revenue account for the repayment of borrowing are governed by paragraph 3 of Schedule 1 to the 2003 Act. But Regulation 27(2) gives these authorities the power to finance capital expenditure from revenue in the year it is incurred.

Calculation of MRP (regulation 28)

7. The main MRP formula is set out in regulation 28(1). The formula is designed to produce as far as possible a revenue effect similar to non-housing MRP under 1989 Act rules. The percentage rate remains at 4**%** and this is applied to the CFR (subject to certain adjustments outlined below), which, as noted above, approximates roughly to the credit ceiling under the 1989 Act.

8. However, to achieve that neutrality, the CFR needs to be abated to reflect any difference between it and the credit ceiling at the start of the system. This is the purpose of factor **A** in the formula. The adjustment will be carried forward each year (but the value of A will always remain exactly as calculated for the first year of the system). An explanation of A is given below (see *paragraph 10* below).

9. Each year also, a further deduction will need to be made from the CFR to eliminate elements relating to housing – this is factor HC in the formula (see *paragraph 14* below), which will need to be calculated afresh each year.

Calculation of adjustment A

10. The starting point for calculating A is the CFR on 31 March 2004 **(CFRM)**. From this is deducted the sum of the Housing and Non-Housing Amounts **(HA + NHA)** as defined under 1989 Act rules (and in particular regulations 132 and 142 of the Capital Finance Regulations 1997). These amounts are the basis for the calculation of housing and non-housing MRP at the rates, respectively, of 2% and 4%. Together, HA and NHA represent the elements in the overall credit ceiling which are relevant for the determination of MRP.

11. However, the CFRM must then be increased by **half of (HA – HB)**. HA has the same meaning as above, the Housing Amount. **HB** is the Opening HRA Capital Financing Requirement for 2004–2005, as defined in regulation 28(5) (but where the Opening HRA CFR is a negative amount, HB is nil). This element in the calculation allows for the fact that the Housing Amount and the Opening HRA CFR can be different amounts. If the Housing Amount is greater than the Opening HRA CFR, under 1989 Act rules part of the MRP falling in the General Fund would have been charged at 2% rather than 4%. This element reproduces the latter effect by ensuring that only half of the excess of the Housing Amount over the Opening HRA CFR is charged at 4% (half of 4% of a figure equalling 2% of that figure). Similarly, this part of the calculation deals with cases where the Opening CFR exceeds the Housing Amount.

12. The overall result of these calculations is to identify an equated amount by which CFRM exceeds the credit ceiling for MRP purposes at the start of the system. This is the value of A.

13. When, therefore in the main formula, the CFR is reduced by A, it provides a basis for deriving MRP which will give a result no higher than under the 1989 Act.

Calculation of HC

14. HC is the other factor which must be deducted from the CFR before MRP is calculated. This is to ensure that the amount of MRP charged to the general fund relates only to **non-housing** capital expenditure. HC is the opening HRA Capital Financing Requirement for the year in which MRP is being calculated, as defined in regulation 28(6) (except that, where the opening HRA CFR is a negative amount, HC is nil). The effect of the deduction is to strip out of the CFR the elements associated with housing.

Additional amount of MRP relating to amortisation periods

15. Section 54(5) of the 1989 Act related to supplementary credit approvals issued in respect of expenditure treated as capital expenditure by virtue only of capitalisation directions under section 40(6) of the 1989 Act. It provided for the specification of an amortisation period. Where such an amortisation period was specified, the amount of the credit approval was not taken into account for the purposes of the normal MRP

formula. Instead, regulation 136 in the Capital Finance Regulations 1997 applied. This required the authority to make revenue provision for the credit approval in equal annual instalments over the amortisation period.

16. Following the end of the 1989 Act system, there will be some unexpired amortisation periods (mainly relating to supplementary credit approvals issued for reorganisation costs). Regulation 28(2) requires authorities to continue to make revenue provision in equal annual instalments, as if regulation 136 were still in force, throughout the amortisation period originally specified.

Commutation (regulation 29)

17. The MRP formula continues to take account of the effects attributable to the 1992 commutation exercise. Authorities are able to reduce their MRP liability to mitigate the year's loss and the regulations provide a formula (a simplified version of the one under the 1989 Act) enabling this adjustment to be calculated.

18. The commutation adjustment formula is: **G** (total grants commuted in 1992) *less* savings on interest (**I**) and savings on MRP (**M**).

19. Unlike the 1997 Regulations, the 2003 Regulations do not specify how savings on interest and MRP are to be calculated. That leaves it to authorities to adopt any reasonable approach – which could include continuing to use the formula in the 1997 Regulations or adopting a method relying less on notional factors.

20. By contrast with the 1989 Act system, the commutation adjustment is **discretionary**. Though the adjustment can only reduce MRP, authorities do not have to calculate and apply that reduction, if they do not wish to do so.

21. For those authorities who do wish to obtain full mitigation of their commutation loss, but whose MRP liability is less than the loss, capitalisation directions (under section 16(2)(b)) will be available to permit unsupported borrowing to meet the outstanding revenue losses due to commutation.

3 Housing Capital Finance

This chapter describes the way in which the housing capital finance system operates, the sources of finance and its links with the Housing Revenue Account and the local authority finance regime.

Section 3.1 *covers the housing capital expenditure programme.*

Section 3.2 *explains how local authorities' expenditure programmes are financed.*

Section 3.3 *describes the links between the Housing Revenue Account and the capital finance system.*

Section 3.4 *deals with authorities' obligations to pay a proportion of their housing capital receipts to the Secretary of State, commonly referred to as "pooling".*

Annex A *deals with Arms Length Management Organisations*

3.1 Housing capital expenditure programmes

3.1.1 Local authorities' housing capital expenditure programmes cover:

(i) renovation and improvement of council housing where authorities own the housing;

(ii) support for work on private sector housing – mainly demolition or improvement of private sector stock as part of wider area regeneration, renovation and Disabled Facilities Grants for households on low incomes;

(iii) provision of additional social housing through new build (generally through Registered Social Landlords – RSLs) or acquisition.

3.1.2 Under section 16 of the Local Government Act 2003, capital expenditure refers to expenditure of the authority which falls to be capitalised in accordance with proper practices.

3.1.3 Most authorities' housing capital expenditure programmes will focus mainly on the renovation of their own stock, e.g. to meet the decent homes standard. But the composition of the programme should reflect the specific needs and priorities of the area. These will be set out in the housing strategy which each housing authority is required to produce for their area, in consultation with other housing providers, related services, tenants and residents.

3.1.4 Where there is a need for additional social housing, local authorities' role is principally an enabling one, rather than as direct providers. Government policy is that housing associations and other RSLs, who are able to draw on private finance to help meet development costs, should be the main providers. This also increases choice and competition amongst social landlords.

3.1.5 The size of an authority's housing capital expenditure programme is a matter for it to determine in the light of its assessment of the resources available to finance capital expenditure for the authority as a whole and the proportion of that which is to be spent on housing (see *section 3.2*).

3.2 Housing capital resources

3.2.1 Authorities' housing capital expenditure programmes are financed partly from their **own resources** and partly through **central government support**. The main sources of finance under those two headings are as follows. Unlike revenue, there is no overall 'ring-fence' on HRA capital expenditure.

Authorities' own resources

3.2.2 **Usable capital receipts** – this includes all receipts from the sale of non-HRA assets and the proportion from the sale of HRA assets which is not subject to pooling under regulation 12 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended ('the 2003 Regulations') (see *section 3.4*).

3.2.3 **Contributions from revenue** – where authorities' revenue expenditure is less than their income they can, if they choose, use the excess income to finance capital expenditure directly. Revenue contributions from the General Fund cannot, in the absence of a direction under Item 9 of Part I of Schedule 4 to the 1989 Act (see *section 5.9*), be used to finance HRA capital expenditure, although they can be used for other non-HRA housing capital expenditure. Revenue resources from the HRA can only be used to finance HRA capital expenditure (under Item 2 of Part II of Schedule 4) (see *section 6.2*).

3.2.4 **Unsupported borrowing** – where authorities' revenue expenditure is less than their income they can, from 1 April 2004, use the excess income to meet the costs of borrowing to finance capital expenditure. Authorities are required to determine an affordable borrowing limit (section 3 of the Local Government Act 2003), having regard to the Code of Practice[1], which requires authorities to take into account certain factors, including, and in particular, the level of revenue resources available to support long-term borrowing, over and above that provided through central government support.

Central government support

3.2.5 **Major Repairs Allowance (MRA)** – this is an element of HRA subsidy which provides resources to meet the ongoing capital costs of maintaining the current condition of the local authorities' housing stock. The allowance is based on the annual cost, averaged over 30 years, of replacing individual building components as they reach the end of their useful life. From 1 April 2004, the resources may only be used to meet capital expenditure on property within the HRA or to repay debt (see *Chapter 17*).

3.2.6 **Supported borrowing** – some mainstream funding for housing investment by local authorities is provided in the form of revenue support to cover borrowing costs (e.g. interest payments). In the years up to 2003–2004 the allocations made (credit approvals) also acted as limits on the amount of borrowing authorities could undertake. The allocations for 2004–2005 (Supported Capital Expenditure (revenue)) onwards reflect the level of borrowing for which central government will meet the costs; it is now open to authorities to borrow more than this where they have the revenue funds to cover the costs (see *paragraph 3.2.4*, on unsupported borrowing, above). The revenue funding for local authority stock is provided through HRA subsidy, for the period 2004–2008 this was done on the recommendations of Government Office-chaired Regional Housing Boards. From 2008–2009 the recommendations will be made by the Regional Assemblies and in London, the Mayor. Funding for non-HRA housing investment is, subject to Treasury approval, provided via capital grant.

3.2.7 **Capital grants** – which are provided to:

(i) cover 60% of the cost of mandatory Disabled Facilities Grants (DFGs) paid by local authorities for adaptations to private sector households with a disabled household member;

1 The Prudential Code for Capital Finance in Local Authorities published by CIPFA (Chartered Institute of Public Finance and Accountancy) ISBN 0 85299 989 5

(ii) meet part of the cost of private sector grant commitments entered into before April 1999

(iii) support improvement work in the private sector to help meet the Decent Homes target,

(iv) support wider regeneration activity.

3.2.8 **Regeneration grants** (e.g. from the Single Regeneration Budget or the New Deal for Communities) and Market Renewal Fund resources are also available, where improvements or additions to the housing stock form part of the wider regeneration programme.

3.2.9 Further sources of grants are the European Community and contributions from developers.

Allocation of central government resources

3.2.10 The resources provided by central government are allocated in different ways, all of which involve a significant needs-based element. The current allocation arrangements are as follows.

3.2.11 **MRA** – allocated on a wholly formulaic basis according to the numbers of dwellings within a selection of different archetypes owned by each authority, and to regional cost variations (see *Chapter 17*).

3.2.12 **Supported borrowing** – from 2004–2005 these resources form part of the new Regional Housing Pots, which also include funding for the provision of additional affordable housing by registered social landlords and other housing providers. Up to and including 2007–2008 decisions on the allocations for individual local authorities were taken in the light of advice from Regional Housing Boards about how the resources could be best used to address strategic regional and national housing priorities. From 2008–2009 this advice will be provided by the Regional Assemblies and in London, the Mayor. The priorities are set out in Regional Housing Strategies drawn after wide consultation within the region. These arrangements were introduced, as part of the Sustainable Communities action programme, to ensure housing investment was better integrated with other regional plans/strategies (particularly, planning, transport and economic development) and to allow programmes to be tailored to the region's specific needs.

3.2.13 **Disabled facilities grants (DFG)** – these allocations are based partly on an index of relative need and partly on authorities' performance on planning and delivering DFGs. Additional allocations can be made if resources are freed up by authorities spending less than their full allocation. The maximum allocation for any authority is 60% of the eligible DFG expenditure which they incur.

3.3 Links between capital expenditure and receipts and the HRA

3.3.1 The local government capital finance system introduced in Part 1 of the Local Government Act 2003, together with the various regulations made under that Part and outlined in *Chapter 2* of this manual, applies to all local authority capital expenditure with no specific reference to housing. The rules governing the way in which the revenue consequences of capital expenditure and capital receipts relating to HRA property are recorded in the HRA build on these rules, but are set out in a separate determination made under Item 8 of Part I and Item 8 of Part II of Schedule 4 to the Local Government and Housing Act 1989. This is known as the 'General Determination of the Item 8 Credit and Item 8 Debit', normally referred to as the **Item 8 determination** (see *section 5.8 and Chapter 7*).

Capital/revenue links

3.3.2 There are five main links between an authority's capital programme and their HRA:

(i) where the amount debited to the HRA in respect of depreciation (which may be the amount received by an authority as its **MRA** or a different amount calculated by the authority on some other basis in accordance with proper practices) is transferred from the HRA to the Major Repairs Reserve for expenditure for capital purposes on property within the HRA or repayment of debt;

(ii) where expenditure for capital purposes on HRA property is financed from **revenue** under debit Item 2 of the HRA (see *section 6.2*);

(iii) where expenditure which would normally be charged as revenue to the HRA is **capitalised** (by a direction under sections 16(2)(b) and 20 of the 2003 Act) and funded by borrowing or from capital receipts, or from the Major Repairs Reserve (see *paragraph 3.2.11*);

(iv) where certain **investments** (e.g. of capital receipts) or **mortgages** granted by the authority give rise to **interest payments**. These are recorded as revenue items (in line with proper accounting practices) and are credited to the HRA (see *section 5.8*);

(v) where the use of **borrowing or credit arrangements** to finance HRA capital expenditure gives rise to **loan charges**. These are recorded as revenue items in line with proper accounting practices and are debited to the HRA (see *section 6.8 and Chapter 7*). Authorities are required to debit their HRA with sums representing interest charges on assessed HRA debt (as measured by the HRA mid-year Capital Financing Requirement (CFR)). This is done through the Item 8 determination.

3.3.3 The remainder of this section is concerned with Item (v): the HRA consequences of borrowing to finance capital expenditure and capital receipts.

HRA consequences of borrowing and credit arrangements

3.3.4 It is important to recognise that the concept of HRA debt is an entirely notional one. In practice, most authorities pool all the loans they take out, regardless of function. These will be at different interest rates. It is not practicable therefore (nor indeed a statutory requirement) for authorities to identify separately at any time the outstanding loans which relate specifically to HRA property, or the charges payable on them. Instead, an assessment is made of outstanding HRA debt, using the mechanism of the HRA Capital Financing Requirement (see *section 7.1*). This, in turn, is used as the basis for calculating the appropriate share of an authority's total **loan interest charges**, by applying the average actual interest rate paid by the authority on all outstanding borrowing to the notional HRA debt as measured by the HRA mid-year CFR, where positive (see *section 7.4*). This is taken into account in the capital asset charges accounting adjustment (**J** – **R** in the item 8 determination).

3.3.5 For accounting purposes, actual loan charges on all borrowing are debited to the General Fund. A sum representing the HRA share of these, calculated as above, is debited to the HRA. In order to avoid double counting in authorities' accounts, a contra-credit (or debit) matching these amounts is then made to the General Fund.

3.3.6 The calculation of both assessed HRA debt and loan charges is made in accordance with the Item 8 determination. This also requires certain other charges (for example, debt management expenses and depreciation) and income (for example, interest payments on mortgages) to be debited or credited to the HRA.

3.3.7 Full details of the Item 8 determination and the calculation of the credit and debit items are given in *section 5.8 and Chapter 7*, respectively. The extent to which capital charges and income are reckonable for HRA subsidy purposes is explained in *Chapter 16*.

Capital receipts

3.3.8 Capital receipts used to finance HRA capital expenditure have no impact on the HRA, or on HRA CFRs at the point when they are received, irrespective of whether they are generated from the sale of HRA property or whether non-HRA receipts are used for HRA purposes. However:

(i) if such receipts are invested, any interest will be credited to the General Fund and not to the HRA – it may not be used to finance HRA capital or revenue expenditure;

(ii) if such receipts are used to repay HRA-attributable debt or meet HRA-attributable credit liabilities – which is entirely at the discretion of the authority – the authority will reduce their HRA CFR accordingly. This has no impact on the authority's entitlement to HRA subsidy.

3.4 Housing capital receipts pooling

Introduction

3.4.1 In 2004–2005, a system of pooling for housing capital receipts was introduced. This ensured that the principle of redistribution of the spending power generated by such receipts, as delivered previously by the set-aside regime, continued and was strengthened by the inclusion of debt-free authorities. This money is used to support housing capital expenditure in line with the policies outlined in the Sustainable Communities Plan.

3.4.2 Capital receipts from the sale of housing land and dwellings are subject to pooling, as provided for in the 2003 Regulations. 75% of receipts from **Right to Buy Sales** are pooled, including proceeds from sales to existing tenants or occupiers. Receipts from **large-scale** and **small-scale voluntary transfers** (which are termed "qualifying disposals") – including preserved rights to buy arising as part of the transfer agreement – are excluded, although they are taken into account in calculating authorities' entitlement to HRA subsidy (see *Chapter 16*) and HRA CFR (see *Chapter 7*). Communities And Local Government assumes that 75% of the receipt is used to repay debt, or – if higher – such proportion of the receipt which is necessary to reduce the SCFR to zero or lower.

3.4.3 For **all other housing receipts** (i.e. not from RTB sales or transfers), the pooling rate is 75% from dwelling sales and 50% from the sale of other HRA property (e.g. bare land, shops, garages, surplus vacant dwellings). The amounts to be pooled may, however, be reduced where some or all of the receipt is used for capital expenditure on affordable housing, regeneration or preparing the property for disposal (e.g. obtaining planning permission or lifting restrictive covenants) – see regulation 16 of the 2003 Regulations. The effect is to enable authorities to recycle receipts that have arisen through the active management of their property portfolio into affordable housing and regeneration projects. This does not apply to receipts from RTB sales.

3.4.4 Certain other costs may be deducted before the amount to be pooled is calculated. This applies to any housing capital receipt. These are:

(i) administrative costs;

(ii) the costs of improving the property sold that were incurred in the previous three years ending on the date of disposal (See regulation 15 of the 2003 Regulations); and

(iii) the cost of buying back dwellings previously sold under the right-to-buy provisions (See regulation 19 of the 2003 Regulations).

3.4.5 Authorities must calculate the amount due at the end of each quarter. Payments must be made within one calendar month of the end of that quarter. If an authority is unable to calculate the exact amount due (the "specified amount"), they must notify the Secretary of State accordingly, and pay their best estimate of the specified amount. The balance (if it is positive) must be paid over by the next payment due date. If the balance is negative, i.e. if the authority has over-estimated the specified amount, the authority may net off any overpayment in the next payment.

3.4.6 Late payment attracts interest. This is calculated as 1% above base rate on a day-to-day basis, and compounded with three-monthly rests.

3.4.7 There are **transitional arrangements** for authorities with housing stock that were debt-free on 31 March 2004. For a period of three years (2004–05, 2005–06 and 2006–07), these authorities may reduce their pooling liability by a reducing proportion (75%, 50%, and 25% in successive years), provided they use the receipts that are not pooled for housing purposes. This is in addition to any other resources they may be allocated on the recommendation of the Regional Housing Boards.

Annex A: Arms Length Management Organisations

Background

1. The Government announced as part of the outcome of the 2000 Spending Review that it wanted to encourage innovation in housing management and greater separation between authorities' strategic housing role and their role in housing management. £460m was allocated for additional capital investment where authorities set up arms length management organisations (ALMOs) and demonstrate high standards. The 2002 and 2004 Spending Reviews increased the amount of funding available for ALMOs to almost £3.7bn to 2007–2008. This will also help to achieve the Government's target of ensuring that all social housing reaches a decent standard.

2. ALMO guidance can be found in *Supplement to the Guidance on Arms Length Management – Communities and Local Government* and *Guidance on Arms Length Management of Local Authority Housing – 2004 Edition – Communities and Local Government*. Arms length management does not involve any change in the ownership of the stock, and tenants remain tenants of the local authority. An ALMO is normally a company limited by guarantee wholly owned by the local authority. It may manage all or part of an authority's stock, but where the local authority has a particularly large stock, it should consider setting up separate companies or a group-type structure.

3. Successful bidders are given conditional allocations for capital spending (i.e. Communities and Local Government has agreed, if required, to issue the authority with supported borrowing approvals up to a specified amount and to provide additional HRA subsidy to support capital expenditure). This is subject to the authority obtaining the Secretary of State's agreement to delegating housing management functions to an ALMO and to demonstrating high standards in an inspection by the Housing Inspectorate. In order to access the resources, an ALMO will need to obtain at least a 2* (good) rating.

4. Bids were invited in September 2001 for the first round of funding in 2002–2003, and eight authorities were given conditional allocations. Details can be found on the Department's website. A second round of bids was invited for February 2002 for spending to start in 2003–2004. Thirteen local authorities were given conditional allocations – Details can be found on the Department's website. A third ALMO bidding round, for expenditure starting in 2004–2005 was announced in "Sustainable Communities: building for the future", published in February 2003. Thirteen local authorities were given conditional allocations under Round 3 in July 2003 – Details can be found on the Department's website

   Twelve local authorities bid successfully under Round 4 of the programme, for expenditure starting in 2005–2006 – Details can be found on the Department's website and ten under Round 5, for expenditure starting in 2006–07. Announcement Details can be found on the Department's website. Bids received under Round 6 in July 2006 are currently under consideration.

5. Subject to obtaining the necessary agreement from the Secretary of State to delegate housing management functions, it is open to any authority to set up arms length management arrangements without seeking additional resources.

Financial aspects of ALMOs

6. Since setting up an ALMO does not involve any change in the ownership of the housing stock, the property managed by the ALMO will remain in the HRA and the authority will continue to receive HRA subsidy and capital resources available to authorities managing their own housing. Where an ALMO manages the whole stock, these resources will normally be passed to the ALMO.

7. The additional resources for high performing ALMOs will be paid as HRA subsidy. The additional subsidy will continue to be paid each year at the agreed rate, but it will not be inflation linked. The amount of subsidy has been calculated, for Round 1 and 2 authorities, at a rate of 8% of the assumed borrowing (based on the proposed capital programme). From Round 3 onwards, the subsidy will simply cover the cost of borrowing; no separate ALMO allowance will be paid.

8. Where the ALMO proposes that there should be additional borrowing in reliance on these additional resources, the Department will commit to supported borrowing, on demand, up to the level of the authority's conditional allocation.

9. Prior to 1 April 2004, ALMO authorities were required to track ALMO borrowing independently of their debt portfolio, as ALMO supplementary credit approvals ('SCAs') were not taken account of in the HRA credit ceiling or CRI arrangements. Starting in financial year 2004–2005, ALMO supported borrowing approvals are included in the CRI calculation and the HRA CFR calculation. The result is that ALMO authorities no longer have to calculate two CRI figures or track ALMO borrowing independently of their debt portfolio.

10. More detailed guidance on financial issues has been made available to authorities interested in setting up ALMOs. Government Offices and the Community Housing Task Force are available to work with authorities interested in setting up ALMOs, and any authority considering this step should make contact with them as early as possible.

HRA subsidy implications

11. ALMO allowance forms part of HRA subsidy and will be paid as part of the regular HRA subsidy payments. Payments will be triggered by special HRA subsidy determinations.

4 Overview

This chapter is made up of separate sections providing an overview of the operation of the Housing Revenue Account.

Section 4.1 *is an introductory section, outlining the history and development of the HRA, its main characteristics, and the current statutory framework. The concept of the notional HRA is introduced.*

Section 4.2 *describes the accounting procedures to be followed in keeping the HRA, including the statutory and non-statutory proper practices. It also explains the links between the HRA and other local authority accounts.*

Section 4.3 *describes the budgeting procedures which an authority will follow in respect of the HRA.*

Annex A *summarises the main statutory requirements.*

Annex B *reproduces the Housing Revenue Account (Accounting Practices) Directions 2000, which set out the proper practices to be followed for the valuation of HRA stock and the information to be disclosed in the published HRA up to and including the financial year 2005–2006.*

Annex C *reproduces the Housing Revenue Account (Accounting Practices) Directions 2007, which sets out the proper practices to be followed for the valuation of HRA stock and the information to be disclosed in the published HRA. These directions take effect from 1 April 2006 until amended.*

4.1 Introduction

This section gives a brief overview of the Housing Revenue Account (HRA), covering its history and development, the current statutory framework in which it operates and its main characteristics. It also introduces the concept of the notional HRA, which forms the basis for calculating authorities' entitlement to HRA subsidy.

Background

4.1.1 The requirement for local authorities to keep a Housing Revenue Account dates back to the Housing Act 1935. This consolidated the separate accounts local authorities had been required to keep for housing under previous Acts of Parliament.

4.1.2 The HRA is a record of revenue expenditure and income relating to an authority's own housing stock. Local authority income and expenditure on other housing services (e.g. support for RSLs or private sector schemes) are not charged to the HRA but to the General Fund.

4.1.3 The items to be credited and debited to the HRA are prescribed by statute. It is a ring-fenced account within the authority's General Fund, which means that local authorities have no general discretion to transfer sums into or out of the HRA. The ring-fence was introduced by the Local Government and Housing Act 1989 ('the 1989 Act'), to ensure that rents paid by local authority tenants accurately and realistically reflected the cost of providing the housing service. Rent levels could therefore not be subsidised by increases in the council tax. Equally, local authorities may not increase rents in order to keep council tax levels down.

4.1.4 The Local Government Act 2003 ('the 2003 Act') introduced a number of changes to the statutory credits and debits to the HRA prescribed in Schedule 4 to the 1989 Act. The most significant change was the removal of the requirement to account for rent rebates within the Housing Revenue Account. The changes introduced by the 2003 Act affecting the HRA are covered in detail in *Chapters 5 and 6*.

Statutory framework

4.1.5 The 1989 Act, as amended by the 2003 Act, and earlier legislation (particularly the Leasehold Reform, Housing and Urban Development Act 1993, 'the 1993 Act'), provides the statutory framework for the Housing Revenue Account. A summary of the main statutory powers and duties applicable to the HRA, is at *Annex A*.

(i) In general terms the Local Government and Housing Act 1989:

(a) places a duty on all local housing authorities to keep an HRA, in accordance with proper accounting practices (see *section 4.2*), to budget to avoid an end of year deficit and to review the account throughout the year (sections 74 and 76); defines the properties to be included in the account (section 74 and relevant directions – see *Appendix B* of this manual);

(b) prescribes the categories of income and expenditure to be included (section 75 and Schedule 4). Schedule 4 was amended by the 1993 Act so as to enable local housing authorities to account for welfare services in the HRA in accordance with proper accounting practices (Part III, paragraph 3A). However, the Housing (Welfare Services) Order 1994 (S.I. 1994/42) made on 12 January 1994 excludes essential care services from the HRA (see *paragraph 6.1.2*).

(ii) The Local Government Act 2003 further amended the 1989 Act by:

(a) moving the requirement to account for rent rebates in the HRA to the general fund, and giving responsibility for subsidising rent rebates to HRA tenants to the DWP;

(b) abolishing the requirement for authorities in **overall negative subsidy entitlement** to transfer the negative subsidy amount to the general fund. This is replaced by a requirement to pay the amount of negative subsidy to the Secretary of State where it will be used as part of the subsidy pool.

4.1.6 In addition, the following directions made under the 1989 Act apply:

(i) ***the HRA (Dwellings in the Account) Direction 1990***, made under section 74(1)(f). This brought into the HRA:

(a) any houses and dwellings provided by the authority or its predecessor on or before 6 February 1919 under provisions corresponding with Part II of the 1985 Act, where sums fell to be credited or debited to the authority's HRA for the year beginning 1 April 1989 in respect of those houses and dwellings; and

(b) any houses on land acquired by the authority for the purpose of disposing of those houses (section 74(3)(c)) if they are either provided for rent or subject to a shared-ownership lease granted by the authority;

(ii) ***the HRA (Exclusion of Leases) Direction 1997***, made under section 74(3)(d). This excludes from the HRA leases of up to ten years for dwellings taken out by authorities for the purpose of housing homeless households. It replaced the HRA (Exclusion of Short-Term Leases) Direction 1991, referred to in paragraph 10 of DOE Circular 8/95, for properties acquired after 31 March 1997 (further details are given in *section 6.3*);

(iii) ***the HRA (Modification of the Item 3 Debit) Direction 1997***, made under paragraph 2 of Part IV of Schedule 4. If a leased dwelling excluded from the HRA under the HRA (Exclusion of Leases) Direction 1997 is subsequently used by the authority for other housing purposes, this direction provides that the leasing costs may still not be debited to the HRA (see *section 6.3*);

(iv) ***the HRA (Accounting Practices) Directions 2000,*** made under section 78. These directions (reproduced at *Annex B*) established the proper practices to be followed in respect of the valuation of HRA stock and information to be

disclosed in the published HRA up to and including the financial year 2005–2006. (see *section 4.2*);

(v) ***the HRA (Mortgages) Direction 2000***, made under section 74(1)(f) put beyond doubt that the sums received from the sale of local authority mortgage portfolios (to the extent that they are in respect of ex-HRA properties) should be treated as HRA capital receipts (see *sections 5.8 and 7.1*);

(vi) ***The Housing Revenue Account (Support Services) Direction 2003***, made under item 9 of Part I of Schedule 4 to the Local Government and Housing Act 1989 ensures that where authorities, particularly unitary authorities, choose to debit the costs of support services provided to HRA tenants to the HRA, they can fund such costs from the Supporting People grant, which they are required to transfer into the HRA from the General Fund;

(vii) ***The Housing Revenue Account (Rent Rebate Subsidy Deductions) Direction 2003***, made under item 10 of Part 2 of Schedule 4 to the Local Government and Housing Act 1989 ensures that where a deduction is made under Article 20A of the Income-related Benefits (Subsidy to Authorities) Order 1998 (S.I. 1998/562) as a result of an authority setting rents above the pre-set limit specified in the Table of Weekly Rent Limits in Schedule 4A to the Order, the authority is required to transfer an equivalent amount from the HRA to the General Fund. (See *Chapter 15* for how these deductions are calculated).

(viii) ***the HRA (Accounting Practices) Directions 2007,*** made under section 78. These directions (reproduced at *Annex C*) establish the proper practices to be followed in respect of the valuation of HRA stock and information to be disclosed in the published HRA (see *section 4.2*). ***These directions apply from 1 April 2006***;

4.1.7 A full list of directions and determinations that have applied since 1996–1997 is set out in *Appendix B* of this manual.

Nature of the HRA

4.1.8 The main features of the HRA are:

(i) it is primarily a **landlord account**, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation);

(ii) it is not a separate fund but a **ring-fenced account** of certain defined transactions, relating to local authority housing, within the General Fund;

(iii) the **main items of expenditure** included in the account are loan charges, depreciation costs, and management and maintenance (M&M) costs;

(iv) the **main items of income** are from tenants in the form of rents, and from the Exchequer in the form of HRA subsidy;

(v) in accordance with proper practices, it should be based on **accruals** rather than **cash accounting**, recording accrued entitlements and liabilities for the year in question, not actual cash receipts and payments during the year.

4.1.9 The ring-fencing of the HRA was one of the main changes to this account introduced by the 1989 Act. From 1 April 1990, authorities no longer have any general discretion to transfer sums out of the HRA, or to support the HRA with contributions from the General Fund. However, the 1989 Act does permit transfers in certain limited and prescribed circumstances. Further details of these and of the operation of the ring-fence are given in *paragraph 4.2.31* below.

HRA subsidy (the notional HRA)

4.1.10 An authority's entitlement to HRA subsidy is calculated on the basis of a **notional HRA**. This is a model of each authority's HRA, which comprises:

(i) notional entries for rental income, major repairs and management and maintenance costs;

(ii) loan charges; and

(iii) certain other items of income and expenditure.

4.1.11 These entries are calculated in accordance with the annual HRA subsidy determination and differ in important respects from the corresponding entries in the authority's actual HRA. Subsidy is payable to meet the difference between income and expenditure on the notional HRA. Full details of each part of the subsidy calculation are given in *Chapters 14–19* and a summary of the differences between the notional and actual HRA can be found in *Chapter 13*.

4.2 HRA accounting procedures

This section describes the statutory and non-statutory proper practices relevant to the keeping of a Housing Revenue Account. It also touches on other accounting issues such as cash accounting and prior year adjustments and explains the links between the HRA and other local authority accounts, particularly the rest of the General Fund.

Background

4.2.1 Authorities are required by section 74(1) of the 1989 Act to keep the HRA in accordance with proper practices. Proper practices are defined in section 21(2) of the 2003 Act as those accounting practices:

(i) which the authority is required to follow by virtue of any enactment (**statutory proper practices**, see *paragraphs, 4.2.3–4.2.17*); or

(ii) which are contained in a code of practice or other document which is identified for this purpose by regulations made by the Secretary of State (**non-statutory proper practices**, see *paragraphs 4.2.18–4.2.19*).

4.2.2 Section 21(3) of the 2003 Act also requires that, in the event of any conflict between statutory and non-statutory practices, only those defined by statute are to be regarded as proper practices. This is particularly important in the context of capital charges and receipts, where calculation of the amounts to be credited or debited to the HRA is determined by the Secretary of State.

Statutory proper practices

4.2.3 The relevant provisions of the 1989 Act, the 1993 Act (as it amends Schedule 4 to the 1989 Act) the Audit Commission Act 1998 and the 2003 Act which establish statutory proper practices are as follows.

The 1989 Act

4.2.4 Sections 74–77 and 80(2) and Schedule 4 establish proper practices in respect of the keeping of the HRA and the Housing Repairs Account (a discretionary account that separately records transactions on HRA repairs and maintenance). These are described in *section 6.1 and Chapter 9*, respectively.

The 1993 Act

4.2.5 Sections 126 and 127, which introduced paragraph 3A of Part III to the 1989 Act (and S.I. 1994/42), establish proper practices in respect of essential care services.

The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 (S.I. 2003/533 as amended by S.I. 2004/556 and S.I. 2006/564))

4.2.6 This Act requires all accounts of a local authority to be audited by an auditor or auditors appointed by the Audit Commission. The auditor is required to examine the accounts and satisfy himself, amongst other things, that they are prepared in accordance with the regulations, comply with all the applicable statutory requirements (e.g. Schedule 4 to the 1989 Act) and that proper practices have been observed in their compilation.

4.2.7 The Accounts and Audit Regulations 2003 (as amended) provide for the maintenance of proper accounting systems and records, internal audit by the authority and the preparation, approval and publication of a statement of accounts, which includes the Major Repairs Reserve.

The 2003 Act

4.2.8 Part 1 sets out the new statutory framework for local authority capital spending, borrowing, credit arrangements and investment, replacing Part 4 of the 1989 Act. It establishes statutory proper practices on:

(i) the definition of "capital receipt" and the treatment of capital receipts (sections 9–11); and

(ii) the definition of "capital expenditure" (section 16).

4.2.9 In addition to containing the definition of "proper practices", it also provides a new general power to specify proper practices by regulation (section 21(1)). This power has been exercised in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 to make provision about accounting for retirement benefits (regulation 30).

The HRA (Accounting Practices) Directions 2000 ('the 2000 Directions') (reproduced at *Annex B*)

4.2.10 Section 78 of the 1989 Act empowers the Secretary of State to give directions as to the accounting practices (either current or prospective) which are to be followed in the keeping of the HRA (or the Housing Repairs Account). The 2000 Directions establish the proper practices to be followed in respect of:

(i) the valuation of HRA stock and other HRA assets (see *paragraphs 4.2.12–13*); and

(ii) the additional information to be disclosed in the HRA statement, over and above that required by the 2000 and earlier versions of the CIPFA Code of Practice on Local Authority Accounting in the UK (see *paragraphs 4.2.14–16*). .

Valuation of HRA assets

4.2.11 The value of HRA assets is a key feature of the New Financial Framework. It is used to provide key information on the stock for the purposes of business planning, and also to calculate rent guidelines for HRA subsidy purposes, in place of Right To Buy (RTB) values. In addition it was formerly used to calculate the cost of capital charge that was charged to the HRA until 2005/06.

4.2.12 The 2000 Directions:

(i) establish as proper practices the use of the *Guidance on Stock Valuation* published by the then DTLR in May 2000 (*'the Valuation Guidance'*) both for carrying out an initial valuation as at 1 April 2000 and for subsequent updates (see *paragraphs 4–6 of the 2000 Directions at Annex B*);

(ii) require authorities to disclose as a note to the HRA the opening and closing balance sheet values of HRA assets, broken down between operational assets (with dwellings shown separately) and non-operational assets (see *paragraph 7(1) of the 2000 Directions at Annex B*); and

(iii) require authorities to disclose as a note to the HRA the vacant possession value of council dwellings as at 1 April carried out in accordance with the Valuation Guidance, with a note to explain that this, together with the corresponding balance sheet value, shows the economic cost to Government of providing council housing at less than open market rents (see *paragraph 7(2) of the 2000 Directions at Annex B*). The vacant possession value is arrived at as part of the valuation process. It is the starting point from which the balance sheet values are then produced, by an adjustment to arrive at 'existing use' values. Authorities do

not have to carry out two separate valuations (see *Chapter 12.4 of the Valuation Guidance*).

The HRA (Accounting Practices) Directions 2007 ('the 2007 Directions') (reproduced at *Annex C*)

4.2.13 The 2007 directions change or update various items of published guidance concerning the HRA, particularly the stock valuation guidance previously published in the 2000 Directions.

4.2.14 The directions require the use of the revised stock valuation guidance issued in July 2005. In addition, with effect from 1 April 2006 references to the cost of capital charge are no longer relevant; these have been excluded from the 2007 directions.

4.2.15 The latter change follows the Statement of Recommended Practice (SORP), which has been amended to remove the cost of capital charge from local authority accounts in general, and changes made by the Item 8 credit and Item 8 debit (general) determination 2006–2007 amending determination 2006, published in December 2006

Additional information

4.2.16 One of the aims of the New Financial Framework is to increase the transparency of the HRA. The intention is that the HRA should give as full and self-contained a picture as possible about the housing stock and other HRA assets, and about the authority's income and expenditure (both revenue and capital) in respect of these assets. In addition to information about stock values, paragraph 6 of the 2007 Directions requires authorities to disclose as notes to the HRA depreciation and related charges, HRA subsidy entitlement and capital expenditure by source of finance. This additional information should already be available to authorities and much of it will be included in other parts of the authority's published accounts.

4.2.17 Authorities should note that the balance sheet items included in these notes (see paragraphs 6(1), (3), (4), (6) and (8) of the 2007 Directions) form part of the aggregate figures shown in the notes to the consolidated balance sheet. They will, however, be shown separately as notes to the HRA to assist understanding of the transactions within the account.

The Item 8 determination

4.2.18 This establishes the statutory proper practices to be followed in calculating the amounts to be debited or credited to the HRA in respect of capital charges and receipts, which show the HRA's share of debt financing costs and investment income. See *section 5.8* and *Chapter 7* for further information.

Non-statutory proper practices

4.2.19 Regulation 31 of the Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (SI 2003/3146) identifies the codes of practice and other documents

that rank as non-statutory proper practices under section 21 of the 2003 Act. Those relevant to the keeping of local housing authority accounts are:

(i) the *Code of Practice on Local Authority Accounting in the UK* (CIPFA, last revised in 2006) this constitutes a Statement of Recommended Practice recognised by the Accounting Standards Board, and is generally known as the **SORP**;

(ii) the *CIPFA Best Value Accounting Code of Practice (last revised in 2006)*, generally known as the **BVACOP**.

Another relevant publication which gives guidance on both statutory and non-statutory proper practices is the *Guidance Notes for Practitioners, .on the SORP (CIPFA, last revised in 2006)*

4.2.20 The SORP requires accounting policies to be applied **consistently**, with the overriding requirement that an authority's Statement of Accounts **presents fairly** the financial position and transactions of the authority. The other main accounting principles and concepts in the SORP which are especially relevant to the HRA are:

(i) **reliability** – financial information is reliable if: it can be relied upon to represent faithfully what it either purports to represent or could reasonably be expected to represent, and therefore reflects the substance of the transactions and other events that have taken place; it is free from deliberate or systematic bias; it is free from material error; it is complete within the bounds of materiality; and under conditions of uncertainty, it has been prudently prepared (i.e. a degree of caution has been applied in exercising judgements and making necessary estimates);

(ii) **accruals** (a persuasive accounting concept) – the financial statements, other than cash flow information, should be prepared on an accruals basis, that is the non-cash effects of transactions should be reflected in the statements for the periods in which those effects are experienced and not in the period in which any cash is received or paid.

Major Repairs Reserve

4.2.21 The Major Repairs Allowance (MRA), paid as part of HRA subsidy, provides authorities with the resources needed to maintain the value of their housing stock over time.

4.2.22 Authorities are required to set up a Major Repairs Reserve (see *regulation 7(5) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2004*), and to transfer into it a sum equal to the MRA. These funds are then available to authorities to finance capital expenditure on HRA assets (other than expenditure on demolition), to repay borrowings or to meet certain liabilities incurred under credit arrangements. Authorities will have the flexibility to carry over any unspent MRA funds from one year to the next. The HRA may also benefit from any short-term investment of unspent funds.

4.2.23 Communities and Local Government expects that most authorities will also use the MRA as an estimate of the depreciation charges to be made in the HRA (see *paragraph 7.2.6*).

Cash accounting

4.2.24 Authorities may wish to keep a separate record of cash flow within the HRA, in accordance with proper practices, in order to calculate an average notional cash balance. This is used in the calculation of notional interest on cash balances to be credited or debited to the HRA in accordance with the Item 8 determination. The calculation of the average notional cash balance also takes into account transactions within the Major Repairs Reserve (see *section 5.8 and Chapter 7* for further information on notional cash balances and the Major Repairs Reserve).

Prior year adjustments

4.2.25 Prior year adjustments (PYAs) to the HRA are to be made in accordance with proper practices. The SORP requires material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors to be accounted for by restating comparative figures for the preceding period and adjusting the opening balance of reserves for the cumulative effect. Examples of PYAs made on the change of accounting policies are those made when authorities move from a cash to an accruals basis in accounting for interest charges. The SORP requirement in that situation is consistent with the requirement of the Item 8 determination that the PYAs made in respect of interest may not be charged to the HRA for the year when the change is made and are not taken into account when calculating an authority's Consolidated Rate of Interest (see *paragraph 7.4.7*).

Links with the General Fund and published accounts

4.2.26 Section 91 of the Local Government Finance Act 1988 requires all relevant local authorities (i.e. district councils, London borough councils, the Isle of Wight Council and the Council of the Isles of Scilly) to establish and maintain a General Fund. All sums received or payments made by the authority must be paid into or met from the General Fund, other than those relating to the authority's Collection Fund or any trust fund. In the authority's published accounts the revenue transactions in the General Fund are shown in a combination of two statements:

(i) the Income and Expenditure Account, which states the transactions on a basis that complies with generally accepted accounting practice in the UK; and

(ii) the Statement of Movement on the General Fund Balance, which sets out the adjustments to the figures required or permitted by legislation.

Both of these statements include all the General Fund transactions, including those accounted for within the HRA.

4.2.27 Although the HRA is a ring-fenced account within the General Fund, for convenience and simplicity, the term 'General Fund' is used throughout this manual:

(i) to refer to the General Fund excluding the ring-fenced HRA;

(ii) where the 1989 Act refers to 'some other revenue account of the authority'.

4.2.28 HRA transactions feed through into the General Fund. Any changes in the rules governing HRA debits and credits (in particular, the Item 8 debit and credit) can therefore have a knock-on effect on the General Fund (and therefore, potentially, on council tax). Further details are set out in *section 5.8 and Chapter 7*.

Transfers between the General Fund and the HRA

4.2.29 Although it is a ring-fenced account within the General Fund, there are certain limited and prescribed circumstances when transfers into and out of the HRA may be made.

4.2.30 The main permitted transfers between the HRA and General Fund are as follows:

Mandatory transfers

(i) where **amenities shared by the community as a whole** (e.g. shops, roads, recreation grounds) are provided under the powers in Part II of the Housing Act 1985, authorities are required to make a contribution from their General Fund to their HRA, reflecting the general community's share of the amenity (paragraph 3 of Part III of Schedule 4 to the 1989 Act);

(ii) sums credited and debited in accordance with the **Item 8 determination** are effectively transfers between the HRA and the General Fund. In the case of the Item 8 debit, the General Fund is receiving from the HRA a share of the authority's overall loan charges; in the case of the Item 8 credit, the General Fund is transferring to the HRA a share of the interest earned by the authority from the investment of their capital resources (see *sections 5.8, 6.8 and Chapter 7*);

(iii) authorities are required to transfer sums from their General Fund to their HRA in cases where a **direction is made under Item 9** of Part I of Schedule 4 to the 1989 Act (*see section 5.9*). Note should also be taken of the provisions of the *Housing Revenue Account (Support Services) Direction 2003* (see *paragraph 4.1.6* above) which provides for such a transfer;

(iv) authorities may also be required to transfer sums from the HRA to the General Fund under **item 10** of Part II of Schedule 4 to the 1989 Act, particularly under the provisions of the *Housing Revenue Account (Rent Rebate Subsidy Deductions) Direction 2003* (see *paragraph 4.1.6* above) which provides for such a transfer.

Transfers at the authority's discretion

(i) if an authority with an **overall negative entitlement to HRA Subsidy** still has a surplus on the actual HRA after the 'notional surplus' has been repaid to the Secretary of State under **item 5** of Part II of Schedule 4 (see *section 6.5*), they may transfer all or part of this remaining surplus from the HRA to the General Fund (paragraph 2 of Part III of Schedule 4 to the 1989 Act);

(ii) authorities which had an overall negative entitlement to HRA Subsidy in 1999–2000 may transfer an additional amount, over and above the former statutory section 80(2) transfer, from their HRA to their General Fund under the **transitional measures scheme**. The amount which may be transferred in any year is subject to a limit which will be specified in a special Item 9 direction (see *Chapter 21*). This provision is continuing despite the repeal of the section 80(2) transfer, but only for those authorities which remain eligible under the rules of the scheme (vii) paragraph 3A of Part 3 of Schedule 4 to the 1989 Act allows certain credits and debits to the HRA where an authority provides welfare services (within the meaning of section 11A of the Housing Act 1985) for persons housed in HRA property.

Allocation of costs between the HRA and General Fund

4.2.31 CIPFA's BVACOP provides a standard classification of income and expenditure for housing services generally.

4.2.32 It is for each authority to consider the allocation of their overheads between the HRA and the General Fund. In deciding what costs should be allocated and how the amounts should be calculated, authorities should be guided by proper accounting practices, including the provisions of the BVACOP.

4.2.33 Where benefits or amenities charged to the HRA benefit the wider community, the HRA must be credited with a contribution towards the costs from the General Fund as required by paragraph 3 of Part III of Schedule 4 to the 1989 Act.

4.2.34 Further guidance on the accounting treatment for certain properties and services within the context of the HRA ring-fence, and on the allocation of expenditure and income between the HRA and the General Fund, is provided in DOE Circular 8/95.

The Balance Sheet

4.2.35 There is no separate balance sheet for the HRA. Transactions in respect of HRA assets, along with those relating to all other local authority assets, are recorded in the overall Balance Sheet, which the authority is required to prepare by the SORP. The value of HRA assets in the Balance Sheet must be assessed in accordance with the Valuation Guidance. The value of HRA assets and other balance sheet information specified in the 2007 Directions must also be disclosed in notes to the HRA.

4.3 HRA budgeting procedures

This section covers the various stages which the HRA goes through from initial budgeting to end of year procedures. Statutory references are to the 1989 Act throughout, unless otherwise stated.

Background

4.3.1 Section 76 places a duty on local housing authorities:

(i) to produce, and make available for public inspection, an annual budget for their HRA which avoids a deficit;

(ii) to review and, if necessary, revise that budget from time to time; and

(iii) to take all reasonably practicable steps to avoid an end-of-year deficit. These provisions apply unless authorities have no properties in the account.

Making a budget

4.3.2 The HRA budget must be prepared in the January and February immediately preceding the financial year to which it will relate (section 76(2)), and must take account of all debit and credit items listed in Schedule 4 (detailed in *Chapters 5 and 6*), (section 76(3)(a) as amended by section 127 of the 1993 Act and by the 2003 Act).

4.3.3 It is for each authority to set its own budget. This will set out how much they plan to spend on repairs, management and maintenance and the level of rents they will charge for the coming year (section 76(2)(b) and (a) respectively). In doing so, they will need to take account of, in particular:

(i) the amount of **HRA subsidy** they are likely to receive from the Exchequer, calculated in accordance with the annual HRA subsidy determination;

(ii) the implications of the **rent rebate subsidy limitation** rules and the related HRA direction (*the Housing Revenue Account (Rent Rebate Subsidy Deductions) Direction 2003)*;

(iii) the **loan charges and interest** to be debited/credited to the HRA in accordance with the Item 8 determination;

(iv) the need to make provision for **bad and doubtful debts**;

(v) any estimated **deficit or surplus** which may be carried forward from the current financial year;

(vi) the need to avoid an **end-of-year deficit** (section 76(3)).

4.3.4 The budget should be based on the authority's best assumptions about matters which affect the HRA (including, for example, planned capital expenditure and likely sales

of property, and any directions or special determinations made by the Secretary of State) and their best estimates of the amounts which will be credited or debited to the account, based on those assumptions.

4.3.5 In making assumptions about actions which the Secretary of State may take, an authority must rely solely on information published by him or on his behalf or supplied by him to the authority (section 76(4)). For example, an authority should not assume a successful outcome on any application they may have made for a special subsidy determination. It would not be unreasonable to budget on the basis of a draft special determination, however, if discussions had taken place between the authority and Communities and Local Government and if the draft was at a reasonably advanced stage.

Implementation and review

4.3.6 Authorities are required by statute to implement their budget proposals (section 76(5)). However, it is recognised that circumstances may change in the course of a year in a way which could affect the budget – for example, unforeseen maintenance problems may emerge, or costs may significantly exceed estimates.

4.3.7 Authorities must therefore review their budgets from time to time during the year and may make changes they think necessary, as long as these are planned to avoid an end-of-year deficit. If it appears that the HRA is heading for a deficit, they must take such steps as are reasonably practicable to avoid this – for example by increasing rents and/or making savings elsewhere to offset any unexpected expenditure or shortfall in receipts. Authorities should use these reviews to inform the various stages of the HRA subsidy claim process (see *Chapter 20*).

Publicity requirements

4.3.8 Authorities are required to prepare a public statement of their HRA budget within a month of agreeing their budget proposals, and a revised statement within a month of agreeing any revisions (section 76(8)). Such statements should set out:

(i) the authority's proposals on rent income, income from other charges in respect of property within the HRA, and management and maintenance expenditure;

(ii) their estimates of all debit and credit items included in the budget.

4.3.9 The Secretary of State has the power to direct the inclusion of other information in the statement (section 76(8)(c)). No such directions have been made, as at April 2007.

4.3.10 Copies of the statement must be available for public inspection, without charge and at all reasonable hours at one or more of the authority's offices, until the end of the year following the one to which it relates (section 76(9)).

End-of-year deficit

4.3.11 As indicated above, the requirement to budget to avoid a deficit cannot be absolute for practical reasons. Circumstances may arise where it is not practicable to take corrective action in that year – for example, increasing rents towards the end of the financial year to offset an unforeseen and substantial one-off item of expenditure may have only a limited effect. To the extent that it is not possible to find savings or increase income, an authority should carry forward any resulting debit balance to the following financial year (under Item 9 in Part II of Schedule 4 to the 1989 Act: see *section 6.9*), **and budget to eliminate it during that year**.

4.3.12 An authority facing a deficit may apply to the Secretary of State:

(i) for a special determination for subsidy (or derogation from rent rebate subsidy limitation – see *section 15.2*) to avoid the deficit; or

(ii) for a direction under Item 9 of Part I of Schedule 4 to the 1989 Act to enable it to make a transfer to the HRA from their General Fund.

While all applications are considered on their merits, the Government's current policy is that such a determination or direction would only be issued in very exceptional circumstances (advice on applying for directions and special determinations is given in *Chapter 20*). Ministers are prepared to grant derogations from rent rebate subsidy limitation if an authority is able to demonstrate exceptional circumstances outside its control (see *section 15.2*).

End-of-year surplus

4.3.13 A surplus on the HRA may be carried forward to the following year under Item 10 of Part I of Schedule 4. If an authority has a surplus on their actual HRA, they may if they wish transfer all or part of it to their General Fund. Such discretionary transfers under paragraph 2, Part III of Schedule 4 can only be made if no HRA subsidy is being paid by the Secretary of State to the authority.

Audit of the HRA

4.3.14 The HRA, along with other local authority accounts, is subject to external audit under section 2 of the Audit Commission Act 1998, and to internal audit under regulation 6 of the Accounts and Audit Regulations 2003. It is Communities and Local Government's normal practice not to settle an HRA subsidy claim until the audit of an authority's HRA is complete. However, an exception can be made if an authority's auditor provides an assurance that the subsidy claim is not affected by the matters preventing the completion of the audit of the HRA.

Annex A: Statutory Basis of the HRA and Housing Repairs Account

SECTION OF 1989 ACT	DUTY (Sec of State or LA)	POWER (Sec of State or LA)	DEFINITION
74 (1)	To keep an HRA in accordance with proper accounting practices (LA)		Proper accounting practices are now defined in section 21 of the Local Government Act 2003
74 (1)–(3)		To direct inclusion in or exclusion from the HRA of certain properties (S of S)	Properties to be accounted for in the HRA
74 (4)	To obtain Secretary of State's consent to close an HRA (LA)	To consent to HRA closure, subject to LA complying with conditions imposed (S of S)	
74 (5)(a)			Property within the HRA
74 (5)(b)			Disposal of property taking it out of HRA
75	To debit/credit items listed in Schedule 4 (LA)		
76 (1)–(4)	To formulate a budget for the following year (during January and February) which avoids a deficit on the HRA, making assumptions as to exercise of S of S's powers (e.g. as to subsidy) only on basis of information from S of S (LA)		
76 (5)	To implement budget proposals (LA)		
76 (6)	To review and, if necessary, revise the budget from time to time, taking reasonable steps to avoid an end-of- year deficit (LA)		
76 (8)–(9)	To publish budget proposals within one month of formulation/revision and make these available for public inspection (LA)	To direct inclusion of information in budget statements (S of S)	
77 (1) and (4)	If discretion to keep a Housing Repairs Account is exercised, it must be kept in accordance with proper practices and to avoid a deficit (LA)	To keep a Housing Repairs Account (LA)	
S of S = Secretary of State LA = Local Housing Authority			

SECTION OF 1989 ACT	DUTY (Sec of State or LA)	POWER (Sec of State or LA)	DEFINITION
77(2)	To credit Housing Repairs Account with specified items (LA)		
77(3)	To debit Housing Repairs Account with specified items (LA)	To determine which expenditure on improvement or replacement of HRA property can be debited to Housing Repairs Account (S of S)	
77(5)		To credit HRA with any credit balance on Housing Repairs Account (LA)	
78		To make directions on accounting practices for HRAs and Housing Repairs Accounts (S of S)	
78A (inserted by Housing Act 1996)		To make directions as to which items or amounts (e.g. service charges) are referable to HRA property where parts of building disposed of but common parts remain in HRA (S of S)	
78B (inserted by Housing Act 1996)		To make directions as to HRA treatment of surpluses earned by in-house trading organisation on work on HRA property (S of S)	
87 (amended by S.I. 2000/ 3056)	To consult on determinations and directions (S of S) To send determination to authority or authorities to which it relates a.s.a.p. after making it (S of S)	To make, vary or revoke directions and determinations, and make different provision for different authorities, areas, cases or descriptions of case (S of S) To send determinations electronically, or post on web site instead of sending hard copy (S of S) To accept electronic service of copies (LA)	
S of S = Secretary of State LA = Local Housing Authority			

SECTION OF 1989 ACT	DUTY (Sec of State or LA)	POWER (Sec of State or LA)	DEFINITION
Schedule 4			
Part I	To credit to HRA specified items (LA)	To direct that Item 2 credit shall include or exclude certain income from charges for services and facilities (S of S) To direct that Item 4 credit shall exclude certain contributions towards expenditure debited to HRA (S of S) To direct that sums for reduced provision for bad or doubtful debts shall not be credited under Item 7(a) or limit circumstances and extent of credit under Item 7(b)(S of S) To determine Item 8 credit formula (S of S) To direct Item 9 credit of amount to HRA from other revenue account of the authority (S of S)	Items to be credited to the HRA
Part II		To direct that certain expenditure on repairs, management and maintenance shall not be debited under Item 1 (S of S) To direct that provision for bad or doubtful debts shall not be debited under Item 7(a) or limit circumstances and extent of debit under Item 7(b)(S of S) To determine Item 8 debit formula (S of S) To direct Item 10 debit of amount from the HRA to the credit of some other revenue account of the authority (S of S)	Items to be debited to the HRA
S of S = Secretary of State		LA = Local Housing Authority	

SECTION OF 1989 ACT	DUTY (Sec of State or LA)	POWER (Sec of State or LA)	DEFINITION
Schedule 4 *(continued)*			
Part III	To debit or credit 1990–91 HRA with debit balance or above threshold credit balance on 1989–90 HRA To make contribution to the HRA for amenities shared by whole community (para 3)	Where no subsidy payable, to credit to other revenue account all or part of HRA credit balance (para 2) (LA) To direct how LA makes contribution to HRA for amenities shared by the whole community, and direct compliance where authority fails (para 3)(S of S) To debit and credit HRA in respect of welfare services provided to HRA tenants (para 3A – inserted by LRHUDA 1993 s 127)(LA) To require contribution to HRA from other revenue account where HRA land disposed of at discount with S of S consent (para 4)(S of S) To direct HRA adjustment where land appropriated for or from housing purposes (para 5)(S of S) To make an order directing within whose HRA houses transferred between London LAs should fall (para 6)(S of S) To consent to HRA credit or debit where contributions paid towards expenditure on land held by LA for Part II Housing Act 1985 purposes under certain provisions (para 7)(S of S)	
Part IV	To supply information specified by Secretary of State, concerning the HRA (LA)	To make directions excluding or modifying statutory provisions (S of S); to make orders amending statutory provisions (S of S)	
S of S = Secretary of State LA = Local Housing Authority			

Annex B: The Housing Revenue Account (Accounting Practices) Directions 2000

The Secretary of State for the Environment, Transport and the Regions, as respects all local housing authorities in England , in exercise of the powers conferred on him by sections 78 and 87 of the Local Government and Housing Act 1989, after consulting such representatives of local government and relevant professional bodies as appears to him to be appropriate, hereby directs as follows.

Citation, application and interpretation

1. These directions may be cited as the Housing Revenue Account (Accounting Practices) Directions 2000.

2. These directions shall have effect in relation to the Housing Revenue Accounts of local housing authorities in England for financial years beginning on or after 1 April 2001.

3. In these directions:

'an authority' means a local housing authority in England;

'the Guidance' means the guidance entitled *A New Financial Framework for Local Authority Housing: Guidance on Stock Valuation* published by the Secretary of State in May 2000;

'HRA' means the Housing Revenue Account of an authority.

HRA stock valuation

4. In carrying out a valuation of the land, houses and other property within the Housing Revenue Account of an authority, the proper practices to be followed are the practices set out in the Guidance.

5. When an authority first carries out a valuation of the land, houses and other property within its HRA in accordance with the Guidance, it shall ascertain values as at 1 April 2000.

Any subsequent valuation of the land, houses and other property within its HRA shall be carried out by an authority in accordance with the Guidance.

Information to be disclosed in notes to the housing revenue account

An authority shall disclose the information set out in paragraphs (1) to (9) below in notes to its HRA:

(1) the total balance sheet value of the land, houses and other property within the authority's HRA (valued in accordance with the Guidance) as at 1 April in the

financial year, and the closing balance sheet value as at 31 March in the financial year, and the separate values as at 1 April and 31 March in the financial year of:

(a) operational assets, comprising

(i) dwellings,

(ii) other land and buildings, and

(b) non-operational assets;

(2) (a) the vacant possession value of dwellings within the authority's HRA (valued in accordance with the Guidance) as at 1 April in the financial year,

(b) an explanation that the vacant possession value and balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than open market rents;

(3) the value of, and an explanation of, any charge calculated in accordance with proper practices in respect of deferred charges attributable to the HRA;

(4) the value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices;

(5) an analysis of the movement on the Major Repairs Reserve for the financial year, and:

(a) the balance on the Major Repairs Reserve on 1 April in the financial year,

(b) the amount transferred to the Major Repairs Reserve during the financial year,

(c) any amount transferred from the Major Repairs Reserve to the HRA during the financial year,

(d) the debits to the Major Repairs Reserve during the financial year in respect of capital expenditure on the land, houses and other property within the authority's HRA,

(e) the balance on the Major Repairs Reserve on 31 March in the financial year; October 2001

(6) a breakdown of the amount of HRA subsidy payable to the authority for the financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year;

(7) (a) a summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:

(i) borrowing,

(ii) usable capital receipts,

(iii) revenue contributions (i.e. the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989),

(iv) the Major Repairs Reserve;

(b) a summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year;

(8) an explanation of the cost of capital charge, and the capital asset charges accounting adjustment, calculated in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year;

(9) the total charge for depreciation for the land, houses and other property within the authority's HRA, and the charges for depreciation for:

(a) operational assets, comprising

(i) dwellings,

(ii) other land and buildings, and

(b) non-operational assets.

NEIL McDONALD
for and on behalf of the Secretary of State
14 December 2000

Annex C: The Housing Revenue Account (Accounting Practices) Directions 2007

The Secretary of State, as respects all local housing authorities in England, in exercise of the powers conferred upon her by sections 78 and 87 of the Local Government and Housing Act 1989, after consulting such representatives of local government and relevant professional bodies as appears to her to be appropriate, directs as follows.

Citation, application and interpretation

1 These directions shall be citied as the Housing Revenue Account (Accounting Practices) Directions 2007 and shall have effect in relation to the Housing Revenue Accounts of local housing authorities in England for financial years beginning on or after 1 April 2006.

2 Subject to paragraph 3 the Housing Revenue Account (Accounting Practices) Directions 2000 are hereby revoked.

3 The Housing Revenue Account (Accounting Practices) Directions 2000 shall continue to have effect in relation to the Housing Revenue Accounts of local housing authorities in England for financial years prior to the year beginning on 1 April 2006.

4 In these directions:

'an authority' means a local housing authority in England;

'the Guidance' means the guidance entitled *Guidance on Stock Valuation for Resource Accounting* published by the Secretary of State in July 2005;

'HRA' means the Housing Revenue Account of an authority.

HRA stock valuation

5 In carrying out a valuation of the land, houses and other property within the Housing Revenue Account of an authority, the proper practices to be followed are the practices set out in the Guidance.

Information to be disclosed in notes to the housing revenue account

6 An authority shall disclose the information set out in paragraphs (1) to (8) below in notes to its HRA:

(1) the total balance sheet value of the land, houses and other property within the authority's HRA (valued in accordance with the Guidance) as at 1 April in the financial year, and the closing balance sheet value as at 31 March in the financial year of:

(a) operational assets, comprising

(i) dwellings,

(ii) other land and buildings, and

(b) non-operational assets;

(2) (a) the vacant possession value of dwellings within the authority's HRA (valued in accordance with the Guidance) as at 1 April in the financial year,

(b) an explanation that the vacant possession value and balance sheet value of dwellings within the HRA show the economic cost to Government of providing council housing at less than market rents;

(3) the value of, and an explanation of, any charge calculated in accordance with proper practices in respect of deferred charges attributable to the HRA;

(4) the value of, and an explanation of, any impairment charges for the financial year in respect of land, houses and other property within the authority's HRA, calculated in accordance with proper practices;

(5) a breakdown of the amount of HRA subsidy payable to the authority for the financial year in accordance with the elements set out in the general formula in paragraph 3.1 of the General Determination of Housing Revenue Account Subsidy for the year;

(6) (a) a summary of total capital expenditure on land, houses and other property within the authority's HRA during the financial year, broken down according to the following sources of funding:

(i) borrowing;

(ii) credit arrangements;

(iii) capital receipts;

(iv) revenue contributions (i.e. the debit under Item 2 of Part II of Schedule 4 to the Local Government and Housing Act 1989);

(v) the Major Repairs Reserve;

(b) a summary of total capital receipts from disposals of land, houses and other property within the authority's HRA during the financial year;

(7) An explanation of the capital asset charges accounting adjustment, calculated in accordance with the Item 8 Credit and Item 8 Debit (General) Determination for the year.

(8) The total charge for depreciation for the land, houses or other property within the authority's HRA, and the charges for depreciation for:

(a) operational assets, comprising

(i) dwellings,

(ii) other land and buildings, and

(b) non-operational assets.

Anne Kirkham
For and on behalf of the Secretary of State
February 2007

5 Credits to the HRA

This chapter is made up of separate sections covering the individual items to be credited to the HRA. The individual sections give a detailed explanation of each Item (including its description in Schedule 4), together with relevant points on budgeting and accounting and the extent to which it is taken into account in the calculation of HRA subsidy entitlement.

***Annex A** sets out a summary of the Item 8 credit formula.*

***Annex B** gives the calculation of the HRA share of discounts.*

*The HRA **credit** items are listed at **Part I of Schedule 4 to the 1989 Act**. They comprise:*

Item 1 – rents

Item 2 – charges for services and facilities

Item 3 – Housing Revenue Account subsidy

Item 4 – contributions towards expenditure

[Item 5 (housing benefit transfers) was repealed by the Local Government Act 2003, with effect from April 1, 2004]

Item 6 – transfers from the Housing Repairs Account

Item 7 – reduced provision for bad or doubtful debts

Item 8 – sums calculated as determined by Secretary of State (i.e. notional interest)

Item 9 – sums directed by Secretary of State (i.e. transfers from the General Fund)

Item 10 – credit balance from previous year.

*In addition, contributions from the General Fund may be credited to the HRA in respect of benefits and amenities shared by the whole community, which arise from the exercise of a local authority's housing functions (**paragraph 3 of Part III of Schedule 4 to the 1989 Act**), and income from charges in respect of the provision of welfare services (as defined in section 11A of the Housing Act 1985) to persons housed in HRA property may be credited to the HRA under **paragraph 3A of Part III of Schedule 4 to the 1989 Act**.*

5.1 Item 1: Rents

This Item covers gross rental income on HRA property.

Schedule 4 description

The income of the authority for the year from rents and charges in respect of houses and other property within the account. This Item includes rent remitted by way of rebate.

Local authorities' rent-setting powers

5.1.1 It is for each authority to decide on the rents that they should charge their tenants. The powers of local housing authorities to set rents are laid down in the Housing Act 1985 ('the 1985 Act'), as amended by section 162 of the 1989 Act. Under section 24 of the 1985 Act:

(1) A local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.

(2) The authority shall from time to time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require.

5.1.2 There is no statutory method laid down for the assessment of rents. Section 24(3) of the 1985 Act which required a local housing authority to set rents with regard to the principle that the rents of houses of any class or description should bear broadly the same proportion to private sector rents as the rents of houses of any other class or description was disapplied in relation to England by the Local Government Act 2003.

5.1.3 In April 2002, the Government introduced a new approach to the calculation of social rents, to be phased in over a ten year period. (See *Chapter 9 of the Housing Policy Statement – The Way Forward for Housing (December 2000*) and the *Guide to Social Rent Reforms).*

5.1.4 This new method is non-statutory, but the HRA subsidy is calculated upon the assumption that it is being introduced by authorities. (See *Chapter 8* for more detail).

Budgeting for rental income

5.1.5 In preparing their HRA budget, an authority will need to estimate as accurately as possible the total level of income which they need to raise from rents. In doing so, they need to take into account, amongst other factors:

(i) current rental income, and any likely changes in the **size and composition** of their HRA stock;

(ii) estimated loss of income arising from **unoccupied dwellings** ('voids');

(iii) estimated rental income from **other properties**, for example shops on housing estates and garages let separately;

(iv) proposed expenditure on **management and maintenance**; any **unsubsidised** rent, council tax or other charges;

(v) the estimated amount of **HRA subsidy (if any)** they will receive from Communities and Local Government or the amount of negative HRA subsidy payable to the Secretary of State;

(vi) **arrears** on rent due and the need to make provision for **bad and doubtful debts**;

(vii) **capital charges**;

(viii) the need to **avoid a deficit** on the HRA.

5.1.6 The authority will then need to assess the rents for individual properties required to deliver this total, whilst complying with the statutory requirement of **reasonableness** (see *paragraphs 5.1.1–5.1.3*), and taking account of the council's own policy and priorities and their procedures for consulting tenants. Note should also be taken of the Government's policies on rent restructuring which are outlined in greater detail in *Chapter 8*.

5.1.7 Once new rents are set, authorities will notify tenants, in accordance with any period of notice specified in tenancy agreements (normally 28 days), and are required to keep rents under review (section 76(6) of the 1989 Act). In line with the Tenants' Charter, it is increasingly the practice to involve tenants in consultation arrangements prior to setting rents.

Accounting for rental income

5.1.8 Authorities will need to take note of the following points in bringing rental income to account in the HRA:

(i) the 1989 Act requires that **gross rental income**, i.e. including rent income remitted by way of rebate, be credited to the HRA;

(ii) in line with proper practices, this should be on an **accruals** basis, which will be the total amount of rent due (i.e. receivable as opposed to received) in the course of a year;

(iii) separate provision will need to be made (under debit Item 7) for **bad or doubtful debts** *(*see *section 6.7*);

(iv) rent forgone on empty properties should not be credited to the HRA.

HRA subsidy implications

5.1.9 The subsidy calculation is based on annual assumptions about the total rental income across all authorities and, within this, an assessment of the average rents each authority will charge (guideline rents). No allowance is made for loss of income arising from bad or doubtful debts (rent arrears), or from empty properties (voids) above a rate of 2% of guideline rent income.

5.1.10 Rents receivable by the authority on properties other than dwellings are not included in rent guidelines and are not treated as reckonable income for subsidy purposes.

5.1.11 The formula for calculating an authority's notional income from rents is set out in the subsidy determination and explained in more detail in *Chapter 18*.

5.2 Item 2: Charges for services and facilities

This Item covers service charges on HRA property.

Schedule 4 description

The income of the authority for the year in respect of services or facilities provided by them in connection with the provision by them of houses and other property within the account:

(a) including income in respect of services and facilities provided under sections 10 and 11 of the Housing Act 1985 (power to provide furniture, board and laundry facilities); but

(b) not including payments for the purchase of furniture or hire-purchase instalments for furniture or income in respect of services provided under section 11A of that Act (power to provide welfare services).

If the Secretary of State so directs, this Item shall include, or not include, such income as may be determined by or under the direction. No such directions have been made as at April 2004.

Budgeting and accounting

5.2.1 These charges cover services and facilities provided by the authority to tenants and which are not covered by the rent. In addition to the services specifically mentioned in Schedule 4 (provision of furniture, board and laundry facilities), these might include, for example, charges for communal central heating systems or for community alarm schemes.

5.2.2 Charges should be reviewed from time to time to take account of changes in actual costs. Note should also be taken of the Government's policies on rent restructuring and the separation of service charges from rent. Please see *the Guide to Social Rent Reforms in the Local Authority Sector.*

5.2.3 Receipts from tenants in respect of furniture or hire-purchase instalments for furniture are accounted for outside the HRA.

5.2.4 As with rents, the HRA should be credited with charges due and provision made for any bad or doubtful debts against debit Item 7 (see *section 6.7*).

Service charges on Right to Buy (RTB) and Rent to Mortgage (RTM) leaseholds

5.2.5 Where a flat in an HRA block is sold on a lease of more than 21 years, under either the Right to Buy or Rent to Mortgage scheme, any income and expenditure arising from works and service charges in respect of **that flat only**, without reference to the common parts of the block or any other flat, fall to be accounted for outside the HRA, as the flat itself is no longer an HRA property. Where the authority incurs expenditure on works to the **common parts of the block**, such as the roof, and income is raised from tenants and long leaseholders alike towards this expenditure, then the accounting treatment of such income and expenditure is inside the HRA. The reason for this is that where the freehold is still in the HRA, the common parts of the block are still treated as HRA property. This applies even where all the flats in a block have been disposed of on leases of more than 21 years.

5.2.6 The Secretary of State has powers to issue a general direction giving authorities discretion over the accounting treatment of income and expenditure relating to common parts where one or more parts of a building have been disposed of, but the common parts remain within the HRA (section 78A of the 1989 Act, inserted by Schedule 18 of the Housing Act 1996). He does not currently intend to exercise these powers.

HRA subsidy implications

5.2.7 Charges for services and facilities are not treated as reckonable income in the subsidy calculation. An adjustment for such income was made in the base management and maintenance allowances in 1990–1991 and has therefore been carried through to all subsequent years' allowances.

5.2.8 From 2004–2005, rent rebate subsidy limitation continues to impact upon the HRA although rent rebates and rent rebate subsidy are now accounted for in the General Fund. The degree of impact depends on the authority's pre-set limit rent, the proportion of rental income which the authority rebates, its average weekly rent and **also the average weekly amount per dwelling of service charges assumed to be separated out during the year**. Further details can be found in *Chapter 15*.

5.3 Item 3: Housing Revenue Account subsidy

Any entitlement to HRA subsidy is credited to the HRA under this Item. Full details of the subsidy calculation are given in Chapter 13.

Schedule 4 description

Housing Revenue Account subsidy payable to the authority for the year.

The subsidy calculation

5.3.1 HRA subsidy is paid to meet any shortfall between expenditure and income on a model of each authority's HRA (the notional HRA).

5.3.2 The HRA subsidy calculation is based on annual assumptions covering the rents each authority will charge (guideline rents), allowances for major repairs, management and maintenance (M&M), the HRA's share of debt financing and management costs, calculated in accordance with a formula, and other specific items of expenditure and income. For the financial year 2004–2005, the subsidy calculation includes allowances for Arms Length Management Organisations (ALMOs) (this allowance is only payable to authorities in Round 1 or Round 2 of the ALMO Programme who have achieved a 2* or better rating), and Private Finance Initiative (PFI) schemes.

5.3.3 The obligation to set aside 2% of the opening HRA credit ceiling (HRA set-aside), as the HRA's contribution to the authority's Minimum Revenue Provision, was abolished by the Local Government Act 2003. At the same time, the corresponding subsidy element, Admissible Set Aside (ASA), which was calculated with reference to the Mid Year Subsidy Credit Ceiling (MYSCC), has been removed. In some cases removal of both the charge and the subsidy element represents a net loss to the authority. Communities And Local Government has therefore introduced transitional arrangements in the form of an Admissible Allowance, payable until 2006–2007, to allow authorities time to adjust to the loss in HRA subsidy entitlement.

5.3.4 Full details of the subsidy calculation and the procedures for claiming subsidy are given in *Chapters 13 to 20*.

Budgeting and accounting

5.3.5 It is for each local housing authority to estimate their entitlement to subsidy for the purposes of compiling their HRA budgets and as the basis for claiming HRA subsidy. This estimate must be based on information published by the Secretary of State or supplied by him to the authority (section 76(4)). With the exception of debt interest costs and the HRA's share of any premiums and discounts arising from premature debt redemption, all components of the subsidy calculation are pre-set and included in the annual HRA subsidy determination, issued by Communities And Local Government in the December before the new financial year (on the basis of audited data provided by authorities in the preceding summer/autumn). Local authorities' estimates of interest and premiums/discounts, which are not pre-set, should be based on the relevant formulae set out in the subsidy determination. These estimates should be reviewed and updated throughout the year as more up-to-date information becomes available, to inform each stage of the claims process (see *Chapter 20*).

5.3.6 The subsidy entitlement of those authorities undertaking Large Scale Voluntary Transfers (LSVTs) (or other stock disposals involving cumulative changes of more than

3,000 dwellings or 10% of their stock) will be recalculated to reflect the date of the transfer (see *Chapter 11*).

5.3.7 For most authorities (about 167 in 2005–2006), income exceeds expenditure on the notional HRA. In other words, assumed income from guideline rents exceeds assumed expenditure on loan charges, Management and Maintenance (M&M), major repairs and other allowances. In such cases from 2004–2005, the resulting surplus ('negative HRA subsidy') is to be repaid to Communities And Local Government under the provisions of section 80ZA of the 1989 Act. (See *section 6.5* for further details).

5.3.8 In accordance with the accruals concept, the amount of subsidy for the year due to the authority under the subsidy determination should be credited to the HRA under Item 3 of Schedule 4, regardless of when it is received. The auditor should certify this amount. However, publication of an authority's HRA (which has an earlier deadline than certification of their HRA subsidy claim) may have to be based on an estimated subsidy total. During the course of an audit of a subsidy claim, errors may be discovered in respect of a claim for a previous year.

5.3.9 The Secretary of State shall, as soon as he thinks fit after the end of the year, make a final decision as to the amount of HRA subsidy payable to an authority for the year, under section 80A of the 1989 Act. A section 80A decision will only be made after the Secretary of State has tried to settle with the authority any outstanding issues relating to their subsidy calculation for the year, e.g. matters identified by the auditors during the course of their audit of the subsidy claim. Changes to the pre-set figures used in the subsidy calculation will only be made in exceptional circumstances.

5.3.10 The final decision will be notified to the authority, either in writing or electronically. Once notified to the authority such a decision is conclusive as to the amount (if any) payable by way of subsidy.

5.3.11 If the amount of HRA subsidy paid to the authority is less than the final amount determined under section 80A, the authority will be paid the balance. Where the amount finally decided is less than the amount paid to the authority, or where the final amount due from the authority is more than any amount paid by them, the Secretary of State will seek to recover the excess, e.g. by withholding or reducing subsidy (see *Chapter 20*).

5.4 Item 4: Contributions towards expenditure

This Item covers contributions received, mainly from outside bodies or persons towards expenditure which has been properly debited to the HRA.

Schedule 4 description

Contributions of any description payable to the authority for the year towards expenditure falling to be debited to the account (for that or any other year).

If the Secretary of State so directs, this Item shall not include so much of any such contributions as may be determined by or under the direction.

Budgeting and accounting

5.4.1 Contributions receivable by the authority towards HRA expenditure may include:

(i) payments from tenants for the cost of house repairs which are their liability;

(ii) amounts receivable from social services authorities towards the cost of special facilities or services, other than essential care, for sheltered housing;

(iii) compensation payments from contractors and settlement of insurance claims;

(iv) financial assistance by the Government for repair of HRA property damaged as a result of an emergency or disaster, under section 155 of the 1989 Act;

(v) financial assistance by the Government in the form of grants or contributions paid in annual sums for a period of ten years or more, including defective dwellings grants in respect of loan charges on dwellings repurchased before 1 April 1989.

5.4.2 The Secretary of State may direct that part of such contributions be excluded from the HRA. No such directions have been made to date.

Other contributions

5.4.3 Any contributions from elsewhere within the authority's General Fund in respect of benefits or amenities, provided under housing powers but shared by the wider community, should be credited to the HRA as a special case in accordance with paragraph 3 of Part III of Schedule 4, and not under this Item. Costs recovered through service charges should be credited to Item 2. Income from charges in respect of the provision of welfare services (as defined in section 11A of the Housing Act 1985) for persons housed in HRA property should be credited to the HRA as a special case in accordance with paragraph 3A of Part III of Schedule 4 to the 1989 Act).

Grants or contributions to capital expenditure

5.4.4 Capital grants cannot be credited to the HRA under this (or any other) Item. There is no provision for capital expenditure to be debited directly to the HRA, and so the conditions imposed by the Schedule 4 description (that the contributions must be in respect of expenditure falling to be debited to the HRA) cannot be met. This is also consistent with non-statutory proper practice in the CIPFA Code of Practice, which states that grants used to acquire capital assets should not be credited to a revenue account and expenditure on acquiring a capital asset should be capitalised and not debited to a revenue account.

HRA subsidy implications

5.4.5 None of the contributions credited to the HRA under this Item are taken into account in the subsidy calculation.

5.5 Item 5: Housing benefit transfers

The item 5 credit was repealed by paragraph 33(2) of Schedule 7 to the Local Government Act 2003. This change takes effect from 1 April 2004. Details of the item 5 credit as it previously applied, can be found in the earlier edition of this manual which is available on the Communities And Local Government website.

5.6 Item 6: Transfers from the Housing Repairs Account

This Item allows for the transfer of any credit balance from the Housing Repairs Account, where kept.

Schedule 4 description

Sums transferred, for the year from the authority's Housing Repairs Account in accordance with section 77(5) of this Act (credit balance for year).

Budgeting and accounting

5.6.1 The keeping of a Housing Repairs Account (an account which an authority may operate which separately records income and expenditure on HRA repairs and maintenance) is described in *Chapter 9*.

5.6.2 If such an account is kept, an authority may transfer some or all of any credit balance for any year from that account to their HRA, to be credited under Item 6. This, together with any proposed transfer from the HRA to the Housing Repairs Account (see *section 6.6*), will need to be considered in setting the budget for the HRA.

HRA subsidy implications

5.6.3 The decision of an authority to charge expenditure on housing repairs and maintenance to a separate Housing Repairs Account, rather than direct to the HRA, has no effect on their entitlement to subsidy (see *Chapter 9*).

5.7 Item 7: Reduced provision for bad or doubtful debts

This Item allows authorities to reduce any provision previously made for bad or doubtful debts under debit Item 7 (see section 6.7).

Schedule 4 description

The following, namely:

(a) any sums debited to the account for a previous year under paragraph (a) of Item 7 of Part II of this Schedule which have been recovered by the authority during the year; and

(b) any amount by which, in the opinion of the authority, any provision debited to the account for a previous year under paragraph (b) of that Item should be reduced.

If the Secretary of State so directs, no sums shall be credited under paragraph (a) above, and no amount shall be credited under paragraph (b) above, except (in either case) in such circumstances and to such extent as may be specified in the direction.

Budgeting and accounting

5.7.1 Local housing authorities are required to credit their HRA with an amount equivalent to rent and charges due (credit Items 1 and 2), rather than actually received, in any one year. However, against this they must make provision for any bad or doubtful debts arising from arrears of rent and charges (see *section 6.7*). This is done by debiting the HRA with a sum to write off bad debts and a sum to make provision for doubtful debts. If any bad debts which have been written off are subsequently recovered, or if an authority decides that they have over provided for doubtful debts, then these sums should be re-credited to the HRA under Item 7.

5.7.2 The Secretary of State has the power to make directions limiting the amounts credited under Item 7. Directions were issued in 1990 to limit the amounts arising under the previous financial regime which could be re-credited to the HRA after 1 April 1990. No further directions have been made as at April 2005.

HRA subsidy implications

5.7.3 No allowance is made in the subsidy calculation for bad or doubtful debts.

5.8 Item 8: Sums calculated as determined by Secretary of State (mainly notional interest earned)

This Item is mainly the HRA's share of interest and other income received by the authority in respect of investments, loans and mortgages. As with the HRA's share of capital charges (the Item 8 debit – see section 6.8 and Chapter 7) the amounts to be credited to the HRA in respect of investment and other income are calculated on a formulaic basis, in accordance with the Item 8 Credit and Item 8 Debit (General) Determination ('the Item 8 determination') for the year in question. Most of the income credited under this Item is notional, for example assumed interest on investments and notional cash balances, but some, for example mortgage interest payments on ex-HRA properties, is actual.

Schedule 4 description

Sums calculated for the year in accordance with such formulae as the Secretary of State may from time to time determine.

In determining any formula for the purposes of this Item, the Secretary of State may include variables framed (in whatever way he considers appropriate) by reference to such matters relating to the authority, or to (or to tenants of) houses and other property which are or have been within the account, as he thinks fit.

Budgeting and accounting: the Item 8 credit formula

5.8.1 The Item 8 determination sets out details of the Item 8 credit calculation, and defines the various terms used. A worked example for 2006–2007 is at *Annex A*.

5.8.2 The total amount to be credited under Item 8 is given by the formula:

$$(\mathbf{A} \times \mathbf{B}) + (\mathbf{C} \times \mathbf{B}) + \mathbf{E} + \mathbf{T} + \mathbf{W}$$

Detailed explanations, together with worked examples of key elements such as capital financing requirements (CFRs) and interest rates, can be found elsewhere in this manual, as indicated below.

Notional HRA investment income – (A × B) in the formula

5.8.3 An authority's mid-year HRA capital financing requirement (**A**) is a measure of its average net indebtedness throughout the year. If the mid-year HRA CFR is negative, then it is assumed that the authority has resources, generated by the HRA, to invest. The aim of this component of the Item 8 credit calculation (**A** × **B**) is to ensure that the HRA benefits from the investment (or potential for investment) of these resources, which will have been generated largely from the sale of HRA assets.

5.8.4 This component is calculated by applying the average rate of interest earned in the year on an authority's **investments** (**B**) to the authority's mid-year HRA CFR (**A**) where this is negative. The result will be nil if the mid-year HRA CFR is positive or zero (see *paragraph 3 of the Item 8 determination)*. Where an authority has no investments, they should set **B** at a level not less than the Consolidated Rate of Interest (CRI), calculated in accordance with paragraph 5 of the Item 8 determination (see *section 7.4*).

Item **B** – the average rate of interest on investments and cash balances – was in past years restricted to interest on so-called *approved investments* (as previously defined in regulations), such as Government backed securities and short-term deposits, to avoid the more speculative forms of investment. The CIPFA code requires authorities to determine prudential indicators relating to treasury management, and this seeks to achieve the same aim, namely to avoid unnecessary or unquantified risk. Item **B** is therefore now defined in relation to proper practices, excluding interest on service and provision investments or investments held for the purposes of a pension fund. Guidance on investments has been prepared under the powers in section 15(1)(a) of the Local Government Act 2003.

5.8.5 Interest earned on any HRA **usable** capital receipts invested by an authority is credited to the General Fund, not the HRA.

Interest on the average notional cash balance – (C × B) in the formula

5.8.6 The **average notional cash balance** is the difference between cash receipts and cash payments in respect of transactions in the HRA, the Housing Repairs Account (if kept) and the Major Repairs Reserve. If cash receipts exceed cash payments over the year, there is a credit balance or surplus on this notional cash balance. It is assumed that this surplus is invested on a short-term basis and that the HRA benefits from the income earned (or the potential for earning income). If cash payments exceed cash receipts, this component is nil.

5.8.7 This component is calculated by applying the average rate of interest earned on investments, or the CRI (**B**), to the notional cash balance if in surplus (**C**).

Interest payments on local authority mortgages – E in the formula

5.8.8 This component is the actual interest receivable on loans granted by the authority for Right to Buy or other purchases of HRA properties. Such interest should be calculated in accordance with Schedule 16 to the 1985 Act as amended by paragraph 88 of Schedule 11 to the 1989 Act. The principal element of these loans is treated as a capital receipt and subject to pooling (see *Chapter 3*).

The HRA share of discounts – W in the formula

5.8.9 The HRA receives a share of **discounts** receivable on the premature repayment of fixed rate loans from 1 April 1995 onwards. The HRA share of such discounts is calculated according to the relationship between the authority's CFR at the start of the year in which the discount is receivable and their opening HRA capital financing requirement for that year. To give the HRA share, the total discount is multiplied by the opening HRA capital financing requirement and then divided by the CFR at the start of that year. However:

(i) the HRA share will be nil if the opening HRA CFR for the year in which the discount is receivable is nil or a negative amount;

(ii) the HRA share will be the whole of the discount if the opening HRA CFR is higher than the CFR for the year in which the discount is receivable.

5.8.10 The HRA share of the discount is then amortised over the remaining period of the loan from the date of redemption or ten years, whichever is less (see *paragraph 5.8.11 for calculation of the amount to be charged in each year, and paragraphs 7.3.11 and 7.3.12 for proper practices*). Once calculated, the HRA share of the discount is not revised each year to take account of changes in the relationship between the HRA CFR and CFR. Thus, if the opening HRA CFR was positive in the year the discount was receivable, a share of the discount continues to be credited to the HRA (and taken into account for HRA subsidy purposes) over the remaining period of the loan, up to a maximum of ten years (as long as the HRA was not closed in the meantime), even if in subsequent years the opening HRA CFR is reduced to nil or a negative amount. However, any new discounts receivable after the HRA CFR became nil or negative would not be chargeable to the HRA or taken into account in the HRA subsidy calculation. A worked example is at *Annex B*.

5.8.11 The amount of the HRA share of the discount receivable in the HRA in any one year is calculated as follows:

(i) take the HRA share of the discount (see *paragraph 5.8.9* above) and divide by either the unexpired period of the loan from the date of redemption (in years and days with any day expressed as a proportion of a year) or ten years if less. This gives the annual amount to be credited to the HRA;

(ii) divide this annual amount by 365 (or 366 in a leap year) and multiply by the number of days of the unexpired period of the loan which fall within the current financial year. This adjusts the annual amount to take account of the date of redemption and the date the loan would have expired, as these will almost always fall part-way through a financial year.

Transfer from the Major Repairs Reserve (T in the formula)

5.8.12 Authorities are required to make a full depreciation charge, in accordance with proper practices, in their HRA in respect of all HRA assets. An equivalent amount is transferred to the Major Repairs Reserve for expenditure for capital purposes on property within the HRA. The depreciation charge in respect of HRA dwellings (other than shared-ownership dwellings) is effectively funded within the HRA by the Major Repairs Allowance (MRA), provided the depreciation charge does not exceed the MRA. Ministers have decided that, in cases where the depreciation charge for HRA dwellings does exceed the MRA, or a depreciation charge is made in respect of other HRA assets not funded by the MRA, this should not at present fall to be met by rents or a reduction in HRA services. The Item 8 determination therefore allows authorities to transfer back from the Major Repairs Reserve an amount (**T**) equivalent to:

(i) the difference between the depreciation charge made for HRA dwellings (other than shared ownership dwellings) and the MRA, where the depreciation charge is higher than the MRA; plus

(ii) the depreciation charge for all other HRA land, housing and property, including the authority's share of shared-ownership dwellings.

5.8.13 Where the depreciation charge is lower than or equal to the MRA, **T** is equal only to (ii) above.

HRA subsidy implications

5.8.14 Equivalent components to (**A** × **B**), **E** and **W** are taken into account in the calculation of HRA subsidy entitlement. However, the equivalents to components **A**, **B** and **E** are calculated in a different way to enable them to be pre-set before the start of the subsidy year. For **W**, the actual amount is used. Two components – interest on the average notional cash balance (**C** × **B**) and any transfer from the Major Repairs Reserve (**T**) – are not taken into account in the subsidy calculation.

5.9 Item 9: Sums directed by the Secretary of State (transfers from the General Fund)

This Item allows authorities to transfer sums to the HRA from another revenue account, on the basis of directions issued by the Secretary of State.

Schedule 4 description

Any sums which for the year the authority is required, by reason of a direction given by the appropriate person, to carry to the credit of the account from some other revenue account of theirs.

A direction under this item may require the transfer of sums calculated in accordance with formulae specified in the direction, and any formula so specified may include variables framed (in whatever way the appropriate person considers appropriate) by reference to such matters as the appropriate person thinks fit.

Budgeting and accounting

5.9.1 Local housing authorities have no general discretion to make transfers from their General Fund to their HRA *(*see *Chapter 4*). The 1989 Act requires such transfers in specific circumstances, for example contributions in respect of amenities shared by the whole community (paragraph 3 of Part III of Schedule 4). Otherwise, a transfer may only be made if an authority is directed to do so by the Secretary of State. In such cases, the transfer should be credited under Item 9. The Housing Revenue Account (Support Services) Direction 2003 *(*see *paragraph 4.1.6)* provides for such a transfer where authorities choose to debit the costs of support services provided to HRA tenants to the HRA.

5.9.2 All applications for special directions will be considered on their merits. It is unlikely that Item 9 transfer directions other than those made in response to a successful application under a transitional measures scheme (see *paragraphs 5.9.3 and 5.9.6* below), will be issued in response to an application by an authority other than in exceptional circumstances. Communities And Local Government would, for example, normally expect an authority to carry over an unavoidable and substantial debit balance into the following year *(*see *paragraph 4.3.11*). HRA budgets should be drawn up on the assumption that no such special Item 9 direction will be made.

5.9.3 **The negative subsidy transitional measures scheme** – *the transitional measures scheme applies only to those authorities which had a negative HRA subsidy entitlement in 1999–2000.* Prior to 2004–2005 these authorities were required to transfer any such negative amount to their General Fund at the end of the financial year under the provisions of section 80(2). The introduction of the MRA from 2001–2002 had the effect of reducing the negative subsidy entitlement and therefore the amount of the repayment; the Local Government Act 2003 repeals section 80(2) and so removes this requirement entirely.

5.9.4 Authorities have a number of options to compensate for the loss of this transfer: in principle they could reduce the cost of services charged to their General Fund, or

fund them in the short term from reserves, or increase their council tax. It is a matter for the authority concerned as to how it adapts to this change in the income of their General Fund. However, the transitional measures scheme enables authorities, if they wish, to phase in this loss over a period of time (allowing them time to adjust to the new financial position) (see *Chapter 21*). The directions issued will allow authorities to continue to transfer an amount to the General Fund (subject to an agreed limit) and to fund this within the HRA (again, if they wish) by making a transfer back of MRA resources from the Major Repairs Reserve to the HRA, as part of the Item 9 credit.

5.9.5 Full details of this scheme are given in *Chapter 21*. Authorities may only make such a transfer if they have received a direction. The transfers may only be made for the year specified in the direction and must not exceed the limit specified therein.

Accounting for surpluses from internal trading organisations (ITO/DSO/DLO)

5.9.6 Authorities may apply to the Secretary of State for a direction to transfer to their HRA part or all of any surplus earned by an internal trading organisation on HRA-related work. Under Compulsory Competitive Tendering legislation, such organisations were known as Direct Labour Organisations (DLOs) or Direct Service Organisations (DSOs). Under the Best Value Accounting Code of Practice, the current terms are trading operation or internal trading organisation (ITO).

5.9.7 The appropriate treatment within the HRA of any surpluses or deficits that may have arisen from work undertaken by an internal trading organisation on property within the HRA needs careful attention. A surplus arises where the ITO/DSO/DLO bid for the work exceeds the actual costs to the authority of carrying out the work (e.g. costs of wages, materials used in repairs). A deficit arises where the ITO/DSO/DLO bid is less than the actual costs to the authority of carrying out the work.

5.9.8 It is a matter of law how an authority should treat any surplus or deficit arising from work done on the HRA. It is the responsibility of the authority to make the proper accounting arrangements. If an authority is uncertain, it should seek its own legal advice both on the general requirements and in relation to their own specific position.

5.9.9 Only a court could give a definitive ruling, but Communities And Local Government's own current view is this:

(i) An ITO/DSO/DLO has no separate legal identity and is part of the authority.

(ii) Item 1 of Part II of Schedule 4 to the 1989 Act requires an authority to debit to the HRA 'the expenditure of the authority for the year in respect of the repair, maintenance, supervision and management of houses and other property within the account, but not including expenditure properly debited to the authority's Housing Repairs Account'.

(iii) As the ITO/DSO/DLO is the authority, 'the expenditure of the authority' in Item 1 means expenditure by the ITO/DSO/DLO on carrying out the work, e.g. the cost of materials and the cost of the labour used in repairing HRA houses.

(iv) Where the actual expenditure of the authority (i.e. the ITO/DSO/DLO) on carrying out the work is less than the ITO/DSO/DLO bid, and the ITO/DSO/DLO has a surplus, the Item 1 debit to the HRA is still the actual expenditure, not the amount of the ITO/DSO/DLO bid. The amount by which the ITO/DSO/DLO bid exceeds the actual expenditure of the authority on carrying out the work (i.e. the surplus) would not be debited to the HRA.

(v) Where the actual expenditure of the authority on carrying out the work is more than the ITO/DSO/DLO bid, and the ITO/DSO/DLO has a deficit, the Item 1 debit is still the actual expenditure of the authority on carrying out the work. The excess of the actual expenditure over the amount of the ITO/DSO/DLO bid (i.e. the deficit) would therefore be included as part of the debit to the HRA.

5.9.10 This is not the view that the former Department of the Environment took at the time that Circular 8/95 was issued.

5.9.11 An authority or its auditor may, of course, take a different view as to what the legislation requires: that is a matter for them. If an authority believes that different accounting arrangements are required (e.g. that the Item 1 debit to the HRA includes the amount of the surplus) and wishes to transfer the surplus into the HRA, then they may apply to Communities And Local Government for a special direction under Item 9 to make the transfer. Communities And Local Government will consider such requests on their merits.

5.9.12 An authority may, in complying with the Best Value Accounting Code of Practice, be required to maintain trading accounts for certain of its ITOs. Whatever items an authority debits or credits to any account it may keep in relation to an ITO/DSO/DLO, where the ITO/DSO/DLO carries out work on HRA property, it should ensure that any corresponding debit to the HRA complies with the requirements of Schedule 4 to the 1989 Act.

Applications for directions

5.9.13 Advice on applying for directions is given in *Chapter 20*.

HRA subsidy implications

5.9.14 Item 9 transfers from the General Fund are not taken into account in the calculation of an authority's entitlement to HRA subsidy.

5.10 Item 10: Credit balance from previous year

This Item allows for any credit balance on an authority's HRA to be carried forward from one year to the next, and defines the exceptions to this general rule.

Schedule 4 description

Any credit balance shown in the account for the previous year.

This Item does not include so much of any such balance so shown as is carried to the credit of some other revenue account of the authority in accordance with paragraph 1 or 2 of Part III of this Schedule.

Budgeting and accounting

5.10.1 In accordance with the ring-fence principle, any end-of-year credit balance in an authority's HRA should normally be carried forward to the HRA for the new financial year, with the following exception.

5.10.2 An authority to whom no Housing Revenue Account subsidy is payable may choose to transfer any remaining credit balance (or part of it) to the General Fund, instead of carrying it forward to the HRA for the next financial year, under paragraph 2 of Part III of Schedule 4 of the 1989 Act.

5.10.3 Paragraph 1 of Part III of Schedule 4 applies only to 1990–1991.

HRA subsidy implications

5.10.4 A credit balance from the previous year does not affect the calculation of an authority's entitlement to HRA subsidy.

Annex A: Calculation of the Item 8 Credit 2006–2007

Manual Reference	Stage of Calculation	Item 8 Formula	Determination Reference	Claim Form Reference	Worked Example (£)[1]
7.1.8	1. Calculate the **mid-year HRA capital financing requirement for 2006–2007**		6.1	F007ci	(4,600,000)
	2. If mid-year HRA capital financing requirement is negative, A is equivalent positive amount. If mid-year HRA capital financing requirement is nil or positive A is nil.	A	3		4,600,000
5.8.4	3. Calculate **average rate of interest** receivable in 2006–2007 on authority's investments (other than investments held in the course of provision and for the purposes of operational services, or held for the purposes of a pension fund). (Where there are no investments, a rate not less than the CRI to be used).	B	3 and, if no investments, 5	F003ci	7.50%
5.8.3	4. Multiply A by B to give assessment of **notional HRA investment income** on HRA capital resources. (This will be nil if the mid-year capital financing requirement is a positive amount or nil as A will be nil then).	A × B	3	–	345,000
5.8.6	5. Calculate **average notional cash balance** (nil if in debit).	C	2.1 and 3	–	20,000
5.8.7	6. Multiply C by B to give notional interest earned on any **notional cash balance.**	C × B	3	–	1,500
5.8.8	7. Calculate the actual interest receivable in 2006–2007 on local authority mortgages.	E	3	–	100,000
5.8.12	8. Transfers from the **Major Repairs Reserve**	T	3	F044hc	250,000
5.8.9 – 5.8.11	9. Calculate the HRA share of **discounts** in respect of 2006–2007	W	3	F004cc	70,000
	10. Add together the sums derived at stages 4, 6, 7, 8 and 9 above to give the Item 8 credit for 2006–2007	(A × B) + (C × B) + E + T + W	3	–	766,500

[1] Different figures have been used for this calculation compared with those used in the other annexes to illustrate an example of an authority with a negative capital financing requirement.

Annex B: Calculation of HRA Share of Discounts 2006–2007

*The formula for calculating the HRA share of discounts for the purposes of the Item 8 credit, **W**, is the formula for calculating the HRA share of discounts, **W**, in paragraph 6.4 of the HRA subsidy determination.*

Manual reference	Stage of Calculation	Worked Example
5.8.9	1. ***The total discount***	£2,500,000
5.8.9	2. Divide the authority's **opening HRA capital financing requirement** (if positive) by the authority's **capital financing requirement at the start of the year** (if the opening HRA capital financing requirement is positive but does not exceed the authority's capital financing requirement at the start of the year)	£37,485,660 ÷ £76,000,000 = 0.493
5.8.9	3. Multiply the total discount by (2) above to arrive at the **HRA share of the discount**	£1,232,500
5.8.11	4. Divide the **HRA share of the discount** (from (3) above) by either the **unexpired period of the loan from the date of redemption** or **ten years** if less Giving the **annual amount to be credited to the HRA**	£1,232,500 ÷ 2.5 = £493,000
5.8.11	5. Multiply the annual amount (from (4) above) by the number of days of the unexpired period of the loan which fall within the current financial year	£493,000 × 150 = £73,950,000
5.8.11	6. Divide (5) above by 365 giving the **HRA share of the discount to be credited to the HRA for 2006–2007**	£73,950,000 ÷ 365 = £202,603

6 The HRA: Debits to the Account

*This chapter is made up of separate sections covering the items to be **debited** to the HRA. The individual sections give a detailed explanation of each Item (including the Schedule 4 description from the 1989 Act), together with relevant points on budgeting and accounting and the extent to which it is taken into account in the calculation of HRA subsidy entitlement.*

The HRA debit items are listed at Part II of Schedule 4 to the 1989 Act. They comprise:

Item 1 – expenditure on repairs, maintenance and management

Item 2 – capital expenditure

Item 3 – rents, rates, taxes and other charges

[Item 4 (rent rebates) was been repealed by the Local Government Act 2003]

Item 5 – sums payable under section 80ZA (i.e. payments to the Secretary of State of negative HRA subsidy amounts)

Item 6 – contributions to Housing Repairs Account

Item 7 – provision for bad or doubtful debts

Item 8 – sums calculated as determined by Secretary of State (mainly HRA capital charges) – this Item is dealt with in depth in Chapter 7

Item 9 – debit balance from previous year

Item 10 – sums directed by the Secretary of State (being sums to be debited from the HRA and carried to the credit of the general fund)

In addition, an authority to whom no HRA subsidy is payable may transfer all or part of any credit balance on the HRA to the General Fund. The amount to be transferred will be debited to the HRA and credited to the General Fund.

Authorities given permission to close their HRA after a large-scale stock transfer may also transfer any remaining credit balance on their HRA to their General Fund to bring the closing HRA balance to zero (see paragraph 2 of Part III of Schedule 4 to the 1989 Act).

6.1 Item 1: Expenditure on repairs, maintenance and management

This Item covers expenditure on the repair, maintenance, supervision and management of HRA property, excluding that charged to a separate Housing Repairs Account and that of a capital nature. It does not therefore include capital expenditure charged to the Major Repairs Reserve.

Schedule 4 description

The expenditure of the authority for the year in respect of the repair, maintenance, supervision and management of houses and other property within the account, but not including expenditure properly debited to the authority's Housing Repairs Account.

If the Secretary of State so directs, this Item shall include, or not include, such expenditure as may be determined by or under the direction.

Budgeting for management and maintenance

6.1.1 In setting their HRA budget, it is for each authority to decide what provision to make for revenue expenditure on the management and maintenance of their HRA stock. In doing so, they will need to take account of a number of factors, including the following:

(i) their entitlement to HRA subsidy (which may be negative);

(ii) their estimate of rental and other income;

(iii) their best estimates of what needs to be spent on the upkeep of their HRA stock, based on priorities within the authority's housing repairs programme and excluding capital expenditure to be financed from revenue or charged to the Major Repairs Reserve;

(iv) the need to budget to avoid a deficit on their HRA.

Accounting for management and maintenance expenditure

6.1.2 The Secretary of State has the power to issue directions, determining what type of expenditure on repair, maintenance, supervision and management should or should not be included under Item 1. No general directions have yet been made. However:

(i) section 127 of the 1993 Act (amending Schedule 4 to the 1989 Act) gives authorities the power to account for housing welfare services in the HRA if they wish;

(ii) the Housing (Welfare Services) Order 1994, made on 12 January 1994 under section 128 of the 1993 Act (S.I. 1994/42) requires that those welfare services of an essential care nature should be accounted for outside the HRA;

(iii) sections 2 and 3 of CIPFA's Best Value Accounting Code of Practice 2001 (BVACOP) set out the mandatory proper practices authorities are required to follow in accounting for housing services within the HRA and General Fund.

6.1.3 The BVACOP requires management and maintenance expenditure to be recorded in the HRA under three main headings:

(i) repairs and maintenance – this includes all revenue expenditure on the repair and maintenance of HRA property, whether planned or responsive, other than that which is:

(a) the responsibility of tenants;

(b) charged to a separate Housing Repairs Account;

(c) capital expenditure funded either from revenue under debit Item 2 (see *section 6.2*), from borrowing or from usable capital receipts (see *paragraph 3.2.2*) or from the Major Repairs Reserve (see *Chapter 17*).

(ii) general management – this covers expenditure on the supervision and management of HRA property, including such activities as:

(a) policy and management;

(b) managing tenancies (e.g. tenancy applications and selection of tenants);

(c) rent collection and accounting;

but excluding the administration of rent rebates, which is a charge to the General Fund.

(iii) special services – this covers services (mainly shared) to HRA tenants such as caretaking, cleaning, communal lighting, lifts, communal heating, laundry services, concierge schemes, ground maintenance and welfare services, excluding essential care and other special services.

This classification will be amended as necessary in the light of any future guidance from DCLG or CIPFA.

6.1.4 Where services or amenities charged to the HRA benefit the wider community, an appropriate share of the costs is to be contributed from the General Fund as required by paragraph 3 of Part III of Schedule 4 to the 1989 Act (see *paragraph 5.4.3*).

Capital expenditure on repairs

6.1.5 The costs of repair and maintenance work will be capital expenditure where the work involves 'enhancement' of tangible assets, in accordance with proper accounting practices. In the context of HRA property, such works may include, for example,

re-roofing or the installation of central heating or double glazing but not painting or the replacement of tiles or broken windows.[2]

6.1.6 The cost of any repair and maintenance work which is capital expenditure may be met out of revenue contributions from the HRA under debit Item 2 (see below), capital receipts, borrowing or from the Major Repairs Reserve. Such costs will not be debited to the HRA under Item 1.

6.1.7 PFI scheme expenditure should be debited under Item 1 where the scheme is for refurbishment etc. PFI expenditure in relation to other expenditure will, however, fall to be accounted for under Item 8.

Right to compensation for tenants' improvements

6.1.8 Landlords of secure tenants must pay compensation in respect of certain improvements made by the tenant. The payment of compensation arises when a tenancy ends. The necessary powers are in sections 99A and 99B of the Housing Act 1985 (as inserted by section 122 of the 1993 Act), and the Secure Tenants of Local Authorities (Compensation for Improvements) Regulations 1994 (S.I. 1994/613).

6.1.9 This new Right to Compensation complements the existing discretionary power for the payment of compensation for improvements in section 100 of the Housing Act 1985.

6.1.10 These payments of compensation should be debited to the HRA under Item 1.

HRA subsidy implications

6.1.11 The subsidy calculation makes an assumption about the relative amount each authority needs to spend on management and maintenance (the M&M allowances). The formulae for calculating these allowances – which are based on separate target scores per dwelling for repairs and maintenance and for supervision and management – are set out in the HRA subsidy determination and described in detail at *Chapter 14*.

6.2 Item 2: Expenditure for capital purposes

This Item enables authorities to finance capital expenditure from a revenue account. This is sometimes referred to as capital expenditure from a revenue account (CERA) or revenue contributions to capital outlay (RCCOs).

2 Under section 16 of the 2003 Act, the Secretary of State can provide generally, by regulations, that certain expenditure of authorities is, or is not, capital expenditure. There is also a power to provide this in relation to individual authorities (by direction). The Local Authorities (Capital Finance and Accounting)(England) Regulations 2003 (2003/3146) have been made under this section; regulation 25 provides for certain items of expenditure to be treated as capital expenditure, while regulation 26 provides for certain expenditure that would otherwise be capital expenditure, to be treated as not being capital expenditure. Regulation 25 has been amended by the Local Authorities (Capital Finance and Accounting)(Amendment)(England) Regulations 2004(2004/534) so that the payment of the levy on a disposal under the 1993 Act is treated as capital expenditure, while also making certain further exclusions from expenditure treated as capital expenditure.

Schedule 4 description

(a) any expenditure of the authority in respect of houses and other property within the account which is capital expenditure for the year; and

(b) which the authority decide should be charged to a revenue account for the year.

In this item 'capital expenditure' means expenditure which is capital expenditure for the purposes of Chapter 1 of Part 1 of the Local Government Act 2003 (capital finance).

Implications for the HRA

6.2.1 In practice, most capital expenditure is financed either by borrowing or by the use of capital receipts and, to a lesser extent, by capital grants. However, the 1989 Act gives local housing authorities the discretion to finance expenditure for HRA capital purposes from their HRA (see *paragraph 6.1.5* above).

Budgeting and accounting

6.2.2 In setting their HRA budget, an authority will need to decide on the level of capital expenditure they wish to fund from the HRA. This will depend on a number of factors, including supported and unsupported capital expenditure to be met by borrowing consistent with their prudential limits, their capital programme, and HRA subsidy entitlement. With effect from 1 April 2001, the amount of capital expenditure financed from the HRA will also have been influenced by the amount of the MRA, available within the new Major Repairs Reserve for HRA capital purposes. In theory, there is no limit on the extent to which capital expenditure can be financed from the HRA. In practice, however, it will be limited by the fact that, as this type of expenditure does not attract subsidy, it must be funded either from accumulated HRA credit balances or from rental income.

HRA subsidy implications

6.2.3 No allowance is made in the subsidy calculation for capital expenditure financed from revenue resources in the HRA, as it is assumed that authorities finance capital expenditure from borrowing and capital receipts rather than from revenue within their HRA.

6.3 Item 3: Rents, rates, taxes and other charges

This Item covers rents and other charges payable by the authority, rather than their tenants.

Schedule 4 description

The rents, rates, taxes and other charges which the authority are liable to pay for the year in respect of houses and other property within the account.

Budgeting and accounting

6.3.1 All rents, rates, taxes and other charges for which the authority, rather than their tenants, are liable in respect of HRA property should be charged to the account. These include:

(i) any **non-domestic rates and water charges** payable on property in the HRA, for example estate offices;

(ii) any **council tax** payable on HRA property for which the authority are liable, for example on dwellings which are occupied by tenants who are under the age of 18, houses in multiple occupation, hostels and similar properties, and on vacant dwellings after six months (for unfurnished accommodation);

(iii) annual payments made under **guarantee arrangements**, for example to a water or sewerage company to provide a water main or public sewer to serve HRA property;

(iv) **rents** payable by an authority on different categories of leased property, subject to the following:

(a) **short-term leases for housing homeless households** – the HRA (Exclusion of Leases) Direction 1997 excludes from the HRA leases of up to ten years of dwellings taken on or after 31 March 1997 by authorities for the purpose of housing homeless households. The exclusion applies for any period that the dwelling is either used for that purpose or is vacant. If the leased dwelling is subsequently used by the authority for other housing purposes, the HRA (Modification of the Item 3 Debit) Direction 1997 provides that the leasing costs payable by the authority may still not be debited to the HRA (except in limited circumstances where the property is used for emergency temporary accommodation, e.g. fire, flood);

(b) **other leases** which are credit arrangements under section 7 of the 2003 Act, and for which credit cover for the initial cost was required – would be included in the calculation of capital charges in the Item 8 debit. Any rents payable on leases entered into before 23 October 1990 (and not since varied) should be debited to the HRA under Item 3.

6.3.2 If authorities adopt joint collections of rents and council tax, or act as agents for water authorities in collecting water charges with rents, they will need to consider the allocation of administration costs between the HRA and the General Fund and the appropriate accounting treatment of any charges made.

HRA subsidy implications

6.3.3 No allowance is made in the subsidy calculation for expenditure on Items (i), (ii) and (iii) in paragraph 6.3.1. Rental payments on certain categories of lease taken out before 23 October 1990 may be eligible for subsidy (see *section 19.2*).

6.4 Item 4: Rent rebates

The Local Government Act 2003 repealed Item 4, removing rent rebates from the HRA and effectively requires that they should be accounted for in the General Fund. Please note however, that Rent Rebate Subsidy Limitation still impacts upon the HRA, not the General Fund.

Full details on the operation of the rent rebate subsidy limitation scheme and how it affects the HRA are given in Chapter 15. See also Item 10 below.

6.5 Item 5: Sums payable under section 80ZA

This Item covers the requirement for authorities with a negative entitlement to HRA subsidy to pay that amount to the Secretary of State.

Schedule 4 description

Sums payable for the year to the Secretary of State under subsection (1)(b) of section 80ZA of the 1989 Act (Housing Revenue Account subsidy of a negative amount) and -

(a) any interest charged on those sums under subsection (4) of that section; and

(b) any amount charged under subsection (5) of that section in respect of costs incurred as a result of late payment of any of those sums.

Budgeting and accounting

6.5.1 This applies to those authorities where the subsidy calculation results in a negative amount, in other words where income exceeds overall expenditure on the notional HRA (see *paragraph 13.2*). These authorities are said to have a negative entitlement to subsidy.

6.5.2 In such circumstances, the authority is required to debit their actual HRA and pay to the Secretary of State a sum equivalent to the surplus on the notional HRA. This surplus may be reduced in some cases, (under the transitional arrangements scheme for authorities in negative subsidy entitlement in 1999–2000 (see *Chapter 21*).

6.5.3 In setting HRA budgets, authorities must bear in mind the need to make such a payment, to avoid an end-of-year deficit. They should also keep under review their entitlement to subsidy since this will determine the size of the final surplus on the notional HRA and therefore the eventual payment to the Secretary of State.

HRA subsidy implications

6.5.4 No subsidy is payable to authorities with an overall surplus on their notional HRA. Rather, the amounts of negative subsidy due from such authorities will be put towards the funding of HRA subsidy payments to those authorities with a deficit on their notional HRA.

6.6 Item 6: Contributions to the Housing Repairs Account

This Item allows for the transfer of funds to an authority's Housing Repairs Account where one is kept.

Schedule 4 description

Sums transferred for the year to the authority's Housing Repairs Account.

Budgeting and accounting

6.6.1 The keeping of a Housing Repairs Account is described in *Chapter 9*. If an authority decides to keep such an account, it must do so in respect of all its HRA dwellings (section 77(3)(a) of the 1989 Act).

6.6.2 If such an account is kept, an authority will need to decide on the amount to be transferred from the HRA under debit Item 6, in order to avoid a deficit on the Housing Repairs Account.

HRA subsidy implications

6.6.3 The decision of an authority to charge expenditure on housing repairs and maintenance to a separate Housing Repairs Account, rather than direct to the HRA, has no effect on their entitlement to subsidy (see *Chapter 9*).

6.7 Item 7: Provision for bad or doubtful debts

This Item requires authorities to make suitable provision, in accordance with proper accounting practices, to cover the write-off of rent and service charge arrears.

Schedule 4 description

The following, namely –

(a) any sums credited to the account for the year or any previous year under Item 1 or 2 of Part I of this Schedule which, in the opinion of the authority, are bad debts which should be written off; and

(b) any provision for doubtful debts which, in their opinion, should be made in respect of sums so credited.

If the Secretary of State so directs, no sums shall be debited under paragraph (a) above, and no provision shall be debited under paragraph (b) above, except (in either case) in such circumstances and to such extent as may be specified in the direction.

Budgeting and accounting

6.7.1 Budgeting and accounting for this Item are governed by the concepts of accruals, prudence and fair presentation embodied in proper accounting practices. Under the accruals concept, local authorities are required to match revenue income and expenditure to the services provided in the same accounting period. They must therefore credit their HRA with an amount equivalent to rent and charges due (credit Items 1 and 2), rather than actually received, in any one year. Authorities are also required to prepare a Statement of Accounts which presents fairly the financial position and transactions of an authority. The prudence concept reconciles these two concepts by requiring that income should only be included to the extent that it can be realised with reasonable certainty, and by requiring that proper provision should be made for all known liabilities and losses.

6.7.2 In accordance with proper practices, authorities will therefore need to estimate, when setting their HRA budget before the start of the financial year:

(i) how much of the total rent and charges due under credit Items 1 and 2 will remain uncollected at the end of the year. This represents outstanding debt which may (or may not) be collected in the future;

(ii) the amounts of bad debt likely to be written off during the year. This represents specific outstanding debt which is thought to be irrecoverable, and which therefore must be written off;

(iii) any increase in the provision to be made within the HRA, under the prudence concept, for doubtful debt. This represents an estimate of outstanding debt that may not be collected but is not likely to be specifically identified as bad and written off during the year.

6.7.3 Any increase in the provision made to cover (iii) above should be debited to the HRA, under Item 7(b). Where the authority decides to write off a bad debt, it will debit this amount to the HRA under Item 7(a) and credit the relevant tenant's account. If any arrears which have been written off as bad debts are subsequently recovered, or if an authority decides that it has over provided for doubtful debts, the appropriate sums must be re-credited to the HRA under credit Item 7 (see *section 5.7*).

6.7.4 Advice to authorities on the procedures for both avoiding and dealing with arrears was issued by the then DoE in 1994 in the Housing Research Summary, HRS24 – *Rent Arrears*.

6.7.5 The Secretary of State has the power to make directions limiting the amounts debited under this Item. This power was exercised in respect of arrears outstanding at 31 March 1990, to ensure that the new ring-fenced HRA started with a clean slate, and that tenants were not burdened with paying, through rents, for high arrears accrued before 1 April 1990.

6.7.6 No further directions have been issued to limit the level of provision for bad and doubtful debts after 1 April 1990.

HRA subsidy implications

6.7.7 No allowance is made in the subsidy calculation for bad or doubtful debts. This is to encourage authorities to keep any arrears to a minimum.

6.7.8 Any provision for bad or doubtful debts will therefore have to be met from elsewhere within the HRA. Authorities will also need to take account of the fact that no subsidy is payable on interest on the notional cash balance where this is in deficit (charged to the HRA under debit Item 8), as an incentive to keep down arrears.

6.8 Item 8: Sums calculated as determined by the Secretary of State (assessed capital charges)

This Item is generally the HRA's share of the capital charges incurred by the authority – both debt financing and management costs and capital asset charges. The amounts to be debited are set out in the Item 8 Credit and Item 8 Debit (General) Determination ('the Item 8 determination'). However, the Schedule 4 powers are very wide and may be used to determine other amounts to be debited to the HRA. For example, they have been used to make special Item 8 determinations to allow individual authorities to transfer certain amounts from the HRA to the General Fund.

Schedule 4 description

Sums calculated for the year in accordance with such formulae as the Secretary of State may from time to time determine.

In determining any formula for the purposes of this Item, the Secretary of State may include variables framed (in whatever way he considers appropriate) by reference to such matters relating to the authority, or to (or to tenants of) houses or other property which are or have been within the account, as he thinks fit.

The general Item 8 determination

6.8.1 The Item 8 debit calculation is set out in the *Item 8 determination* (paragraph 4), and a full explanation of the various components making up the formula, and the concepts behind these, is provided in *Chapter 7*.

2006–2007 Item 8 credit and debit amending determination

6.8.2 In June 2006 the Chartered Institute of Public Finance and Accountancy (CIPFA) published its code of practice on Local Authority accounting in the UK 2006, the Statement of Recommended Practice (SORP), which has effect from 1 April 2006. In the 2006 SORP the requirement to account for a capital financing charge has been removed.

6.8.3 DCLG amended the Item 8 credit and Item 8 debit (general) determination 2006–2007 to reflect this. In the determination the cost of capital charge is a feature of the capital

asset charges element of the calculation of the Item 8 debit. Specifically, it is one of the three elements that constitute item 'R' in the capital asset charges calculation.

6.8.4 The amending Item 8 determination 2006 therefore removes the cost of capital charge element from the calculation of item 'R' in the Item 8 debit formula. Not changing the determination would leave the HRA service expenditure figures inconsistent with those in the rest of the General Fund, which DCLG did not consider desirable.

HRA subsidy implications

6.8.5 Some of the components in the Item 8 debit have an equivalent in the HRA subsidy calculation, whereas others are not eligible for subsidy. Full details of the subsidy allowances in respect of HRA capital charges are given in *Chapter 16*.

6.9 Item 9: Debit balance from previous year

This Item requires authorities to bring forward any unavoidable debit balance from the previous year.

Schedule 4 description

Any debit balance shown in the account for the previous year.

This Item does not include any such balance so shown which is carried to the debit of some other revenue account of the authority in accordance with paragraph 1 of Part III of this Schedule.

Budgeting and accounting

6.9.1 The 1989 Act places a duty on local housing authorities to produce an annual budget for their HRA which avoids a deficit, and to take all reasonable steps throughout the year to avoid an end-of-year debit balance (see *section 4.3*).

6.9.2 If, nevertheless, an end-of-year deficit does occur, Item 9 provides for it to be brought forward to the following year. (The second paragraph in the Schedule 4 description above is historical, and relates to the requirement to transfer any debit balance from 1989–90 to the General Fund, in order to secure a smooth transition to the ring-fenced HRA.)

6.9.3 In order to avoid a deficit in the new financial year, authorities should budget to make good any debit balance brought forward from the previous year

HRA subsidy implications

6.9.4 Debit balances carried forward from the previous year are not taken into account in the subsidy calculation.

6.10 Item 10: Sums directed by the Secretary of State (transfers to the general fund)

This Item requires authorities to make any debits directed by the Secretary of State, and to credit an equivalent amount to the General Fund.

Schedule 4 description

Any sums which for the year the authority is required, by reason of a direction given by the appropriate person, to carry from the account to the credit of some other revenue account of theirs.

A direction under this Item may require the transfer of sums calculated in accordance with formulae specified in the direction, and any formula so specified may include variables framed (in whatever way the appropriate person considers appropriate) by reference to such matters as the appropriate person thinks fit.

Budgeting and accounting

6.10.1 Local housing authorities have no general discretion to make transfers from their HRA to their General Fund (see *Chapter 4*). An authority with an overall negative entitlement to HRA subsidy may transfer the whole or part of any end of year surplus on their HRA to the General Fund, under paragraph 2 of Part 3 of Schedule 4 to the 1989 Act. In the case of the Item 8 debit, the General Fund is effectively receiving from the HRA a share of the authority's overall loan charges. Otherwise, a transfer may only be made if an authority is directed to do so by the Secretary of State. In such cases, the transfer should be debited under Item 10.

Special Item 10 directions

6.10.2 A local authority may apply for a special direction under item 10 if eligible under specific transitional schemes introduced to ease the introduction of new provisions introduced by the Local Government Act 2003. In such cases, it is the responsibility of the local authority to apply to the Secretary of State requesting such a special direction and the amount, demonstrating that the authority meets the scheme criteria.

6.10.3 An authority may apply for a special Item 10 direction outside of such transitional schemes, but it is unlikely that such a direction would be issued other than in exceptional circumstances. HRA and General Fund budgets should be drawn up on the assumption that no such special Item 10 directions will be made

6.10.4 There is currently only one transitional scheme where special Item 10 directions may be applicable:

(i) ***Negative subsidy transitional measures:***
Authorities that had a negative overall entitlement to HRA subsidy in 1999–2000 may apply to the Secretary of State for special Item 10 determinations to enable them to make transfers from the HRA to the General Fund during a transitional period. The amount transferable is based on a declining proportion of transfer made in 1999–2000 (see *Chapter 21*).

7 Capital Charges

This chapter provides a full explanation of the various components making up the Item 8 debit – the HRA's contribution to debt financing and management costs, capital asset charges and interest costs. Worked examples are included where appropriate. The amounts to be debited to the HRA in respect of capital charges are calculated on a formulaic basis in accordance with the Item 8 Credit and Item 8 Debit (General) Determination ('the Item 8 determination').

The following sections are included:

***Section 7.1** is an introduction to the concept of HRA debt and the calculation of HRA capital financing requirements (CFRs)*

***Section 7.2** covers Capital Asset Charges, the Capital Asset Charges Accounting Adjustment, and the Major Repairs Reserve*

***Section 7.3** covers Debt Management and Repayment Costs, and PFI scheme payments*

***Section 7.4** covers HRA Interest Costs*

***Annex A** is a summary of Item 8 debit formula and worked examples*

***Annex B** covers the relationship between HRA CFRs*

***Annex C** is a calculation of opening HRA CFR*

***Annex D** is a calculation of mid-year HRA CFR*

***Annex E** is a calculation of HRA share of premiums*

***Annex F** is a calculation of consolidated rate of interest*

The total amount to be debited under Item 8 is given by the formula set out below and in Annex A:

Capital Asset Charges +

Debt Repayment and Management Costs +

Capital Asset Charges Accounting Adjustment +

Transfer to Major Repairs Reserve +

PFI scheme payments

7.1 The HRA capital financing requirement and HRA debt

7.1.1 Several of the components included in the Item 8 debit (and Item 8 credit) are calculated by reference to a notional assessment of HRA debt, which is termed the **HRA capital financing requirement (CFR)**. This section explains in detail the concept of HRA debt and the calculation of HRA CFRs.

HRA debt

7.1.2 Local authorities manage their debt portfolios in aggregate, and do not keep separate track of loans taken out for specific purposes e.g. for HRA purposes. It is not possible, therefore, to calculate the actual debt financing and management costs that relate to HRA debt alone (in order to attribute them to the HRA). Instead, the General Fund meets all such costs initially and receives a contribution towards them from the HRA, by means of the Item 8 debit. This contribution is worked out on the basis of a notional assessment of HRA debt, using the concept of the CFR as set out in the 'Prudential Code for Capital Finance in Local Authorities' published by CIPFA in 2003.

HRA CFR

7.1.3 The **HRA CFR** is a measure of HRA debt. It is rolled forward each year to take account of new borrowing for HRA purposes, HRA resources used to repay debt, and various other transactions. It may be either positive (if there is outstanding borrowing for HRA purposes) or negative if any outstanding borrowing is exceeded by resources. The two measures of debt used are: the position at the start of the financial year (termed the opening HRA CFR) and an average figure for debt throughout the year (termed the mid-year HRA CFR). These are described in full below; their interrelationship is illustrated at *Annex B*.

7.1.4 A separate version of the calculation of HRA debt is used for the purposes of assessing an authority's entitlement to HRA subsidy on debt financing and management costs – this is known as the **subsidy capital financing requirement** (**SCFR**) (see *section 16.1*).

The opening HRA capital financing requirement

7.1.5 The opening HRA CFR is a measure of HRA debt at the start of the financial year. It is used in the calculation of an authority's minimum revenue provision (see *regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003*), and the HRA share of any premiums or discounts arising from the premature repayment of fixed rate debt which are to be attributed to the HRA (see *section 7.3*). A worked example of the calculation of the opening HRA CFR is at *Annex C*.

7.1.6 The starting point for calculating the opening HRA CFR is the opening HRA credit ceiling for the previous year. To this is added the following:

(i) **Capital expenditure financed by borrowing of credit arrangements** during the previous year;

Capital expenditure financed by borrowing or credit arrangements on any interest in housing land (as defined in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 in the previous financial year (see also *Chapter 10*).

(ii) The certified market value of any **property transferred to the HRA** from the authority's General Fund during the previous financial year;

Property transferred in this way is treated exactly as if the authority had acquired the property from a third party using money borrowed in reliance on a credit arrangement (see *Chapter 11* for further information on the financial effects of property transfers between the HRA and General Fund).

The following items are then deducted:

(i) The **reserved part of capital receipts** received in the previous financial year in respect of HRA property and used to repay debt;

It is assumed that 75% of receipts from the sale of dwellings and 50% of receipts from the sale of other HRA property, which the authority was required to set aside as provision for credit liabilities, are used to repay debt in the year they are realised and therefore decreased net HRA indebtedness. This is an assumption for the purposes of calculating the HRA CFR only – authorities are not required to use set-aside amounts in that way in practice.

(ii) The equivalent reserved part of the certified market value of property **transferred from the HRA to the General Fund** during the previous financial year.

HRA property transferred for use in connection with other local authority services is treated in the calculation of the HRA CFR in the same way as disposals to third parties – that is, it is assumed to be subject to set-aside of 75% in the case of dwellings and 50% in the case of other HRA property. This is an assumption for the purposes of calculating the HRA CFR only – authorities are not required to set aside such amounts in practice.

(iii) The amount, if any, which an authority has determined to use during the previous financial year to repay the principal of any amount borrowed or to meet liabilities under credit arrangements.

Repayment of debt is not compulsory. The authority may, however, make a voluntary repayment of the principal part of housing debt from, for instance, its Major Repairs Reserve.

(iv) For 2006–2007, the value of any payment made by the Secretary of State to the Public Works Loan Board in 2004–2006 or 2005–2006 as a result of a disposal of land by the authority, less the part used to pay premiums on the early redemption of loans.

Where a local authority is transferring stock and the transfer receipt does not extinguish the notional housing debt associated with that stock, the authority is said to have 'overhanging debt' (see Chapter 11). Where DCLG pays off this overhanging debt it is assumed, for the purposes of HRA subsidy, that the authority's notional housing debt is reduced by that amount. For 2006–2007 only, the value takes account of two previous years, as 2006–2007 is the first year the deduction was introduced and needed to account for previous such payments.

The mid-year HRA capital financing requirement

7.1.7 The mid-year HRA CFR is a measure of average HRA debt throughout the year. It is assumed that borrowing is taken out evenly throughout the year and, except where there is a significant stock change, that capital receipts are received evenly throughout the year. The mid-year HRA CFR is used in the calculation of:

(i) (if it is positive) the HRA's contribution to debt interest costs; or

(ii) (if it is negative) the HRA's share of investment income; and

(iii) the Consolidated Rate of Interest (CRI) (see *section 7.4*).

7.1.8 The starting point for the calculation of the mid-year HRA CFR is the opening HRA CFR for that year. A worked example is at *Annex D*. To this is added:

(i) half of the capital expenditure financed by borrowing or credit arrangements on any interest in housing land (as defined in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 used during the current financial year;

(ii) half of the certified market value of **property transferred from the General Fund to the HRA** during the current financial year;

and from this is deducted:

(iii) half of the equivalent reserved part of the certified market value of **property transferred from the HRA to the General Fund** during the current financial

year (that is, 37.5% in the case of dwellings and 25% in the case of other HRA property);

(iv) one half of the amount, if any, which an authority has determined to use during the financial year to repay the principal of any amount borrowed or to meet liabilities under credit arrangements.

(v) one half of the value of any payment made by the Secretary of State to the Public Works Loan Board in 2006–2007 as a result of a disposal of land by the authority, less the part used to pay premiums on the early redemption of loans.

7.2 The item 8 debit – capital asset charges

Background

7.2.1 A key feature of the introduction of resource accounting as part of the New Financial Framework is the inclusion of capital asset charges in the HRA.

These comprise a **depreciation charge** and any **impairment** or **deferred charges** where appropriate, to reflect the consumption of those assets over their useful life.

7.2.2 The effect of these new charges is to bring the HRA closer in line with proper accounting practice for fixed assets, as embodied in the CIPFA Code of Practice, and with other local authority accounts.

The formula

7.2.3 The formula for capital asset charges, within the Item 8 debit formula, is as follows (see *paragraph 4.3 of the Item 8 determination*):

R + SA + SB

7.2.4 R is the total of:

(i) any **impairment** charges in respect of HRA assets, calculated in accordance with proper practices. Impairment occurs where there is a material reduction in the value of a fixed asset during an accounting period. The CIPFA Code of Practice requires a charge to be made to the revenue account in respect of impairment where an impairment loss on a fixed asset is caused by a clear consumption of economic benefits, for example by physical damage or a deterioration in the quality of the service provided by the asset, i.e. if it is similar in nature to depreciation;

(ii) any charges in respect of **deferred charges** attributable to the HRA, calculated in accordance with proper practices. Deferred charges are items of expenditure which qualify as capital for control purposes but do not result in the acquisition, creation or enhancement of a tangible fixed asset. In accordance with the proper accounting practices in the CIPFA Code of Practice, service revenue accounts are charged each year with the benefit received as a result of the expenditure (which will normally have been financed from capital resources).

7.2.5 Although impairment and deferred charges are closely related to depreciation (which is calculated under **SA** and **SB**), they are included in the formula under **R** for convenience. This is because, in accordance with the CIPFA Code of Practice and in common with other local authority accounts, all three types of charge are included in the **net cost of services** in the relevant account as a signal. They are then reversed out in **net operating expenditure**. The effect of this arrangement is to ensure that these charges are reflected in the net cost of services but do not fall to be met by council tenants. The reversing out of these charges within the HRA is part of the Item 8 debit calculation (see *paragraphs 7.2.16–7.2.17*).

7.2.6 **SA** is the **depreciation charge for HRA dwellings** (excluding the authority's share of any dwellings subject to a shared-ownership lease and any dwelling subject to a PFI scheme) calculated in accordance with proper practices. The Item 8 determination does not prescribe the calculation of depreciation and the proper practices to be followed are therefore those set out in the CIPFA Code of Practice. This reflects the agreement, reached by the Accounting Standards Board (ASB) and CIPFA, that Chief Finance Officers should be responsible for deciding on the most appropriate method of estimating depreciation in respect of their own authority's assets. In most cases, DCLG would expect authorities to use the Major Repairs Allowance (MRA), which the ASB and CIPFA have accepted as a reasonable estimate of depreciation for council housing.

7.2.7 **SB** is the **depreciation charge for all other HRA assets** (including the authority's share of any dwellings subject to a shared-ownership lease) calculated in accordance with proper practices. Such assets might include garages, estate shops, housing offices and commercial property.

7.2.8 The June 2006 CIPFA SORP removed the requirement to account for a capital financing charge. The requirement has also been removed from the HRA from 2006–2007.

Accounting for depreciation

7.2.9 The depreciation charge in respect of HRA dwellings (**SA** in the formula) is a real charge in the HRA. Unlike depreciation charges in respect of other local authority assets, it is not offset against Minimum Revenue Provision (MRP) (which has been abolished in the HRA for 2004–2005 onwards, see *paragraph 7.3.1*) or reversed out (except in the limited circumstances where the depreciation charge is higher than the MRA, in which case the difference is reversed out). It is funded within the HRA by the MRA.

7.2.10 The depreciation charge in respect of other HRA property (**SB** in the formula) is shown in the net cost of services. However, it is reversed out in net operating expenditure because, unlike the charge for HRA dwellings, it is not funded from the MRA. Ministers have decided that depreciation charges not funded by the MRA should not at present impact on rents or other HRA services. This policy has been accepted by CIPFA as a transitional measure to full depreciation of all HRA assets.

7.2.11 An amount equivalent to the full depreciation charges made in the HRA will be transferred to the Major Repairs Reserve. The reversing out of depreciation charges

higher than the MRA in respect of HRA dwellings, and in respect of other HRA assets, is achieved by allowing authorities to transfer back equivalent amounts from the Major Repairs Reserve to the HRA. This transfer is carried out as part of the Item 8 credit (see *section 5.8*). Additionally, authorities which had a negative HRA subsidy entitlement in 1999–2000 may take advantage of the transitional measures scheme, allowing them to transfer resources from the Major Repairs Reserve to the HRA by means of an Item 9 direction (see *Chapter 21*).

7.2.12 If the depreciation charge for HRA dwellings (other than shared ownership) is lower than the MRA, authorities are required to transfer an amount equivalent to the difference from the HRA to the Major Repairs Reserve. This ensures that an amount equivalent to the MRA is available for HRA capital purposes within the Reserve. (This transfer is part of the Item 8 debit – **U** in the formula) (see *paragraph 4.6 of the Item 8 determination*).

The Major Repairs Reserve (MRR)

7.2.13 Local authorities who are required to keep a HRA under section 74 of the Local Government and Housing Act 1989 must also include the MRR in their statement of accounts. Amendments to the Accounts and Audit Regulations 2003 (SI 2003/533) have the effect of ensuring that in practice, after the transfers described in the above paragraphs have been made, the balance of funds within the MRR may only be used for a limited number of purposes:

(i) capital expenditure on HRA assets; and

(ii) repayment of HRA debt or to meet HRA credit liabilities (following the abolition of the statutory MRP obligation in the HRA)

7.2.14 The main credit to the MRR will be an amount equivalent to the depreciation charge for all HRA assets (though, as explained above, there will be an additional credit or debit when the depreciation charge differs from the MRA entitlement as set out in the HRA subsidy determination).

7.2.15 Authorities have the flexibility to carry over any unspent funds in the MRR from one year to another. The funds represent a HRA capital resource which, as with other capital resources, may be used for any purpose which authorities determine as part of their business plan for maintaining their stock, with one exception – the funds may not be used to finance the demolition of HRA assets.

7.2.16 The balance of funds within the Major Repairs Reserve, after such transfers have been made, is then available for HRA capital purposes.

The capital asset charges accounting adjustment

7.2.17 The cost of capital, impairment and deferred charges are included in the net cost of services in the HRA and act as an important signal in the HRA, showing the cost of capital tied up in housing assets. However, they do not impact on the amount of income to be generated to achieve a balanced budget, i.e. in rents from council

tenants, as they are reversed out, with the HRA continuing to bear its share of an authority's debt financing and management costs. This is achieved by means of the Asset Management Revenue Account (AMRA – see *paragraph 4.2.35*). The capital charges are transferred to the AMRA by debiting the HRA and crediting the AMRA. They are then used to meet the HRA's share of interest costs (calculated in accordance with the Item 8 determination – see *section 7.4*) and any balance is then credited to the HRA if interest costs are lower than the 3.5% charge. If interest costs are higher than the 3.5% charge, an additional debit is made to the HRA.

7.2.18 This adjustment (whether negative or positive) is made as part of the Item 8 debit and is known as the **capital asset charges accounting adjustment**. It is calculated by subtracting any impairment or deferred charges (**R** in the formula) from HRA interest costs (**J** in the formula) – see *section 7.4* and *paragraph 4.5 of the Item 8 determination*. The net effect of this adjustment is that any impairment/deferred charges are reversed out of the HRA, below the net cost of services, and the HRA's share of interest costs continues, as in previous years, to be borne on the HRA.

HRA subsidy implications

7.2.19 Neither the cost of capital charge nor any depreciation/impairment/deferred charges are taken into account in the calculation of HRA subsidy. Some HRA interest costs are eligible for HRA subsidy, as explained in *section 7.4 and Chapter 16*.

7.3 The item 8 debit – debt management and repayment costs

Background

7.3.1 Under resource accounting, the HRA continues to bear a share of an authority's debt management and repayment costs. These are part of the Item 8 debit and are calculated in accordance with the formula set out in the Item 8 determination (see *paragraph 4.4 of the Item 8 determination*):

K + **V**

Where:

K is the proportion of debt management expenses which the HRA should bear, calculated in accordance with proper practices (see *paragraph 7.3.2*)

V is the HRA share of premiums on premature debt redemption (see *paragraphs 7.3.3–7.3.10*).

From 2004–2005, authorities will not longer be required to calculate and debit the HRA with an amount in respect of HRA set-aside, which was the HRA's contribution to the authority's minimum revenue provision. The formula for calculating MRP from 2004–2005 in the General Fund is set out in regulation 28 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), and includes an element that specifically excludes HRA debt from that calculation.

Debt management expenses (K in the formula)

7.3.2 The Item 8 determination simply requires authorities to estimate the proportion of their total debt management expenses, calculated in accordance with proper practices, which are attributable to the HRA. DCLG regard both the calculation of debt management expenses, and the attribution of these to HRA and other services, as a matter for local authorities and their auditors.

Premiums on premature debt redemption (V in the formula)

7.3.3 The HRA bears a share of the premiums payable (or discounts receivable) on the debt redeemed prematurely since 1 April 1995. The HRA share of premiums is included in the Item 8 debit and the HRA share of discounts is included in the Item 8 credit (see also *section 5.8*).

7.3.4 The HRA share of premiums (and discounts – see *paragraph 5.8.9*) is calculated according to the relationship between the authority's overall credit ceiling or its CFR at the start of the year in which the premium is payable and their opening HRA credit ceiling or opening HRA CFR for that year. To give the HRA share, the total premium payable is multiplied by the opening HRA credit ceiling or CFR, and then divided by the overall credit ceiling or CFR at the start of that year. However:

(i) the HRA share will be nil if the opening HRA credit ceiling or CFR for the year in which the premium is payable is nil or a negative amount; and

(ii) the HRA share will be the whole of the premium if the opening HRA CFR is higher than the overall CFR for the year in which the premium is payable.

7.3.5 The HRA share of the premium is then reduced where the authority decides to meet some or all of this share from its capital receipts. In previous years, before 2004–2005, authorities were able to use amounts set-aside under section 59 of the Local Government and Housing Act 1989 as provision to meet credit liabilities to reduce the HRA premium share.

7.3.6 The HRA share of the premium (reduced as applicable) is then amortised over the remaining period of the loan or ten years, whichever is less (see *paragraph 7.3.11* for calculation of the amount to be charged in each year). This is to spread the cost to the Exchequer of the HRA subsidy payable in respect of the HRA share of premiums. Once calculated, the HRA share of the premium is not revised each year to take account of changes in the relationship between the HRA and overall CFRs. Thus, if the opening HRA CFR was positive in the year the premium was payable, a share of the premium would continue to be debited to the HRA (and eligible for HRA subsidy) over the remaining period of the loan, up to a maximum of ten years (as long as the HRA was not closed in the meantime), even if in subsequent years the opening HRA CFR is reduced to nil or a negative amount. However, any new premiums payable after the HRA CFR became nil or negative would not be chargeable to the HRA or eligible for HRA subsidy.

7.3.7 The amount of the HRA share of the premium chargeable to the HRA in any one year is calculated as follows:

(i) take the HRA share of the premium – less where applicable, any capital receipt used to meet the premium (see *paragraph 7.3.4* above) – and divide by either the unexpired period of the loan from the date of redemption (in years and days with any day expressed as a proportion of a year) or ten years if less. This gives the annual amount to be debited to the HRA;

(ii) divide this annual amount by 365 (or 366 in a leap year) and multiply by the number of days of the unexpired period of the loan which fall within the current financial year. This adjusts the annual amount to take account of the date of redemption, and the date the loan would have expired, as these will almost always fall part-way through a financial year.

7.3.8 This calculation should be carried out for all premiums payable on or after 1 April 1995 in respect of the early redemption of fixed rate loans. The amount to be debited to the HRA will be the aggregate of all such calculations. A worked example is given at *Annex E*.

7.3.9 The amount to be credited to the HRA in respect of discounts receivable on the early redemption of fixed rate loans is calculated in the same way (see *section 5.8*). The HRA subsidy allowances for both premiums and discounts are also calculated in the same way.

7.3.10 The following points should also be noted

Accounting for premiums and discounts

7.3.11 The proper practices for calculating the amounts to be debited or credited to the HRA in respect of premiums and discounts are as set out in the HRA subsidy and Item 8 determinations. These were agreed with CIPFA before they came into force in 1995–1996. However, they differ in certain respects from the proper practices for accounting for premiums and discounts subsequently incorporated in the 1996 CIPFA Code of Practice. According to this, the normal practice is to account for premiums and discounts in the year they are payable/receivable. Where the early repayment of a loan is coupled with a refinancing or restructuring of borrowing with substantially the same overall economic effect, premiums and discounts can be accounted for over the life of the replacement borrowing.

7.3.12 This is an example where statutory proper practice takes precedence over non-statutory proper practice (see *section 4.2*). CIPFA have issued guidance on how to reconcile the different approaches in cases where their Code requires the full amount of the premium or discount to be brought to account in the year it is payable or receivable. In such circumstances, authorities are required to charge the General Fund's share of the premium or discount in the year of payment or receipt, whilst the HRA share is carried forward on the balance sheet as a deferred liability or prepayment. This is then written down over the current and subsequent years with the amounts debited or credited to the HRA in accordance with the Item 8 determination. (See *CIPFA Local Authority Accounting Panel (LAAP) Bulletin no.26 (May 1996).*)

Initial Financing of Premiums

7.3.13 The calculation of the HRA share of premiums for both Item 8 and HRA subsidy purposes does not include the initial cost of financing those premiums which have to be brought to account in the year they are incurred. Under the arrangements described above, such costs would therefore fall to the General Fund. However, the then DETR issued the following advice (in the commentary issued with the 2001–2002 Item 8 determination) as to how the HRA could effectively contribute to such costs:

Authorities should note that the definition of the average notional cash balance in 2001–2002 and earlier years allows authorities to either:

a. take account of the full HRA share of any premium or discount in the year *they occur; or*

b. *take account of the amortised HRA share of any premium or discount in the year it is charged to the HRA.*

It is for individual authorities to decide, in consultation with their auditors, on the treatment of the HRA share of premiums.

7.3.14 If an authority decides on option (a), this will reduce any notional cash credit balance, or increase any notional cash debit balance, with the result that the HRA will receive a smaller contribution from the General Fund, or make a larger contribution to the General Fund. This, in turn, will effectively enable the HRA to bear a share of the initial financing costs of premiums (see *paragraph 5.8.6 and section 7.4* for further information on the average notional cash balance).

7.3.15 Although these arrangements allow authorities to effectively charge a share of initial financing costs to the HRA, such costs are not eligible for HRA subsidy.

PFI scheme payments

7.3.16 From 2004–2005, the calculation of the sum to be debited to the HRA under item 8 will include a new element entitled 'PFI scheme payments'. This relates to payments to contractors under off-balance sheet HRA PFI schemes, which from 1 April 2004 are no longer classed as capital expenditure. However, not all such payments should be charged under Item 8.

7.3.17 Most PFI schemes to refurbish HRA property will involve payments to contractors that should more properly be included as a charge under item 1 of Part II to Schedule 4 (see *Chapter 10*). Authorities may however enter into PFI schemes where the payments are not properly debited under item 1 – for example, those that involved new build. These are the payments (and only those payments) which should be included under Item 8.

7.3.18 In practice, an authority's accounts will contain an expenditure head to receive the PFI charges, and in the statement of accounts the PFI charges will be identified appropriately in the HRA summary statement. This additional item will provide

auditors with the assurance that, when PFI payments are debited to the HRA, this was done either under item 1 or, where this is not appropriate, under item 8. There will be no need to identify how much of each payment or charge is debited under each item.

HRA subsidy implications

7.3.19 The HRA share of debt management expenses and the HRA share of premiums are all eligible for HRA subsidy – with the exception of the HRA share of the initial financing cost of premiums (see *paragraph 7.3.13*). The allowance in the HRA subsidy calculation for debt management expenses is pre-set before the start of each new subsidy year on a formulaic basis and does not match the amounts actually debited to the HRA. However, the actual amounts debited/credited to the HRA in respect of premiums and discounts are taken into account in the subsidy calculation and are not pre-set before the start of the year.

7.4 The item 8 debit: HRA interest costs

Background

7.4.1 Under resource accounting, the HRA bears a share of an authority's overall interest costs on outstanding debt/credit arrangements and pre-1990 deferred purchase agreements. It will also bear notional interest costs on the HRA average notional cash balance if this is in deficit.

7.4.2 HRA interest costs are replaced in the net cost of services by the new cost of capital charge. This is transferred to the Asset Management Revenue Account (AMRA), where it is used to meet the HRA's share of interest costs. If the cost of capital charge is higher than HRA interest costs, the balance will be credited to the HRA in net operating expenditure. If, however, the cost of capital charge is insufficient to meet HRA interest costs, the difference is debited to the HRA, again in net operating expenditure. The net effect, in both cases, is that HRA interest costs will continue to be reflected in the bottom line (see *section 7.2*).

Calculation of HRA interest charges

7.4.3 HRA interest charges are calculated in accordance with the following formula, which is set out in *paragraph 4.5 of the Item 8 determination*.

$$\mathbf{J} = (\mathbf{G} \times \mathbf{H}) + (\mathbf{I} \times \mathbf{H}) + \mathbf{L}$$

It is the sum of three elements:

(i) interest on notional HRA debt ($\mathbf{G} \times \mathbf{H}$);

(ii) interest on the average notional cash balance ($\mathbf{I} \times \mathbf{H}$), where this is in deficit; and

(iii) interest on certain pre-1988 deferred purchase arrangements (**L**).

The first two elements are based on notional calculations, but the third represents the actual interest payable on such arrangements.

Interest on Notional HRA Debt (G × H in the formula)

7.4.4 **HRA debt** is a notional concept. Authorities manage their debt as a whole and no separate record is kept of debts taken out for HRA purposes. Notional HRA debt is measured by the HRA CFR. This takes account of new borrowing taken out (and credit arrangements entered into) each year for HRA purposes and the assumed repayment of existing HRA debt. (Full details of the calculation of the HRA CFR are given in *section 7.1*.)

7.4.5 The HRA CFR may be positive or negative. If it is positive, it is assumed that an authority has net outstanding HRA debt and that the related debt financing and management costs must be charged to the HRA. *Section 7.3* explains how the HRA's share of debt management and repayment costs is calculated. Notional interest costs are calculated by multiplying the mid-year HRA CFR (where positive) (**G** in the formula) by the authority's **Consolidated Rate of Interest (CRI)**.

Calculation of the CRI (H in the formula)

7.4.6 The CRI for each authority is calculated each year in accordance with the formula set out in the Item 8 determination (paragraph 5). In broad terms, the CRI represents the average interest payable on an authority's overall outstanding debt (not just that relating to HRA debt). It is a consolidated rate in that it takes account of both actual interest rates payable on external debt and a notional short-term rate payable on any assumed internal debt. Its level will depend on the proportion and level of fixed and variable interest rates payable on an authority's debt, and on the historical profile of borrowing and the authority's debt management policies over the years. There is therefore a unique CRI for each authority. A worked example of the calculation of the CRI is at *Annex F*.

7.4.7 The formula for calculating the CRI is as follows:

$$\frac{(\mathbf{M} \times \mathbf{N}) + ((\mathbf{P} - \mathbf{M}) \times \mathrm{Q})}{\mathrm{P}}$$

M is the average amount of external debt outstanding over the year (including short term loans and overdrafts). It should be calculated on a weighted average basis which takes account of fluctuations in the amounts outstanding throughout the year.

N is the average rate of interest payable on the amount of external debt outstanding over the year (**M** above). It is therefore the average rate of interest payable on all external borrowing, not just that taken out for HRA purposes. It must be calculated, in accordance with proper practices, on an accruals basis, to two decimal places. It must therefore take account of interest payable in respect of borrowing outstanding in the financial year in question rather than interest actually paid in the that year. In March 1998, the House of Lords decided that the amount of interest taken into account in

calculating **N** must not include any prior year adjustments incurred on the change from cash to accruals accounting for interest.

P is the higher of:

(a) the authority's average CFR for the year – calculated by taking their CFR (as defined in paragraph 85 of the CIPFA Prudential Code) on the first and last day of the financial year and dividing by two, minus adjustment A; and

(b) the authority's mid-year HRA CFR for the year, calculated in accordance with the Item 8 determination (see *paragraph 7.1.8*).

The CFR represents an authority's underlying need to borrow. It replaces the measure of net indebtedness (the overall credit ceiling) from 1 April 2004, but it is not directly equivalent to it. (**P – M**) in the formula derives the difference between the authority's actual external debt and the higher of its overall net indebtedness and its HRA net indebtedness. In order to do that, the CFR needs to be abated to reflect any difference between it and the credit ceiling at 1 April 2004, the start of the new capital finance system. This is the term **Adjustment A**, which is the adjustment identified as **A** in regulation 28(1) of the Capital Finance and Accounting Regulations 2003.

If (**P – M**) is a positive amount, it is assumed that the difference is made up of internal borrowing, i.e. that the authority has borrowed internal resources to finance capital expenditure in place of external borrowing. Although HRA debt might be assumed to be lower than overall debt, it can sometimes be higher for historical reasons, relating to the different calculation of the two credit ceilings or CFRs.

Q is the average 3-month London Interbank Bid (LIBID) rate for the year. It must be calculated by aggregating the rates published on the same day in 52 weeks throughout the financial year and dividing the total by 52.

7.4.8 The CRI is therefore a weighted average of the actual interest rates payable on external debt and short-term interest rates payable on internal debt (or the opportunity cost of not investing the capital resources). Where, however, average external debt (**M)** is equal to or greater than either the authority's average overall or HRA net indebtedness (**P**), the authority is deemed to have no internal debt. In such cases, the CRI is simply **N** – the average interest payable on external debt.

The Average Notional Cash Balance (I in the formula)

7.4.9 The average notional cash balance is calculated as the difference between cash receipts in respect of amounts credited to the HRA, the Housing Repairs Account and the Major Repairs Reserve and cash payments in respect of amounts debited to these accounts. If there is an excess of cash receipts over cash payments, this results in a credit balance or surplus on the average notional cash balance. If cash receipts are lower than cash payments, the average notional cash balance is in a debit balance or deficit. Authorities are required to calculate the average notional cash balance in accordance with proper practices and by reference to any cash account kept by the authority (see *paragraph 2.1 of the Item 8 determination*).

7.4.10 Where the average notional cash balance is in deficit, the HRA is effectively required to contribute, through the Item 8 debit, to any interest costs (or loss of investment income) incurred by the authority. These interest costs are calculated by multiplying the average notional cash balance by the CRI, calculated in accordance with the Item 8 determination (as described in *paragraph 7.4.7*).

7.4.11 It is for individual authorities to decide on how premiums incurred in respect of premature debt redemption are treated in the average notional cash balance. If they decide to take account of the full HRA share of the premium in the year it is incurred, this will effectively mean that the HRA is contributing to the financing costs of the premium. However, authorities may also decide to take account of the amortised cost of the HRA share of the premium as it is debited to the HRA each year (see *paragraphs 7.3.3–7.3.10*).

Interest on certain pre-1990 Deferred Purchase Arrangements (DPAs) (L in the formula)

7.4.12 Authorities may charge actual interest payments to the HRA in respect of arrangements which would have been defined as credit arrangements under section 48 of the 1989 Act if they had been entered into on or after 1 April 1990 DPAs or hire purchase arrangements are the most common examples. The following conditions apply:

(i) the arrangement must be in respect of HRA property, i.e. the cost of the property, works or equipment obtained under the arrangements would otherwise have been debited to the HRA;

(ii) the expenditure is not capital expenditure within the meaning of section 16 of the Local Government Act 2003 (i.e. only interest payments and not repayment of principal may be debited to the HRA);

(iii) the authority entered into the contract for the works, property or equipment before 1 April 1990 (if they entered into the contract on or after 1 April 1990, it would have been treated as a credit arrangement under the 1989 Act. As such, authorities would have had to provide credit cover for the initial cost, unless the Capital Finance Regulations meant that it had a nil or reduced initial cost. If a credit approval provided credit cover this would be added to the HRA credit ceiling and payments under the contract would effectively have been covered by interest payments on outstanding debt in the Item 8 debit);

(iv) the arrangements were not taken out during the transitional period between the announcement of the new Capital Finance System and the 1989 Act coming into force (7 July 1988 and 31 March 1990), i.e. they are not transitional arrangements under section 52 of the 1989 Act. This means that interest payments only on DPAs taken out before 7 July 1988 may be debited directly to the HRA.

7.4.13 The amounts debited to the HRA may include expenditure incurred by authorities under restitution or other compromise agreements, in cases where the authority decides that original arrangements, meeting the above conditions, may be *ultra vires*.

HRA subsidy implications

7.4.14 Notional interest payments on outstanding HRA debt and actual interest payments on certain pre-1990 DPAs is taken into account in the HRA subsidy calculation (see *Chapter 16*). However, interest on the average notional cash balance is not eligible for HRA subsidy. This is to encourage authorities to keep rent arrears to a minimum and therefore avoid a debit balance.

Annex A: Calculation of the Item 8 Debit 2006–2007

Manual Reference	Stage of Calculation	Item 8 Formula	Item 8 Determination Reference	Claim Form Reference[1]	Worked Example (£)
Capital Asset Charges					
7.2.4	1. Calculate the aggregate of **impairment charges** in respect of HRA assets and charge in respect of deferred charges attributable to the HRA	R	4.3	–	862,710
7.2.6	2. Calculate **the depreciation charge for HRA dwellings** (other than shared ownership dwellings)	SA	4.3	–	560,000
7.2.7	3. Calculate the **depreciation charge for all other HRA assets**	SB	4.3	–	28,000
7.2.11	4. Calculate the **transfer to the Major Repairs Reserve**. Where SA is equal to or greater than the MRA, U is nil; where SA is less than the MRA, U=MRA-SA	U	4.6	–	0
Debt Management and Repayment Costs					
7.3.2	5. HRA **Debt Management Expenses** for 2006–2007	K	4.4		65,000
7.3.3 and 7.3.8	6. **Premiums Payable** on premature debt redemption	V	4.4 and HRAS paragraph 6.4	F003cc	202,050
HRA Internal Costs					
7.4.6	7. Calculate the **Consolidated Rate of Interest** (CRI) for 2006–2007	H	5	F000ci	7.16%
7.1.8	8. Calculate **Mid year HRA CFR**	G	6	F007ci	43,845,660
7.4.4	9. Multiply G by H to give assessed interest charges on notional HRA debt. This will be nil where the mid-year HRA CFR (G) is nil or a negative amount.	(G × H)	4.5	–	3,139,349
7.4.9	10. Calculate **average notional cash balance** for 2006–2007	I	2.1 and 4.5	–	43,989
7.4.10	11. Multiply I by H to give interest payable on any notional cash debit balance	(I × H)	4.5	–	3,150
7.4.12	12. Calculate interest on certain pre-1988 **deferred purchase arrangements**	L	4.5	–	0

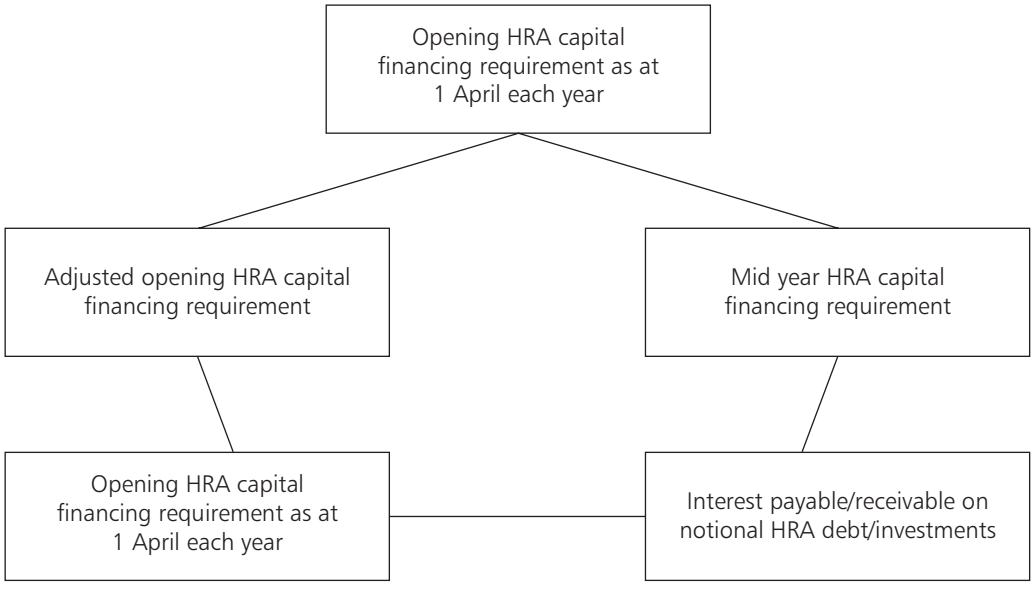
continued

Manual Reference	Stage of Calculation	Item 8 Formula	Item 8 Determination Reference	Claim Form Reference[1]	Worked Example (£)
7.4.3	13. Add the sum of stages 9, 11 and 12	J	4.5	–	3,142,499
7.2.17	Subtract the sum at stage 1 from the sum of stage 13 to give the Capital Asset Charges Accounting Adjustment.	J – R	4.5	–	2,279,789
	Add together the sums at stages 1, 2, 3, 4, 5,6 and 14 to give the **Item 8 Debit for 2006–2007.**	R + SA + SB + K + V + J – R + U	4.1	–	3,997,549

[1] References are to the first advance claim form for 2004–2005 (Form Reference 0401)

Annex B: HRA Capital Financing Requirements – how they are used

HRA capital financing requirements



Annex C: Calculation of the Opening HRA Capital Financing Requirement 2006–2007

Manual Reference	Stage of calculation	Worked Example (£)
7.1.6	1. Take the opening HRA capital financing requirement for 2005–2006	37,485,660
	2. Add	
7.1.6. (i)	(i) Capital expenditure financed by borrowing or credit arrangements incurred during 2005–2006	6,000,000
7.1.6 (ii)	(ii) The certified value of any property transferred to the HRA from the General Fund during 2005–2006	200,000
	Sub-total	6,200,000
	3. Deduct	
7.1.6 (i)	(i) The reserved part of capital receipts received in the previous year from the disposal of HRA property and used to repay debt	(2,000,000)
7.1.6 (ii)	(ii) 75% of the certified value of dwellings and 50% of the certified value of land or other property transferred from the HRA to the General Fund during 2005–2006	(750,000)
7.1.6 (iii)	(iii) Voluntary debt repayments.	(60,000)
7.1.6 (iv)	(iv) Overhanging debt repayment 2004–2005 & 2005–2006	0
	Sub-total	(2,810,000)
	4. The aggregate of stages 1 and 2, less stage 3, gives the 2006–2007 opening HRA capital financing requirement.	40,875,660

Annex D: Calculation of the Mid-year HRA Capital Financing Requirement 2006–2007

Manual Reference	Stage of calculation	Item 8 Determination Reference	Worked Example (£)
7.1.6	1. Take the opening HRA capital financing requirement for 2006–2007 2. Add:	6.1	40,875,660
7.1.8 (i)	(i) 50% of the capital expenditure financed by borrowing or credit arrangements incurred during 2006–2007 on HRA property.	6.2 (i)	2,000,000
7.1.8 (ii)	(ii) 50% of the certified value of land, dwellings or other property that commences or recommences to be accounted for in the HRA in 2006–2007 for a reason other than acquisition (e.g. by appropriation). Sub-total 3. Deduct:	6.2 (ii)	100,000 2,100,000
7.1.8 (iii)	(i) 37.5% of any capital receipt obtained from a qualifying disposal during 2006–2007, less administrative costs and levy. (A more complex calculation is carried out if the recalculation threshold has been tripped).	6.2 (i)	0
7.1.8 (ii)	(b) 37.5% of the certified value of dwellings and 25% of the certified value of other property which ceased to be accounted for in the HRA 2005–2006 for a reason other than disposal (e.g. appropriation).	6.2 (ii)	(30,000)
7.1.8 (iv)	(c) 50% of voluntary debt repayment.	6.2 (ii)	0
7.1.8 (v)	(d) 50% of overhanging debt repayment 2006–2007 Sub-total 4. The aggregate of stages 1 and 2, less 3, gives the mid year HRA capital financing requirement 2006–2007.	6.2 (iii)	0 (30,000) 42,945,660

Annex E: Calculation of HRA Share of Premiums 2006–2007

The formula for calculating the HRA share of discounts for the purposes of the Item 8 credit, V, is the formula for calculating the HRA share of discounts, V, in paragraph 6.4 of the HRA subsidy determination.

Manual reference	Stage of Calculation	Worked Example (£)
7.3.4	1. The total premium	2,500,000
7.3.4	2. Divide the authority's opening HRA capital financing requirement by the authority's capital financing requirement at the start of the year. (If the opening HRA capital financing requirement is positive but does not exceed the authority's capital financing requirement at the start of the year)	40,875,660 ÷ 76,000,000 = 0.538
7.3.4	3. Multiply the total premium by (2) above to arrive at the HRA share of the premium	1,344,594
7.3.4	4. Subtract the amount of any amount set aside by the authority as provision for credit liabilities which the authority determined was used to meet the HRA premium share, from the HRA share of the premium	1,344,594 – £0 = £1,344,594
7.3.7 (i)	5. Divide (4) above by *either* the unexpired period of the loan from the date of redemption *or* ten years if less.	£1,344,594 ÷ 2.5 = £537,838
7.3.7 (ii)	6. Divide the annual amount to be credited to the HRA ((5) above) by 365 to give the daily amount to be debited to the HRA.	£537,838 ÷ 365 = £1,474
7.3.7 (ii)	7. Multiply the daily amount ((6) above) by the number of days of the unexpired period of the loan which fall within the current financial year giving the HRA share of the premium to be debited to the HRA in 2006–2007.	£1,474 × 150 = £221,029

Annex F: Calculation of the Consolidated Rate of Interest (CRI) 2006–2007

Manual Reference	Stage of Calculation	Item 8/ HRA Subsidy Formula	Claim Form Reference[1]	Worked Example (£)
7.4.6	1. **Determine extent of any internal borrowing.** a. Average overall capital financing requirement (i.e. capital financing requirement at 1 April 2006 plus estimated capital financing requirement at 31 March 2007, divided by 2).		F006ci	37,000,000
7.1.8	b. Mid year HRA capital financing requirement for 2006–2007 calculated in accordance with Item 8 determination.		F007ci	43,845,660
	c. Higher of 'a' and 'b'	P	F008ci	43,845,660
	d. Average amount of external debt outstanding over 2006–2007, calculated on weighted average basis taking account of fluctuations in amounts outstanding throughout the year.	M	F002ci	33,000,000
	e. Calculate assumed internal borrowing.	P – M (if negative = 0)	F010ci	10,845,660
7.4.7	**2. Calculate CRI for HRA Item 8.**			
7.4.8	A. Authorities with no internal borrowing i.e. where P – M is 0 or a negative amount f. The average rate of interest (N) payable on average amount of external debt outstanding over 2006–2007 (M). **This is the CRI for authorities with no internal borrowing.**	H (which = N)	F003ci	8.00%
7.4.7	B. Authorities with some assumed internal borrowing			
7.4.7	g. Calculate notional amount of interest payable on actual external borrowing.	M × N	F002ci × F003ci	2,640,000
	h. Calculate notional amount of interest payable on assumed internal borrowing			
7.4.7	i) Calculate average 3 month LIBID rate for 2006–2007 by aggregating the rates published on the same day in each of the 52 weeks and dividing the total by 52;	Q	F009ci	(say) 4.60%
	ii) apply the resulting rate to the sum at e above	(P–M) × Q	F010ci × F009ci	498,900
	j. Add the amount at g and h(ii) above	(MxN) + ((P-M) × Q))	(F002ci × F003ci) +(F010ci × F009ci)	2,640,000 + 498,900 = 3,138,900
7.4.7	k. Express the amount at j as a percentage of P. This is the CRI for authorities with assumed internal borrowing	H	F000ci	7.16%

[1] References the first advance claim form 2006–2007 (0601)

8 Local Authority Rents

This chapter covers the statutory requirements for local authority rent setting, including charges for other services. It also covers the new approach to the calculation of social rents (see Chapter 9 of the Housing Policy Statement of December 2000: 'The Way Forward for Housing') introduced into the HRA subsidy system from April 2002.

The statutory background

8.1 Local authority rent-setting powers in respect of their tenants are set out in section 24 of the Housing Act 1985 ('the 1985 Act') as amended by section 162 of the Local Government and Housing Act 1989 Act ('the 1989 Act'), and by section 92 of the Local Government Act 2003 ('the 2003 Act'). Section 24 provides that:

(1) A local housing authority may make such reasonable charges as they may determine for the tenancy or occupation of their houses.

(2) The authority shall from time to time review rents and make such changes, either of rents generally or of particular rents, as circumstances may require.

Section 24(3), which required a local housing authority to have regard to private sector rents when setting rents for their housing, was disapplied in relation to England by section 92 of the 2003 Act.

8.2 The main principle is that local authorities have wide discretion as to how they fix their rents. This applies both to the overall average rent and to the pattern of rents across individual properties.

8.3 Research has shown that, within this framework, local authorities have adopted a wide range of rent-setting methods (*see Rent Setting Policies in English Local Authorities, 1998–99*), the most common method being based on some kind of points system, though the factors included and the relative weights attached to them varied considerably across authorities. A substantial number of authorities also compared their rents directly with other social housing and/or the private sector, but may not necessarily have aligned their rents with these sectors.

Rent restructuring

8.4 It was against this background that the Government published proposals in its Green Paper of April 2000 *(Quality and Choice: A Decent Home for All)* to reform social rents. One of the underlying objectives of the proposals, within the context of a commitment to maintain social rents at affordable levels, was to introduce greater consistency and coherence into the system. Rents should reflect more closely the qualities which tenants value in properties, and there should be no unwarranted differences between the rents set on similar properties by different local authorities or registered social landlords. With these aims in mind, the Government announced a

new approach to the calculation of social rents in the Housing Statement of December 2000. This established a new national formula for the setting of rents in the social sector. The new formula is being implemented gradually over a period of ten years, from April 2002. The formula is based partly on the relative capital value of the property, partly on average manual earnings in the surrounding area, and partly on the number of bedrooms. There are safeguards to ensure that individual tenants do not experience rent rises of more than RPI + 0.5 per cent + £2 per week. An additional safeguard has been introduced in the form of caps to the upper limit of formula rents (see *paragraph 8.19* below).

8.5 *This new approach to rent setting is not statutory and local authorities will remain free to determine their rents by other means if they so wish* provided that they comply with section 24 and the requirement that they budget for a balanced HRA. Should a local authority decide to adopt this approach, it should be aware that it is very probable that the assumptions made by Communities and Local Government in calculating subsidy entitlement etc. and the actual rents charged on properties will diverge (see also *paragraphs 8.8 and 8.9* below). Communities and Local Government will assume for the purposes of subsidy that local authorities are following the published guidance in determining their rents.

Formula rents

8.6 The calculation of guideline and limit rents since 2002–2003 has taken account of the new national rent formula. The approach adopted is as proposed in Annex C of the *Guide to Social Rent Reforms in the Local Authority Sector* published in February 2003.

8.7 The weekly formula rent is given by the equation:

70% of the average rent for the local authority sector

multiplied by relative county earnings

multiplied by bedroom weight

plus

30% of the average rent for the local authority sector

multiplied by relative property value

Examples of the calculation of formula rents are found at Annex B of the *Guide to Social Rent Reforms in the Local Authority Sector*.

8.8 This gives a rent for the property *relative to the average* for the local authority sector. Capital values and earnings data are, in fact, in 1999 prices. The equation gives the 2000–2001 rent for the property if the "average for the local authority sector" is – as it would be – in 2000–2001 prices.

8.9 Authorities should calculate a formula rent for each property at 2000–2001 prices using the information on its capital value and the information on wages and capital values required by the formula.

8.10 Communities and Local Government will have used the authority level information from the base data returns, using the formula (see *paragraph 8.14* below) to derive an assumed average formula rent for each authority. This has then been used to calculate limit rents for each authority. Because the subsidy calculation for a year is based on dwellings as at 1 April *in the previous year* (i.e. dwellings as at 1 April 2001 will have been used in the formula rent calculation for 2002–2003 and so forth), this does not necessarily equal the average formula rent for the determination year which might be calculated from the figures for individual properties. The assumed average formula rent calculated by Communities and Local Government, and the assumed limit rent calculated from it are set out in the authority specific information that has been sent to each authority and which is also available on Communities and Local Government's website.

8.11 The figures for **manual earnings** are given in paragraph A6 of the *Guide to Social Rent Reforms in the Local Authority Sector*. This shows the averages by county of gross weekly manual earnings of full-time workers over the period 1997–1999, uprated to 1999 prices, as derived from the New Earnings Survey. The relative earnings factor used in the rent formula is calculated as the earnings figure for the relevant county divided by the England average earnings figure of £316.40 per week, and rounded to four decimal places.

8.12 The **average bedroom weight** for each authority is calculated by applying the appropriate bedroom weights (shown in paragraph A4 of the *Guide to Social Rent Reforms in the Local Authority Sector*) to the number of dwellings (including the authority's share of dwellings in shared ownership) in each bedroom category. For this purpose, the dwellings equivalents of bed-spaces in hostels and houses in multiple occupancy (HMOs) are given a bedroom weighting of 1.0, i.e. treated as equivalent to a 2-bedroom dwelling. The average weight is, therefore, calculated as follows:

a) number of bedsits times 0.80 plus

b) number of one bedroom dwellings times 0.90 plus

c) number of two bedroom dwellings times 1.00 plus

d) number of three bedroom dwellings times 1.05 plus

e) number of dwellings with four or more bedrooms times 1.10 plus

f) number of dwellings equivalent of bed-spaces in hostels/HMOs times 1.00

The sum of (a) to (f) is then divided by the total number of dwellings and the result rounded to four decimal places.

8.13 The average capital value of each authority's dwellings (using vacant possession values at January 1999 prices) is taken from their Base Data Return for the relevant year. The

relative capital value is then calculated by dividing this figure by the average capital value for all local authority dwellings in England, which is £41,350, and rounded to four decimal places.

8.14 The average local authority rent for April 2000 was £45.60. The average formula rent for each authority for 2000–2001 is, therefore, calculated as:

£45.60 times 0.7 times (relative county earnings) times (average bedroom weight)

plus

£45.60 times 0.3 times (relative capital value).

8.15 The average formula rent for 2000–2001 then needs to be uprated by the inflation and average real increases determined each year as part of the annual subsidy round. The average formula rent for each authority for 2005–2006 equals its formula rent for 2000–2001 times 1.045 times 1.035 times 1.0325 times 1.0396 times 1.0403 (where, for example, 1.0403 equals inflation at 2.46 plus the average assumed cash increase of 1.5%).

Please see Chapter 2 of the Guide to Social Rent Reforms in the Local Authority Sector for details of how to calculate the actual rent changes following this approach.

8.16 It remains the responsibility of each authority to decide its own rents so it remains open to the authority to set a different rent to that calculated using the above approach.

Effect of limits

8.17 Ministers expect authorities to limit rent increases for individual tenants to RPI + 0.5% + £2. The equivalent limit for falls in rents was RPI + 0.5% – £2, but following the implementation of the recommendations in the Three Year Review of Rent Restructuring, authorities are free to ignore this downward limit where they may do so without adversely affecting cashflow. For each year, the relevant RPI is the 'all items' annual increase as measured in the September of the previous financial year. For instance, for 2007–2008, the RPI figure is **3.6**% – the 'all items' annual increase as measured at September 2006. This means, for example in 2007–2008, that the maximum increase for individual tenants should be **4.1**% plus £2.

8.18 Ministers expect authorities to consider applying these limits if they are able to do so.

Caps

8.19 Ministers also expect authorities to apply an upper limit to their rents. These 'caps' adjusted for 2007–2008 are given in the table below:

Bedsit	£102.32
1 bedrooms	£102.32
2 bedrooms	£108.33
3 bedrooms	£114.36
4 bedrooms	£120.37
5 bedrooms	£126.39
6+ bedrooms	£132.41

- ***NB: Caps increase annually by RPI + 1%, where RPI is measured as described in paragraph 8.17 above***.

Where the cap is below the formula rent, rents should be calculated as if the formula rent were equal to the cap rent

Where computer systems do not permit this, Communities and Local Government recommends that where the current rent is below the cap, and where applying the average percentage increase would otherwise take the rent above the cap, then the rent should be set equal to the cap, provided that the resulting increase does not exceed RPI + 0.5% + £2.

8.20 For 2006–2007 and 2007–2008, the Department recommended that in addition to the effects of caps and limits, authorities should have regard to Ministers' recommendation that actual rents should not rise by more than 5% in either year.

8.21 The Rental Constraint Allowance (RCA) was introduced to allow subsidy to be made available to off set the losses in rental income foregone where authorities have adhered to the suggested 5% limit. (see **Chapter 18** for details of the calculation of the RCA)

Budgeting and accounting for rents in the Housing Revenue Account

8.22 A local authority's general discretion to fix their rents must be read in conjunction with section 76 of the 1989 Act. This places a duty on local housing authorities both to determine each year a budget for their HRA which avoids an end-of-year debit balance, and also to review that budget from time to time during the year within the context of the requirement to balance the HRA. There is a great deal of case law on authorities' rent-setting discretion under section 24 of the 1985 Act and its predecessors. Authorities may wish to refer to the commentary in the *Encyclopaedia of Housing Law and Practice* published by Sweet and Maxwell.

HRA subsidy implications

8.23 Authorities will also need to be aware of the **guideline rent** which is used in the calculation of their HRA subsidy. This is an average rent level which determines the assumed income from rents that is taken into account in the HRA subsidy calculations. Local authorities do not have to set their rents according to the guideline and most currently set average rents which are higher. However, changes in the guideline rent will be matched by corresponding changes to subsidy (all other things being equal),

and local authorities will need to take this into account in setting their actual rent. The calculation of guideline rents for individual authorities is described in *Chapter 18*.

8.24 Authorities also have to take account of the operation of **rent rebate subsidy limitation** *(*see *Chapter 15*). This defines a **limit rent** for each authority, beyond which rent rebate subsidy is not payable. As part of the policy on rent restructuring, limit (and guideline) rents are being brought into line with the formula rent (see *Chapter 18*). Authorities should note that although rent rebates and rent rebate subsidy are no longer accounted for within the HRA, the effects of limitation continue to impact upon the HRA where authorities set their rents above their limit rent, as that is set out in the *Income-related Benefits (Subsidy to Authorities) Amendment Order 2004* issued by the Department for Work and Pensions.

Service charges (see also *Chapter 15*)

8.25 In addition to their rent, tenants may also pay service charges. Rents are generally taken to include all charges associated with the occupation of a dwelling, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than particular to occupation of a dwelling. Different tenants may receive different types of service reflecting their housing circumstances.

Treatment of service charges under rent restructuring

8.26 Ministers have decided that local authorities should retain discretion to decide what services to charge for separately, and what services should be included within the rent, within a broad framework.

8.27 Service charges are not governed by the same factors as the property charge or rent. Therefore it is not appropriate to apply the restructuring formula to these charges. However, Ministers do expect local authorities to set reasonable and transparent service charges which closely reflect what is being provided to tenants.

8.28 At present, some authorities identify service charges separately, some include the cost in the general rent charge to a tenant, and others pool the costs of services across all tenants. Formula rents take no account of service charges. Therefore Ministers have encouraged local authorities to move towards identifying service charges separately, based on the actual costs of services to individual properties. This would also allow tenants to see what they are getting for their money and to assess the reasonableness of charges.

8.29 If a local authority follows this approach then at the end of the rent restructuring period, the total charge to the tenant would comprise the formula rent plus a service charge based on the actual costs of additional services to that tenant. Where a property is subject to a cap on the formula rent, the service charge may be additional to the cap but should be strictly limited to the cost of the services provided.

8.30 Local authorities are expected to use their discretion on charging for services to avoid situations in which anomalies are created, e.g. situations where it costs tenants much

more to live in high rise flats than it would to live in street properties that they would find more attractive. In particular, Ministers do not think it appropriate to levy service charges on services such as lifts that are essential to high rise flats any more than it would be appropriate to charge tenants of certain system-built houses extra amounts to reflect the high costs of maintaining their homes. These are costs that are inevitable for the properties concerned: neither tenant nor landlord has any discretion over them. For some other services, drawing a clear line between those which should be explicitly charged for and those which should not is no easy matter. This is best left to local judgement.

Phased unpooling

8.31 The Government acknowledges it may be difficult for authorities to unpool and separately identify all housing service charges at one time. Depending on local circumstances, a gradual, phased unpooling of charges may be more appropriate. Therefore Ministers have decided that authorities should also retain discretion about the timing of introducing new service charges, or unpooling existing charges.

8.32 NB: Phased unpooling is not possible for charges for services which are included in the Supporting People regime which began in April 2003.

Keeping charges affordable

8.33 Government policy is that no one's rent should increase by more than RPI + 0.5% + £2 per week because of rent restructuring. Similarly, Ministers want to limit rises in overall bills due to separate identification of charges for existing services.

8.34 Therefore, in a year in which any service charge is unpooled, local authorities are encouraged not to increase the total charge to any individual tenant by more than RPI + 0.5% + £2 per week. Within this constraint the authority has discretion to decide the split between rent and service charges, so long as the total service charge is not more than the cost of providing those services.

8.35 In years where there is no unpooling, service charges to an individual should not increase by more than RPI + 0.5% per year, whilst rent should not change by more than RPI + 0.5% + £2 per week in any year. If this approach is followed, the total charge to tenants would not increase by more than RPI + 0.5% + £2.

8.36 There may be very rare occasions where an authority has to increase its service charge by more than RPI + 0.5% due to increases in costs outside its control, such as increases in fuel costs.

New charges

8.37 One exception to this is when new services are introduced, in which case an additional charge equal to the cost of the new service may be made. A new service may be something completely new, or an extension of an existing service. However, Ministers would expect authorities to consult appropriately with tenants before introducing new or extended services and associated charges.

9 The Housing Repairs Account

This chapter discusses the Housing Repairs Account – a discretionary account which operates within the HRA ring-fence and constitutes a separate record of income and expenditure on HRA repairs and maintenance. Transfers between the HRA and the Housing Repairs Account are dealt with in sections 5.6 (credits to the HRA) and 6.6 (debits to the HRA).

Statutory framework

9.1 Under section 77 of the Local Government and Housing Act 1989 ('the 1989 Act'), any local housing authority required to keep an HRA may also keep a Housing Repairs Account. *Annex A to Chapter 4* summarises the statutory basis of both the HRA and the Housing Repairs Account.

Nature of the Housing Repairs Account

9.2 A Housing Repairs Account is used to keep a separate record of income and expenditure relating to the repair and maintenance – but not the supervision and management – of an authority's HRA houses or other property. It operates within the HRA ring-fence and, as such, no transfers can be made to or from any accounts other than the HRA. Other key points are:

(i) the account must be kept in accordance with **proper practices** (section 77(1)). These are as described for the HRA in *Chapter 4.2*;

(ii) the account must be kept to **avoid a debit balance** in any year (section 77(4));

(iii) authorities may make **transfers** to the account from the HRA and, in practice, will need to do so to avoid a deficit (section 77(2)). They may also transfer some or all of any balance from the account to the HRA (section 77(5));

(iv) the account must cover the **whole** of an authority's HRA stock (section 77(3)(a));

(v) on **closure** of the account, any balance must be transferred to the HRA.

Decision to keep a Housing Repairs Account

9.3 It is for each local housing authority to decide whether to keep a Housing Repairs Account. Approximately 20% currently do so. This decision will depend on the authority's own view on how best to record repairs and maintenance expenditure. Some authorities find that a separate account assists the planning of major or cyclical works. Authorities may open or close these accounts without reference to the Secretary of State.

9.4 If an authority decides not to keep a separate Housing Repairs Account, any income and expenditure relating to repair and maintenance of HRA property should be accounted for in the HRA, under credit or debit Item 1 of Schedule 4, as appropriate.

Expenditure

9.5 Section 77(3) of the 1989 Act requires that the Housing Repairs Account should be debited with:

(i) **all** revenue expenditure in connection with the repair and maintenance of an authority's HRA stock;

(ii) any expenditure on the improvement or replacement of stock as determined by the Secretary of State; no such determinations have been made to date;

(iii) any sums transferred to the HRA (under section 77(5), authorities may transfer any of the credit balance on their Housing Repairs Account to the HRA).

Income

9.6 Section 77(2) requires that the Housing Repairs Account should be credited with:

(i) any sums transferred from the HRA;

(ii) any income in connection with the repair and maintenance of the HRA stock, for example from any sums recharged to tenants or from the sale of scrapped or salvaged materials. This would include any service charges paid by Right to Buy/Rent to Mortgage leaseholders in respect of repairs and maintenance to the common parts of any blocks of flats where the **freehold** remains within the HRA *(*see *section 5.2)*.

9.7 The major part of the income to the account will in practice be by way of transfer from the HRA. Authorities should ensure that this is sufficient to avoid a debit balance in any year.

HRA subsidy implications

9.8 The calculation of an authority's management and maintenance (M&M) allowance for HRA subsidy purposes will not be affected by a decision to keep a separate Housing Repairs Account.

10 Private Finance Initiative Schemes in the HRA

Background

10.1 The wide-ranging measures to promote the Private Finance Initiative (PFI) in local government were mainly brought into effect on 31 October 1996, and have since been considerably streamlined.

10.2 The essential feature of PFI schemes is that they require the private sector contractor to assume risk for the performance of the asset for a significant part of its useful life where they are best placed to manage that risk, so that efficiencies from long-term asset management can be realised. They also make it possible for authorities to benefit from revenues generated by the contractor from third parties, for example, by using part of the asset commercially.

10.3 Housing PFI schemes are one of the options set out in the Housing Policy Statement of February 2003, *Sustainable communities: building for the future,* for securing additional investment in social housing. PFI may be relevant for stock both within and outside the Housing Revenue Account (HRA). A good PFI deal should achieve a transfer from the public sector of risks that can be better dealt with by the private sector, whilst maintaining good value for money. Projects which benefit most from this method of procurement tend to have an up-front capital-intensive element and a continuous service provision element, both of which are paid for by the local authority across a long-term contract (typically 25–30 years). These payments are performance related. PFI credits (see below) are available from central government to support the capital element of these projects.

10.4 In HRA PFI, the stock remains the property of the local authority, and tenants remain local authority tenants. Schemes cover the refurbishment of HRA dwellings. More recently local authorities have been enabled to explore building new social housing through HRA PFI. Further details can be found on DCLG's web site at http://www.communities.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_609030.hcsp**.**

PFI and the HRA

10.5 The principle underlying central government support for HRA schemes is that, as far as possible, there should not be any specific incentive for one form of funding of investment over another (including any which would be pro or anti PFI).

10.6 Prior to 1 April 2004 a contract had to meet the criteria in Regulation 16 of the Local Authorities (Capital Finance) Regulations 1997 (S.I. 1997/319 as amended) in order to be eligible for central government PFI support. This is no longer the case and there are no special provision for PFI in the current Regulations.

10.7 The general criteria which PFI projects must now meet in order to qualify for support are set out in the DCLG *Local Government PFI Project Support Guide,* published annually on DCLG's web site at www.local. communities.gov.uk/pfi/grantcond.pdf.

In addition there may be section specific criteria which PFI projects must meet. The starting point is that a project must be considered a PFI contract under standard accounting requirements. FRS5 provides the basis for determining whether projects should be accounted for as a PFI contract directly within the FRS; or as akin to a lease – when Statement of Standard Accounting Practice (SSAP) 21 should be applied. The determination is based on whether or not there is an associated service element which is not independent of payments for the property.

Calculating the level of support – PFI credits

10.8 Support for PFI projects is confirmed by issuing "PFI credits". An authority which has received a PFI credit letter has received an undertaking to pay HRA subsidy (or grant, for non-housing schemes) and, through the application of the formula described below, a determination of the amount of subsidy (or grant) which will actually be paid.

10.9 PFI credits are a measure of the capital costs of a project, measured as a discounted value of the nominal costs over the whole contract length (i.e. both initial capital expenditure and lifecycle costs). A specified PFI discount rate is set out in the DCLG *Local Government PFI Project Support Guide*.

Supporting PFI payments through HRA subsidy

1.10 HRA subsidy for PFI projects is delivered by calculating and then delivering a fixed level of annual subsidy, a 'PFI allowance', based on the PFI credits allocated to a project. Subsidy entitlement starts when the scheme becomes operational and ends when the scheme finishes. Where HRA schemes involve phased maintenance the scheme effectively becomes operational as soon as the contract reaches financial close. However, that would not be the case for new build.

10.11 In certain cases the PFI credits, and therefore the grant, will be paid in two or three phases. This will be agreed when the project is endorsed, and will only apply where there are a few obviously discrete phases of development.

10.12 The PFI allowance is an element of Housing Revenue Account subsidy and is paid as part of regular HRA subsidy payments. In the first year of subsidy entitlement, the year in which the PFI contract is signed, DCLG will issue a special HRA subsidy determination to trigger payment of subsidy. Thereafter the PFI allowance will be a specified amount in the annual HRA subsidy determination for the duration of the arrangement.

10.13 The PFI allowance delivers a fixed level of annual subsidy, within the term of the contract, by applying the General Fund Pool Rate in force at the time when the project was endorsed to calculate subsidy based upon the PFI credit. This is a notional pool rate estimated on the basis of an average of short and long term interest rates. It reflects the average rate which local authorities are currently paying on their outstanding debt, rather than current borrowing rates for new debt. The pool rate is the same for all authorities.

10.14 The calculation is done by the DCLG and is based upon an amortisation calculation similar to that used for a repayment mortgage or annuity (although in practice the result is usually found by using the Excel PMT spreadsheet function).

The formula is as follows:

$$\text{Subsidy Payment} = \frac{\mathbf{PV}*(1+\mathbf{r})^{\mathbf{n}}*\mathbf{r}}{(1+\mathbf{r})^{\mathbf{n}}-1}$$

where

n = the length of the contract term (usually 30 years)

r = the Subsidy Rate (which remains constant throughout the term)

PV = the PFI credit

[Note: the formula given here is different to that given in the PFI grant determination, although hopefully both give the same result. The PFI grant formula is shown as:

$$\text{Grant} = \frac{P}{\left(\frac{1-(1+r)^{1n}}{r}\right)} \times S \times X$$

where P = PFI credits

r = interest rate

n = annuity period

S = scaling factor

X = start month]

10.15 In the first year, HRA PFI subsidy will be paid pro-rata according to the number of months the contract is eligible for grant in the financial year. HRA PFI subsidy will also be paid pro-rata for the last year of the scheme.

10.16 Major Repairs Allowance is not paid on dwellings that are part of a PFI contract. This is because the capital costs of maintaining the dwellings are reflected in the PFI credit and the subsidy that it attracts. If PFI dwellings were not excluded from MRA calculations this would result in the payment of double subsidy. The MRA that the dwellings in the PFI scheme would have been entitled to during the time they are in the scheme is deducted from the authorities' MRA entitlement, pro-rata for the first and last year and for the entire year for the rest of the life of the scheme.

10.17 PFI schemes that are only concerned with one element of the dwelling, e.g. heating, remain in the MRA.

11 Transfers and Disposals of Property

This chapter looks at the effects on the HRA and HRA subsidy of transfers and disposals of property, primarily those associated with the annual Housing Transfers Programme under section 135 of the Leasehold Reform, Housing and Urban Development Act 1993. It also considers the arrangements for dealing with overhanging debt.

Background

11.1 **Section 74** of the Local Government and Housing Act 1989 ('the 1989 Act') prescribes which property should be accounted for within the HRA. Further advice is given in Circular 8/95, which also provides advice on the circumstances under which property not currently within the HRA may be transferred into the HRA, and vice versa. *Chapter 12* explains the circumstances under which authorities holding a small number of properties, which would otherwise fall to be accounted for within the HRA, may be excluded from that requirement by way of a direction made by the Secretary of State under section 74(3)(d) of the 1989 Act.

Appropriations and transfers into or out of the HRA

11.2 An authority can appropriate land and property which it holds for one purpose, but no longer requires for that purpose, for another purpose (see section 122 of the Local Government Act 1972). For example, an authority which holds houses and land within its HRA for housing purposes (under Part II of the Housing Act 1985) may decide that it no longer requires this property for housing, but instead wishes to use it for education purposes. To do so, it will need to appropriate that property for education purposes, subject to the consent of the Secretary of State under section 19(2) of the Housing Act 1985 (see *paragraph 12.14* for making an application). If consent is given, and acted on, and the authority appropriates the houses and land for education purposes, they would no longer be provided for the purposes of Part II of the Housing Act 1985 and would cease to be in the HRA.

11.3 An authority may also decide that, although it wishes to continue to use certain property for housing – for example, to provide accommodation for homeless people – it wants to account for it outside the HRA. In this case, as the property is still required for the purposes of Part II of the Housing Act 1985, i.e. for the provision of housing, the authority will need to seek a direction from the Secretary of State under section 74(3)(d) of the 1989 Act (see *paragraph 11.1*) to take the property out of the HRA, not a consent to appropriate under section 19(2) of the Housing Act 1985 (see *paragraph 12.23)* for making an application).

11.4 For most authorities, appropriation of property for housing or other purposes which would bring it into or out of the HRA, or other transfers of property out of the HRA, will not be a frequent occurrence. But where it does happen, adjustments need to be made to the HRA capital financing requirement (HRA CFR), as described in *paragraphs 7.1.6 and 7.1.8*, in order to ensure that any remaining capital charges

attributable to the appropriated or transferred property are satisfactorily reflected in the HRA. For example, if property in the HRA is appropriated for purposes other than the provision of housing under Part II of the Housing Act 1985, and therefore ceases to be in the HRA but instead is accounted for in the General Fund, the HRA benefits from the assumed capital receipt (which will be set at the proportion of the certified market value of the property which would have been pooled, had the property actually been disposed of), as though it had actually been disposed of. This also means that the HRA will make a lower contribution to the authority's overall capital charges (by way of a reduced Item 8 debit). There will, of course, be other consequences for the authority's HRA in terms of, for example, rental income and expenditure on maintenance and management of any dwellings transferred out of the HRA. Similarly, if property is transferred into the HRA (e.g. because it has been appropriated for the purposes of Part II of the Housing Act 1985, or because of a section 74(1)(f) direction), the certified value is added to the HRA CFR, the HRA's contribution to capital charges through the Item 8 debit will increase, and there will be consequences for the authority's rental income, management and maintenance expenditure.

11.5 There will also be some changes in HRA subsidy entitlement. These may include changes to the subsidy capital financing requirement (SCFR) (to take account of the assumed capital receipt from property which ceases to be accounted for in the HRA), and to the dwelling figures used for the purposes of assumed rent income, management and maintenance allowances, and the Major Repairs Allowance. But, given the fact that these amounts are pre-set before the start of the subsidy year, any changes to subsidy will normally not be made until two years after the year in which the property is appropriated (but see *paragraph 11.10*). Authorities will need to take account of this when considering transfers of property into or out of the HRA, just as they would for disposals.

Disposals

11.6 Similar arrangements apply where authorities actually dispose[3] of property, for example under the Large-Scale Voluntary Transfer (LSVT) programme.

11.7 When considering LSVTs, authorities are encouraged to have regard to all the implications of the proposed transfer (see transfer guidance, latest version – Housing Transfer Manual 2005 Programme and the *Supplement to the Housing Transfer Manual 2005, the 2006 Programme).*

11.8 The Guidance makes clear the importance which DCLG attaches, particularly for partial transfers, to authorities considering, at an early stage, the effects of the proposed transfer on their HRA and HRA subsidy. There may be an overall net cost to an authority's HRA, which would have to be borne by the tenants who remain with the authority, or a net gain. The effect of the transfer is unlikely to be entirely neutral. Similar consequences may occur in the case of significant Right to Buy disposals.

3 For these purposes, "disposal" also includes the grant or assignment of a long lease (i.e. one exceeding 21 years), other than a shared ownership lease – see section 74(5)(b) of the 1989 Act.

11.9 DCLG has produced a spreadsheet model which will help authorities to assess the effects of transfers on their HRA and HRA subsidy entitlement. This is available free of charge by e-mailing: housing.subsidy@communities.gsi.gov.uk.

Significant stock changes

11.10 HRA subsidy is no longer recalculated in-year to reflect changes in circumstances, for example in the number of dwellings in an authority's HRA, except in certain limited circumstances.

11.11 The circumstances are where changes in an authority's total housing stock exceed a given threshold, which is set at 10% or 3,000 dwellings (whichever is less) over a two-year period, beginning with the date on which relevant stock data are based for subsidy purposes. Where the threshold is exceeded during the two-year period, subsidy is recalculated on the basis of information supplied by authorities in subsidy claim forms. Recalculation takes account of the number of days in the subsidy year on which the dwellings transferred or disposed of were within the HRA.

11.12 Exceeding the threshold does not by itself produce more or less subsidy. It brings forward the calculations that would be made in later years, and so can lead to earlier increases in subsidy than would otherwise have been the case. It may equally lead to earlier reductions, because for example the SCFR is revised downwards (because of capital receipts) and the capital charges subsidy correspondingly reduces. This recalculation does not affect the calculation of subsidy for following years. It is the original SCFR for the prior year, not the recalculated one, which is the starting point for the calculation of the new SCFR. Authorities are therefore advised to consider carefully the implications of exceeding the threshold, whether that is caused by LSVT or other transfers, or demolitions/disposals, and how these might interact with Right to Buy sales. A worked example of the calculation is set out at *Annex A*.

Overhanging debt

11.13 Authorities undertaking LSVTs are required to set aside a sufficient part of the capital receipt generated by the disposal to repay the estimated part of their debt attributable to the stock disposed of. The amount to be set aside is stipulated (in a direction under section 59(6) of the 1989 Act) when the Secretary of State gives formal consent to the transfer. The costs of the transfer as agreed by DCLG are deducted from the capital receipt before the amount to be set aside is calculated.

11.14 Where the authority disposes of the whole of its HRA stock and the set aside part of the capital receipt is insufficient to repay the estimated debt attributable to that stock, the authority is said to be left with **overhanging debt**. The arrangements for dealing with overhanging debt situations are set out in *Annex T of the Housing Transfer Guidance 2003 Programme*.

11.15 In such cases a sum equal to the set-aside part of the capital receipt is used firstly to finance premiums on early redemption of any market loans the authority has relating to HRA property, secondly any principal on these outstanding market loans, thirdly premiums payable by the authority on early redemption of their Public Works Loan

Board (PWLB) loans, and finally to repay principal on any other outstanding loans relating to the HRA property. (In practice, once the set-aside part of a capital receipt is identified for debt repayment, it is not possible to say that it is that particular receipt which is used to pay off the outstanding loans, merely that the authority is required to use an amount equal to the set aside part of that receipt.) In overhanging debt cases, DCLG then makes a one-off payment to the PWLB to pay off the remaining principal and any shortfall in the early debt redemption premiums the authority is unable to meet, calculated on the basis of these expectations. The aim of the arrangements is to reduce both the SCFR and the HRA CFR to zero. This ensures that the authority's entitlement to HRA subsidy on capital charges ceases, and that the HRA no longer contributes towards overall debt charges.

11.16 The calculation of overhanging debt is in two stages:

(i) the total amount of the authority's outstanding HRA debt up to the date of transfer; and

(ii) the amount which DCLG then needs to write off by a payment to the PWLB,

Outstanding HRA debt

11.17 The starting point for calculating the outstanding HRA debt is the SCFR specified in the annual subsidy determination. This is then modified as below to estimate outstanding debt immediately before the transfer takes place.

11.18 For the year of transfer, the SCFR pre-set in the HRA subsidy determination includes 50% of the HRA element of supported capital expenditure (revenue) (SCE(R)) for that year. If the transfer takes place in the second half of the year, **after 30 September**, the remaining 50% of the specified HRA SCE(R) needs to be accounted for.

To the SCFR pre-set in the HRA subsidy determination:

Add

(i) if the transfer takes place after 30 September, 50% of the specified amount of the HRA element of SCE(R) issued for the current year (the other 50% would already have been taken into account in the current year's pre-set SCFR); and

(ii) value of HRA share of accumulated premiums.

Subtract

(i) the reserved part of HRA capital receipts arising from qualifying disposals in the previous two years;

(ii) reserved receipts arising from qualifying disposals received in the current year up to but excluding the date of transfer; and

(iii) value of HRA share of accumulated discounts.

11.19 The above calculation will normally be used to estimate outstanding HRA debt at the time of transfer. But where the opening HRA CFR for the transfer year, adjusted as above to take account of, for example, the reserved of HRA capital receipts, is higher, then that figure will be used instead.

Estimating overhanging debt

11.20 The figure calculated above (once agreed between the authority and DCLG) will then be used, in accordance with the arrangements set out in DCLG's guidance, to calculate the overhanging debt, the amount of DCLG's one-off payment to the PWLB. This is calculated as follows:

Calculate net receipt from LSVT

Gross receipt

– Agreed set-up costs

= Net receipt

Calculate part of capital receipt to be set aside (normally 100% of net receipt)

Calculate portion of net receipt available to meet PWLB principal

Net receipt

– Market debt and associated premia

– PWLB early redemption premia

= Available to meet PWLB principal

Calculate overhanging debt

Outstanding HRA Debt (recalculated SCFR)

– Available to meet PWLB principal

= **overhanging debt** (DCLG's one-off payment to PWLB)

11.21 The costs of transfer, the costs of market debt and associated premia and the amount of the PWLB premiums payable for early redemption are deducted from the transfer receipt. The remainder (or an equivalent sum) goes towards the principal PWLB debt, which is taken to be the HRA debt figure calculated in *paragraph 11.17*. The difference between these two figures (the remainder of the set aside part of the receipt and the HRA debt) is the amount which DCLG will pay to the PWLB, i.e. the overhanging debt.

11.22 A worked example is set out in *Annex B*.

Reducing the HRA and subsidy capital financing requirements following HRA debt redemption

11.23 The above arrangements serve only to calculate the amount of HRA debt which is to be redeemed. Further special arrangements are necessary to take proper account of that in the HRA and in HRA subsidy.

11.24 In line with the annual HRA subsidy determination, the SCFR is reduced by the HRA capital receipts set-aside to repay debt. In overhanging debt cases, however, part of those set aside receipts will be used to repay the PWLB premiums, without reducing the outstanding debt; yet the debt is reduced (to zero) by DCLG's payment to the PWLB. The amount of HRA capital receipts in the year of transfer which is deemed to reduce debt, and therefore the SCFR needs to be adjusted by:

(i) excluding the amount of the transfer receipt used to repay PWLB premiums; and

(ii) including the relevant proportion (depending on how many days are left in the year after the date of transfer) of the amount of the one-off payment by the Exchequer to repay PWLB debt.

11.25 The mid-year HRA capital financing requirement is reduced by 50% of the value of the payment made by the Secretary of State to the PWLB to pay off overhanging debt, less any part used to pay off premiums (see Chapter 7).

11.26 Following transfer, for the purposes of HRA subsidy, DCLG will issue a special HRA subsidy determination to reduce the SCFR for the year of transfer by an amount that takes into account DCLG's payment to the PWLB and the relevant proportion of the amount used to repay premiums.

11.27 In the year of transfer, this will, all else being equal, reduce the subsidy payable to the authority. Where the transfer takes place before the deadline for the submission of audited figures to be pre-set in the subsidy determination for the following year, a special HRA subsidy determination will not be necessary in respect of the year following transfer.

Annex A: Housing Capital Receipts – in-year recalculation of subsidy CFR for 2005–2006 and 2006–2007 – worked example

An authority's subsidy capital financing requirement (SCFR) is specified annually in the HRA subsidy determination. Where a Large-Scale Voluntary Transfer (LSVT) takes place, and/or the number of dwellings within the authority's HRA falls by more than 10% or 3000, the SCFR is recalculated in-year. The following illustration sets out how that recalculation is performed. For the sake of simplicity, it ignores other movements in the SCFR as a result of supported capital expenditure, appropriations and so on.

It assumes that one qualifying disposal (i.e. LSVT or SSVT) takes place in each of the three years 2004–2005, 2005–2006 and 2006–2007, as follows:

	Date of disposal	Capital receipt from disposal	75% (or reserved part) of capital receipt
2004–2005	19 May	£36 m	£27 m
2005–2006	1 March	£22 m	£16.5 m
2006–2007	30 November	£14 m	£10.5 m

2005–2006:

Recalculated SCFR =

(i) SCFR specified in HRA subsidy determination

(ii) *Less* reserved part of 2004–2005 qualifying disposal receipts

(iii) *Less* pro rata proportion of 75% of 2005–2006 qualifying disposal receipts

1	(i) SCFR from HRA subsidy determination		£185 m
2	(ii) Reserved part of qualifying disposal receipts in 2004–2005		£27 m
3	(iii) 75% of qualifying disposal receipts in 2005–2006	£16.5 m	
4	Number of days remaining in 2005–2006 following LSVT (on 1 March)	30	
5	Pro rata proportion of 2005–2006 receipts [*Line 3 x Line 4 divided by 365*]		£1.36 m
	Recalculated 2005–2006 SCFR [*Line 1 minus Line 2 minus Line 5*]		**£156.64 m**

2006–2007:

Recalculated SCFR =

(i) SCFR specified in HRA subsidy determination

(ii) *Less* reserved part of 2005–2006 qualifying disposal receipts

(iii) *Less* pro rata proportion of 75% of 2006–2007 qualifying disposal receipts

1	(i) SCFR from HRA subsidy determination		£168 m
2	(ii) 2005–2006 reserved part of qualifying disposal receipts		£16.5 m
3	(iii) 75% of 2006–2007 qualifying disposal receipts	£10.5 m	
4	Number of days remaining in 2006–2007 following LSVT (on 30 November)	121	
5	Pro rata proportion of 2006–2007 receipts [*Line 3 x Line 4 divided by 365*]		£3.45 m
	Recalculated 2006–2007 SCFR [*Line 1 minus Line 2 minus Line 5*]		**£148.05 m**

Annex B: Overhanging Debt Calculation in 2006–2007

	Estimated HRA debt	£
1	SCFR 2006–2007	77,873,718
2	+ 50% HRA SCE(R), 2006–2007 (Assuming transfer occurs after 30 September)	2,608,000
3	+ value of HRA share of accumulated premiums	0
4	– less 2004–2005 reserved receipts arising from qualifying disposals	0
5	– less 2005–2006 reserved receipts arising from qualifying disposals up to but excluding LSVT	0
6	– less value of HRA share of accumulated discounts	0
7	Notional HRA debt [Line 1 + Line 2 + Line 3 – Line 4 – Line 5 – Line 6]	**80,481,718**
	DCLG's payment	
8	Gross transfer receipt	36,043,771
9	Less agreed set-up costs	3,939,810
10	Set aside part of net receipt (100% of Line 8 – Line 9)	32,103,961
11	PWLB premium	19,526,419
12	Remainder of receipt [Line 10 – Line 11]	12,577,542
13	HRA debt [Line 7]	80,481,718
14	DCLG's payment/Overhanging debt [Line 13 – Line 12]	**67,904,176**
	The authority will have paid a total of £32,103,961 to the PWLB, which is the transfer receipt less costs.	

12 Closing the Housing Revenue Account

This chapter describes the circumstances in which an HRA may be closed. It outlines the procedures to be followed to secure closure and the procedures to be followed if further dwellings are acquired after closure.

Background

12.1 Under section 74(1) of the 1989 Act, a local housing authority is required to keep a HRA in respect of land, houses or other buildings which are provided, acquired, appropriated or otherwise held under certain housing powers, primarily Part II of the Housing Act 1985. Even if it no longer has any such property – for example where it has disposed of all property included in the HRA by way of a large-scale voluntary transfer (LSVT) – an authority cannot close the HRA without the Secretary of State's consent (under section 74(4)).

12.2 The Secretary of State does, however, have power to direct that land, houses or other buildings which would otherwise be accounted for within the HRA shall not be accounted for within that account (section 74(3)(d)). Such a direction effectively transfers the property referred to in it outside the HRA. If such a direction were issued in respect of all property remaining in an authority's HRA, the authority would be able to apply for consent to close the HRA.

Applications to close the HRA

12.3 The Secretary of State is prepared to consider applications to close the HRA both from authorities which no longer have any dwellings and from authorities with generally 50 or fewer dwellings remaining within the HRA.

Authorities with no HRA dwellings

12.4 Where an authority no longer has property in its HRA – for example, where it has been disposed of as part of an LSVT – it may ask the Secretary of State for consent to close the HRA. Consent may be given subject to compliance with such conditions as he may specify (see *paragraphs 12.20–12.22* below for those relating to re-opening the HRA).

Authorities with 50 or fewer dwellings

12.5 Authorities with 50 or fewer dwellings within their HRA may apply to the Secretary of State for a direction under section 74(3)(d) of the 1989 Act, which would disapply the requirement that these dwellings and any associated property (which would have to be specifically referred to in the direction) should be accounted for within the HRA. The properties would in effect all be transferred out of the HRA, and open the way for an authority to seek consent to close the HRA[4]. Any such direction will normally have effect from the following 1 April.

4 Please note that a direction under section 74 (3) (d) is not the same as an appropriation for another purpose under section 122 of the Local Government Act 1972 (which in the case of a dwelling currently held for the purposes of Part II of the Housing Act 1985, would

12.6 Where the Secretary of State concludes that a direction under section 74(3)(d) should be given, he will consult the authority on the terms of the direction.

12.7 Where such a direction has been made and the authority subsequently requests, the Secretary of State is also prepared to consent (under section 74(4)) to the authority closing its HRA, subject to compliance with such conditions as he may specify.

Other authorities

12.8 The Secretary of State will normally be prepared to issue a direction to transfer property out of the HRA only where an authority holds 50 or fewer dwellings. He will, however, consider on its merits any proposal involving more than 50 dwellings, where it is not possible in the circumstances for the authority to dispose of or transfer sufficient numbers of dwellings to meet the 50 dwelling limit, and the excess number of dwellings is not significant.

Definition of dwelling for purposes of "50 dwelling" policy

12.9 For the purposes of this policy, when counting the number of dwellings in the HRA, "dwelling" has the same meaning as in the current Housing Revenue Account subsidy determination.

12.10 Only the authority's share of shared ownership dwellings will count towards the total of 50 dwellings referred to above. For example, where an authority has a 30% share of the equity in a dwelling subject to a shared ownership lease, this counts as 0.3 dwellings.

12.11 For hostels or "clusters" of accommodation, a group of 3 bed spaces in a hostel counts as one dwelling, as does a "cluster" in a house in multiple occupation.

12.12 The need for a direction in respect of flats associated with shops, and whether they count towards the 50 limit, will be considered on a case by case basis. Authorities should provide full information about the properties and the powers under which they were acquired and are currently held and the use to which they are currently put.

12.13 For mobile homes or other non-permanent dwellings, each such unit will be counted in accordance with the definition of a dwelling in the current HRAS determination. The number of dwelling equivalents will be subject to the same requirements that apply to hostels and clusters, where appropriate.

Consent to appropriate dwellings for a purpose other than housing

12.14 Where a dwelling is currently held for the purposes of Part II of the Housing Act 1985, authorities may apply to Jo Thorpe (e-mail jo.thorpe@communities.gsi.gov.uk, telephone 020 7944 4202) under section 19(2) of that Act for the Secretary of

require the Secretary of State's consent under section 19(2) of the Housing Act 1985). Any property which is subject to a direction continues to be held for the purposes under which it was provided, acquired, appropriated or otherwise held under certain housing powers e.g. Part II of the Housing Act 1985.

State's consent to change the purpose for which the dwelling is held (e.g. to hold it for education or social services purposes instead of housing purposes). However, the property may not then continue to be used for Part II housing purposes, for example, as a hostel for the homeless. Consent cannot be given under section 19(2) to simply transfer dwellings or other property "out of the HRA" or "to the General Fund".

12.15 If a local authority wishes to appropriate property other than dwellings, from a purpose connected with housing to a purpose other than housing, the Secretary of State's consent is not required and the authority can use its powers under section 122 of the Local Government Act 1972. All property held in the HRA other than dwellings should be appropriated to be held for another purpose before consent to close the HRA will be given. It is possible to include in a direction under section 74(3)(d) property held in the HRA for housing purposes, other than dwellings, in order to remove all remaining property from the HRA. The property other than dwellings would not count towards the total of 50 dwellings referred to above.

Timetable and related matters

12.16 The Secretary of State will not consider granting consent to close the HRA until Communities and Local Government has received and agreed the authority's audited final claim for HRA subsidy for the last financial year in which the authority held dwellings within the HRA, including, where relevant, any dwellings which have been the subject of a section 74(3)(d) direction. For example, if an authority sought consent to close its HRA, and either all properties had been disposed of in February 2004 or a direction under section 74(3)(d) had been given with effect from 1 April 2004 (so that no dwellings remained in the HRA at the start of the 2004–2005 financial year), consent to close the HRA would only be granted at the earliest with effect from 1 April 2005. By this time the audited final claim for 2003–2004 should have been received and agreed, assuming there were no outstanding HRA subsidy issues for that year.

12.17 In considering an application, the Secretary of State will, however, also have regard to any unresolved issues in respect of HRA subsidy for earlier years.

12.18 Where the Secretary of State concludes that consent to close the HRA should be granted, he will consult the authority on the terms of the consent.

Treatment of balances

12.19 When the HRA is closed, the end-of-year balance, and any continuing income and expenditure on the property disposed of, should be accounted for in the authority's General Fund.

Re-opening the HRA

12.20 After the HRA is closed, if an authority which had no dwellings within the HRA at the time that consent to close was given again acquires any property which under section 74(1) falls within the HRA – for example, following a local authority boundary change or where the authority has acquired or appropriated land for the purposes of Part II

of the Housing Act 1985 (i.e. for the provision of housing) – it is required to re-open its HRA. An authority which proposes to acquire dwellings may however apply for a direction under section 74(3)(d) in advance of acquisition, provided that the number of dwellings is 50 or less and that the properties can be specifically referred to in a direction (for example, on a "subject to contract" basis). If granted, this would allow it to acquire the properties without re-opening its HRA. The direction would normally take effect from the date of acquisition of the properties.

12.21 If, however, the number of dwellings, including any for which a section 74(3)(d) direction had previously been given, exceeded 50, the previous direction may be revoked, and all the dwellings would fall to be accounted for within the re-opened HRA. Similar arrangements would apply where an authority which had been granted a section 74(3)(d) direction acquired additional dwellings but had not yet closed its HRA. Those dwellings which had previously been taken out of the HRA would be brought back within the authority's HRA (by revoking the section 74(3)(d) direction). However, if the total number of dwellings would remain fewer than 50, consideration would similarly be given to granting a new direction to allow both the new acquisitions and the dwellings referred to in the original direction to be held outside the HRA without its being re-opened.

12.22 In either case, one of the normal conditions for granting consent to close the HRA is that the authority shall inform Communities and Local Government as soon as it re-opens its HRA. The Secretary of State would then consider giving a direction under Item 9 of Part I of Schedule 4 to the 1989 Act requiring the authority to credit an amount to the HRA, based either on any credit balance shown on the HRA when it was closed, or on such amount as the Secretary of State, after consulting the authority, considers necessary.

Application for directions under section 74(3)(d) and consent to close the HRA

12.23 Applications should be made to Victoria Akeredolu, DHFMC Division, Communities and Local Government, Zone 2/H3, Eland House, Bressenden Place, London SW1E 5DU; telephone 020 7944 3584; or e-mail victoria.akeredolu@communities.gsi.gov.uk.

Procedures to be followed where consent to close has not yet been given

12.24 Until a formal consent to close the HRA has been given, property transferred out of the HRA by virtue of a direction under section 74(3)(d) should not be accounted for in the HRA but in the General Fund. However, an authority must continue to include in its HRA any residual revenue income or expenditure in relation to other properties. An authority will be expected to complete all HRA Subsidy claim forms and meet Communities and Local Government's HRA information requirements in respect of years when the HRA is open in the usual way.

13 Overview

This chapter provides an overview of the Housing Revenue Account subsidy calculation and describes the statutory framework for Housing Revenue Account subsidy from 2004–2005 onwards. It also explains how the annual subsidy determination is made. Annex A summarises the statutory basis for HRA Subsidy as from 2004–2005, Annex B compares the calculation of HRA subsidy with the statutory debit and credit items in the HRA and Annex C provides worked examples of the HRA subsidy calculation.

Introduction

13.1 Local authority housing is a national programme, and the Housing Revenue Account Subsidy (HRA subsidy) system which provides revenue support for the housing stock (the bricks and mortar) reflects this.

13.2 HRA subsidy is paid to meet any shortfall between expenditure and income, based on a model of each authority's HRA. Where, according to this model, an authority's HRA income is greater than its HRA expenditure then the subsidy system collects the resulting 'negative subsidy' from the authority. The calculation makes assumptions about an authority's need to spend and about the income it can reasonably be expected to receive. The figures used are therefore mainly notional. They will differ from the credit and debit items that are posted to an authority's actual HRA.

The statutory framework post April 2004

13.3 The HRA subsidy system is administered, and subsidy either paid, or negative subsidy collected, under provisions set out in Part 6 of the Local Government and Housing Act 1989 ('the 1989 Act'). Part 6 of the 1989 Act has been amended by the Leasehold Reform, Housing and Urban Development Act 1993, the Housing Act 1996, the Local Government Act 2003, the Local Government Changes for England (Finance) Regulations 1994 (S.I.1994/2825), and the Local Government and Housing Act 1989 (Electronic Communications) Order 2000 (S.I.2000/3056).

The calculation

13.4 The amount of subsidy paid to (or where the calculation produces a negative amount, collected from) a local authority is equal to:

Allowance for management (*Chapter 14*)

+

Allowance for maintenance (*Chapter 14*)

+

Major Repairs Allowance (*Chapter 17*)

+

ALMO allowance (where applicable) (*Chapter 3*)

+

PFI allowance (where applicable) (*Chapter 10)*

+

Rental Constraint Allowance (payable in 2006–07 and 2007–08) (Chapter 5*)*

+

Charges for capital (*Section 16.2*)

+

Other items of reckonable expenditure (*Chapter 19*)

minus:

Rent (*Chapter 18*)

+

Interest on receipts (*section 16.3*)

13.5 *Annex C* sets out worked examples of the subsidy calculation.

13.6 The amount of HRA subsidy for each authority is calculated as the difference between the expenditure which the authority is assumed to incur and the income which it is assumed to receive. It is based generally on assumptions, rather than actual figures. This is to ensure that the subsidy system encourages and supports good financial management and prudent stewardship of public funds, and does not provide incentives, inadvertently or otherwise, for inefficient, wasteful or ineffective practices. There can be large differences between the numbers used in the subsidy calculation and the actual spending and actual rents.

13.7 **On the spending side** in the subsidy calculation are the following items:

(i) Assumed expenditure on management and on maintenance. This is expressed in terms of allowances per property. The allowances are distributed between authorities taking account of indices of need and regional cost variations (see *Chapter 14*);

(ii) The Major Repairs Allowance (MRA). The MRA is the annual equivalent of the cost over 30 years of maintaining the quality of the authority's housing stock. For the purpose of the subsidy calculation, it is assumed that an authority's need to spend its MRA arises within the subsidy year. In practice, though, it may hold the funds over a number of years if it so chooses (see *Chapter 17*);

(iii) ALMO Allowance. The annual amount paid by Communities and Local Government to the local authority to support additional borrowing for its ALMO *(*see *Chapter 3)*. In practice this allowance is paid only to those authorities which sought additional resources for ALMOs in the initial rounds (1 and 2). Subsequent rounds receive subsidy to support additional investment via the normal capital charges calculations (see *Chapter 16*);

(iv) PFI Allowance. The annual amount paid by Communities and Local Government to the local authority to support PFI credits (see *Chapter 10);*

(v) Rental Constraint Allowance. Payable in 2006–2007 and 2007–2008 to compensate authorities who adhere to the Department's recommended 5% cap on rent rises (see *Chapter 5)*;

(vi) An assessment of loan and other capital charges attributable to the HRA *(*see *Chapter 16)*;

(vii) Certain other specific items of expenditure *(*see *Chapter 19)*.

13.8 **The income side** in the subsidy calculation makes an assumption about two items:

(i) Rental income. The calculation assumes a level of income from all of the authority's properties taken into account for subsidy purposes if rents are set in line with guideline rent (less a 2% allowance for empty properties, or voids). The guideline rent is the average assumed rent per dwelling. In line with the Government's policy of Social Rent Reform, the guideline rent is being gradually moved towards the average **formula rent** for each authority, based on relative capital values of local authority housing and relative average manual earnings (see *Chapter 18*);

(ii) Interest on invested capital receipts and on loans to purchasers of HRA dwellings (see *section 16.3*).

13.9 The calculation gives either an assumed HRA surplus or an assumed HRA deficit:

(i) if an authority is in surplus, it means its assumed HRA income exceeds the assumed expenditure on the housing stock. The authority will then have a negative entitlement to HRA subsidy, and will be expected to pay an equivalent amount to Communities and Local Government.

(ii) if an authority is in deficit, it means that the assumed expenditure exceeds the assumed HRA income. Authorities with large amounts of debt are usually in deficit as interest payments are eligible for subsidy. The authority will receive the equivalent amount of HRA subsidy from Communities and Local Government to make up this deficit.

Rent rebate subsidy

13.10 Up to and including 2003–2004, the rent rebates – that is the housing benefit – granted to an authority's tenants were accounted for in the HRA, and HRA subsidy contained an additional 'rent rebate element' which largely met the actual cost in full of those rent rebates (subject to subsidy limitation, see *Chapter 15*).

13.11 However, changes to the 1989 Act which governs the HRA implemented by the Local Government Act 2003 mean that from 2004–2005 onwards, rent rebates are no longer accounted for in the HRA but in the General Fund. Accordingly, subsidy for rent

rebates has been removed from HRA subsidy, and will now be subsidised by DWP in the General Fund alongside rent allowance and council tax benefit subsidies.

13.12 As part of this handover of functions, DWP and Ministers from the former ODPM agreed that it is important that the policy of **rent rebate subsidy limitation** continues, in order to protect the Exchequer from meeting the costs of unreasonable rent rises. Communities and Local Government will continue to have an interest in this policy as it has been adapted to also provide an incentive to follow the policy of rent restructuring. For the time being, Communities and Local Government will also continue to be involved in collecting data from authorities needed for the calculation of the **limit rent** and also of any deductions from rent rebate subsidy due to rent rebate subsidy limitation. Rent rebate subsidy limitation is discussed in more detail in *Chapter 15*.

The annual general subsidy determination

13.13 An annual general subsidy determination is made each year by Communities and Local Government. Authorities are consulted on the draft determination, which will normally be made available electronically, to each authority in the October or November before the start of the subsidy year. Communities and Local Government will consider all comments that may be made on the draft determination, and may make changes to either data or to the provisions of the determination. If an authority has any comments to make on any aspect of their likely subsidy for the coming year, such as on the underlying data used to make the calculations, they need to contact Communities and Local Government well before the subsidy determination is made in the December. Communities and Local Government will then make the final determination, usually in mid to late December. This is then made available to all authorities, electronically (see *paragraph 13.18* below).

13.14 The subsidy determination itself sets out the formulae and rules that apply to all authorities. Annexes to the determination give the values that are specific to each authority and will be applied in the formulae. The package will also include a commentary drawing attention to important aspects of the determination, including major changes from previous years.

13.15 The subsidy calculations are based in part on information collected from the authority, and confirmed by the authority's auditor, earlier in the year, in accordance with procedures set out in the General Determination of Administration of Housing Revenue Account Subsidy 2004 ('the Administration Determination'). This includes the information necessary to calculate almost all the HRA subsidy for the authority. The figures used in the determination are called **specified amounts**; they are pre-set – that is, fixed for the purposes of the calculation of subsidy. **Communities and Local Government's policy is that specified amounts should not be recalculated once they have been pre-set in the subsidy determination for the year**, except as provided for in the determination or in other exceptional circumstances, such as where Communities and Local Government itself has made a mistake.

13.16 The effect of this is that large elements of the HRA subsidy for an authority will be settled at the time the determination is made. This gives an authority considerable certainty as to the amount of subsidy it will receive in the coming year, allowing it to set its rents (usually in January or February) and to decide its budgets for the year with a degree of confidence (see *section 4.3* on budgeting and *Chapter 8* on rents).

13.17 An authority should study the draft subsidy determination and commentary carefully. It is very important to notify Communities and Local Government immediately of any errors in the data underlying the calculations, or of any general problems that they have with the proposals, during the period set aside for consultation, given Communities and Local Government's policy on pre-set elements.

13.18 All the documents on Communities and Local Government's web site when they are issued, and copies are sent by email to a nominated contact point in each authority. Authorities that are unable or unwilling to access the information on the internet site or who prefer to continue to receive paper copies may opt to do so. However, the experience so far is that electronic distribution gets the information to an authority about a week earlier than by post, as well as providing it in a form that can be manipulated more conveniently, and it is anticipated that all authorities will prefer to receive information this way. In future, there is the possibility of using the LOGASnet system.

Annex A: Statutory Basis of HRA Subsidy from 2004–2005

Part VI of the Local Government and Housing Act 1989							
SECTION OF THE 1989 ACT	**79**	**80**	**80ZA**	**80A**	**85**	**86**	**87**
FUNCTION	To pay HRA subsidy each year to local housing authorities	Determination of formulae for calculation of HRA subsidy	Negative amounts of subsidy payable to the Secretary of State	Final decision on amount of HRA subsidy payable to a local housing authority.	Power to obtain information	Recoupment of subsidy in certain cases	To make, vary or revoke special or general determinations and directions
DUTY Secretary of State (S of S) or local authority (LA)	To pay HRA subsidy (S of S) To comply with Such conditions as to claims, records, certificates, supply of HRA business plans, audit or otherwise as S of S may determine in order to be paid HRA subsidy (LA)	To calculate amount of HRA subsidy payable to local housing authority (S of S)	Where the calculation of HRA subsidy produces a negative amount, to pay the equivalent amount to the S of S (LA). To make such payments in such instalments, at such times, and in such manner as the S of S may determine (LA). To provide such information as required with the payment (LA).	To make final decision as to subsidy payable to an authority as soon after end of year, and notify authority of amount (S of S) Pay balance to LA where amount finally payable exceeds subsidy already paid (S of S)	To provide Secretary of State with information, and certificates supporting the information as specified (LA)		To consult local housing authorities, their representatives and relevant professional bodies on special and general determinations (S of S) To send copy of determination to an authority to which it relates after making it (S of S).
DETERMINA-TIONS	General Determination of Administration of HRA Subsidy 2004		General Determination of Administration of HRA Subsidy 2004			The Recoupment of Housing Revenue Account Subsidy Rules 2004	Special and general determinations and directions – too numerous to list here

Annex B: Comparison between HRA Debit/Credit Items and HRA Subsidy Components

Table 1: Debits

HRA (Part II of Schedule 4 to the 1989 Act)	SUBSIDY
1. Repairs, maintenance and management	M&M allowances (notional). PFI allowances in respect of refurbishment schemes (not new build).
2. Expenditure for capital purposes	Nil
3. Rents, rates, taxes and other charges	Certain rents and charges treated as reckonable expenditure.
5. Negative HRA subsidy payable to the Secretary of State under section 80ZA	Not appropriate
6. Contributions to Housing Repairs Account	Not appropriate
7. Bad and doubtful debts	Nil
8. Capital charges (assessed in accordance with formula)	Most capital charges, based on an assessment of the proportion of debt that relates to the HRA. ALMO allowances. PFI allowances where relating to new build schemes.
9. Debit balance from previous year	Not appropriate
10. Sums transferred to the General Fund as directed by the Secretary of State – includes costs of rent rebate subsidy limitation, and transfers under various transitional schemes such as that for authorities formerly making transfers under section 80(2), and that in relation to unsubsidised rent rebate costs.	Not appropriate in most cases. From 2004–2005, a contribution will be made through subsidy to the cost of transfers by those authorities eligible for the former Negative Subsidy Authorities Transitional Measures Scheme *(see chapter 21).*

Table 2: Credits

HRA (Part I of Schedule 4 to the 1989 Act)	SUBSIDY
1. Rental income	Guideline rents (notional)
2. Charges for services and facilities	Not reckonable (allowance for some services made in M&M allowances)
3. HRA subsidy	Not appropriate
4. Contributions towards expenditure (miscellaneous items of expenditure)	Not appropriate
6. Transfer from Housing Repairs Account	Not appropriate
7. Reduced provision for bad and doubtful debts	Not appropriate
8. Interest on receipts and mortgages (assessed in accordance with formula)	Most is reckonable (though interest rate used is pre-set, not actual)
9. Transfer from General Fund as directed by the Secretary of State	Not appropriate
10. Credit balance from previous year	Not appropriate

Annex C: Housing Revenue Account Subsidy – worked examples 2007–2008

HRA subsidy deficit authority

Notional Housing Revenue Account			
Assumed Expenditure		**Assumed Income**	
Management	£12 m	Rents	£80 m
Maintenance	£26 m	Interest on receipts	£3 m
Major Repairs Allowance	£17 m		
Capital Charges	£29 m		
ALMO Allowance	£0 m		
PFI Allowance	£0 m		
Rental Constraint Allowance	£0.5 m		
Other Expenditure	£4 m		
Total Assumed Expenditure	£88.5 m [a]	Total Assumed Income	£83 m [b]
		Summary	
i) HRA assumed expenditure		[a]	£88.5 m
Ii) HRA assumed income		[b]	£83 m
Iii) Total HRA subsidy entitlement		[a]–[b]	£5.5 m

HRA subsidy surplus authority

Notional Housing Revenue Account			
Assumed Expenditure		**Assumed Income**	
Management	£12 m	Rents	£80 m
Maintenance	£26 m	Interest on receipts	£3 m
Major Repairs Allowance	£17 m		
Capital Charges	£22 m		
ALMO Allowance	£0 m		
PFI Allowance	£0 m		
Rental Constraint Allowance	£0.5 m		
Other Expenditure	£4 m		
Total Assumed Expenditure	£81.5 m [a]	Total Assumed Income	£83 m [b]
		Summary	
i) HRA assumed expenditure		[a]	£81.5 m
ii) HRA assumed income		[b]	£83 m
iii) Negative HRA subsidy liability		[a]–[b]	–£1.5 m

14 Management and Maintenance Allowances from 2004–2005

This chapter explains the calculation of allowances for management and maintenance (M&M) for each authority. These form a significant part of the assumed expenditure element of the HRA subsidy calculation and are usually covered in paragraph 4 of the HRA subsidy determination. From 1999–2000, allowances have been calculated separately for management and for maintenance. From 2004–2005, allowances have been calculated from radically new formulae.

Section 14.1 *deals with Management Allowances.*

Section 14.2 *deals with Maintenance Allowances.*

14.1 Management allowances

This section is divided into three parts:

(i) calculation of management allowances per dwelling before transitional arrangements;

(ii) calculation of management allowances per dwelling after transitional arrangements; and

(iii) calculation of total management allowances

Calculation of management allowances per dwelling before transitional arrangements

14.1.1 There are seven steps in the calculation of management allowances per dwelling before transitional arrangements.

14.1.2 The methodology below was introduced in the 2004–2005 determination and had minor changes for 2005–2006. The following description relates to the 2007–2008 determination.

Step 1: Initial estimate of costs

14.1.3 Initial estimate of costs for a local authority (LA) is:

(i) if dwellings (including shared ownership and including PFI dwellings) are $\leqslant$ 1,400 then fixed costs = £11,268 + £247 × dwellings;

(ii) if dwellings (including shared ownership and including PFI dwellings) are $>$ 1,400 then fixed costs = £357,000 + (£233 × (dwellings – 1400)).

14.1.4 Dwellings include:

(i) the authority's share of dwellings in shared ownership;

(ii) the dwellings equivalent of bed-spaces in hostels and houses in multiple occupation; and

(iii) PFI dwellings.

14.1.5 This formula provides a good explanation of the relationship between the number of dwellings of an authority and its relative need to spend on management assuming that:

(i) its proportion of flats is the stock-weighted average for all authorities with stock;

(ii) its proportion of houses is the stock-weighted average for all authorities with stock;

(iii) it has the level of rent arrears and tenant management costs which would arise if all its stock were either houses or low rise flats;

(iv) the level of crime in its area is at the national average for all authorities whether or not with HRAs;

(v) its level of re-let costs is at the stock-weighted average for all authorities with stock;

(vi) it has no pro-active management costs to tackle deprivation; and

(vii) costs per unit of management are the same in each geographical area.

14.1.6 Steps 2 to 6 allow for the fact that the above features do of course vary between authorities.

Step 2: Increase or decrease initial estimate of costs according to proportions of flats and houses

14.1.7 The estimated proportion of an authority's stock with common facilities is calculated as:

$$\frac{(89\% \text{ of its flats} + 13\% \text{ of its houses})}{\text{stock}}$$

14.1.8 An authority with an average proportion of flats and an average proportion of houses would spend 14.2% of its initial costs on the management of dwellings with common facilities. This part of Step 1 costs is either increased or decreased.

14.1.9 Each authority's Step 2 costs =

85.8% of Step 1 costs

plus

14.2% of Step 1 costs × (estimated proportion of individual LA's dwellings with common facilities)
(average estimated proportion of all LAs' dwellings with common facilities).

14.1.10 The average estimated proportion of all LAs' dwellings with common facilities is the stock weighted average of the estimated proportion of individual LAs' dwellings with common facilities. For 2007–08 this is 48.1%.

Step 3: Increase Step 2 costs according to proportion of medium and high rise flats

14.1.11 Step 2 costs assume that each authority has the level of rent arrears and tenant management costs which would arise if all its stock were either houses or low-rise flats. Step 3 corrects this assumption and **adds** to the Step 2 costs of each authority.

The greater is an authority's proportion of medium and high rise flats, the greater is the addition to its costs.

14.1.12 An authority with an average level of medium and high rise flats would spend 20% of management costs on such rent arrears and tenancy management activities. Therefore, each authority's Step 2 costs are partitioned as follows:

(i) 80% of Step 2 costs is not related to medium and high rise flats and is unchanged; and

(ii) 20% of Step 2 costs is related to medium and high rise flats and is increased.

14.1.13 Each authority's Step 3 costs =

80% of its Step 2 costs

plus

20% of its Step 2 costs x (factor for medium rise and high rise flats)

where:

factor for medium and high rise flats =

individual LA's proportion of houses and low rise flats × 1.0

plus

individual LA's proportion of medium and high rise flats × 2.3

14.1.14 The table illustrates that the 20% of the Step 2 costs which is related to medium and high rise flats is increased according to an authority's medium and high rise proportion:

Proportion of medium and high rise	Multiply 20% of Step 2 costs by
0%	1.00
25%	1.325
50%	1.65
75%	1.975
100%	2.3

Step 4: Increase or decrease Step 3 costs according to crime factor and re-lets percentage

14.1.15 An authority with an average level of crime and re-lets would spend 22.8% of management costs on crime-driven activities, and 9.6% of costs on re-let driven activities. Therefore, each authority's Step 3 costs are partitioned as follows:

(i) 67.6% of its Step 3 costs are related neither to crime nor to re-lets – these are unchanged;

(ii) 22.8% of its Step 3 costs are increased or decreased according to its **crime factor**; and

(iii) 9.6% of its Step 3 costs are increased or decreased according to its re-lets and terminations percentage**.**

Crime Factor

14.1.16 This is based on violence against the person per 1,000 population – average rate for 2003–2004, 2004–2005 and 2005–2006. These series have been obtained from the Home Office and can be seen for all authorities in columns 192, 193 and 194 of 2007–2008 Final Determination Annexes Excel sheet LAData which can be accessed via Communities and Local Government's website. (The violence against the person data for the City of London have been adjusted to take account of bias caused by the proportionally large number of non-residents who work there. Without this adjustment, the reported crime figure would overstate the incidence of violence against the person affecting local residents. A population weighted average of Camden, Westminster and the City of London is used instead for each of 2003–2004, 2004–2005 and 2005–2006)

14.1.17 The 2007–2008 Determination adopted a rolling average of three years' series in order to smooth changes from one year's Determination to the next.

14.1.18 For each authority, 22.8% of its Step 3 costs is multiplied by its crime factor.

14.1.19 Crime factor for each authority =

$$\frac{\text{(crime rate for that authority)}}{\text{(national average crime rate per 1,000 population for all authorities in England, whether or not with HRAs).}}$$

14.1.20 An authority with a crime rate greater (less) than the national average will have an increase (decrease) in 22.8% of its Step 3 costs.

Re-lets and terminations percentage

14.1.21 For each authority, 9.6% of its Step 3 costs are multiplied by its re-lets and terminations percentage, relative to the stock-weighted average re-lets and terminations percentage for all authorities with stock.

14.1.22 The re-lets and terminations percentage is calculated as:

$$\frac{\text{(average of re-lets and terminations)}}{\text{stock.}}$$

14.1.23 An authority with a re-lets and terminations percentage greater (less) than the stock-weighted average will have an increase (decrease) in 9.6% of its Step 3 costs.

Step 5: Increase Step 4 costs of some authorities to allow for extra management costs for tacking deprivation

14.1.24 The authorities with stock, which qualify for the Step 5 addition to their Step 4 costs are identified from ID2004, *The English Indices of Deprivation 2004* (ODPM June 2004). An authority is, for the purposes of Step 5, identified as deprived if it features in the top 60 of all English authorities by rank on any one of the following six measures of deprivation listed in Annex L of ID2004:

- Average score
- Average rank
- Extent
- Local concentration
- Income scale
- Employment scale

14.1.25 Step 5 adds the following costs to Step 4 costs:

Classification of authority by ID2004 criterion	Addition to Step 4 target
Not deprived	Zero
Deprived	£85 x 10% of stock plus £85 x 90% of stock x *extent score* for individual LA / maximum *extent score* for all LAs

14.1.26 The amount of extra costs varies with the extent of deprivation.

Step 6: Geographical cost adjustment

14.1.27 The total costs from Step 5 for each authority are multiplied by its Area Cost Adjustment (ACA) for Personal Social Services for Older People used for the calculation of Revenue Support Grant for 2005–2006. The following table gives ACA values:

Table of ACA Values for Step 6 of calculation of management allowances before transitional arrangements

Area	ACA for 2007–08
City of London	1.4876
Inner London	1.2864
W, SW & NW Outer London	1.1588
Berks, Surrey & W Sussex Fringe	1.1417
Berks Non-Fringe	1.1423
Herts & Bucks Fringe	1.1081
Rest of Outer London	1.0890
Bucks Non-Fringe	1.0943
Oxfordshire	1.0767
Kent & Essex Fringe	1.0878
Beds & Herts Non-Fringe	1.0563
Cambridgeshire	1.0519
Hamps & Isle of Wight	1.0447
W Sussex Non-Fringe	1.0034
Wiltshire	1.0278
Warwickshire	1.0217
Northants	1.0196
Avon	1.0420
W Mids	1.0174
Kent Non-Fringe	1.0077
Gloucs	1.0208
Cheshire	1.0180
Greater Manchester	1.0201
Essex Non-Fringe	1.0094
W Yorkshire	1.0079
E Sussex	1.0116
Rest of England	1.0000
Isles of Scilly	1.5000
Leicestershire	1.0057

Note: For authorities within the two ACA areas which do not provide personal social services for older people (Hertfordshire and Buckinghamshire Fringe and West Sussex Non-Fringe), the table shows DCLG's calculation of what their ACAs would have been if they did provide these services.

Step 7: Adjust all Step 6 costs so that their aggregate equals the amount of management allowances made available by the Spending Review

14.1.28 Step 7 allowance per dwelling before transitional arrangements =

Step 6 costs x national scaling factor

where,

national scaling factor = Y / Z

Y = the sum over all authorities in the 2007–2008 HRA subsidy determination of (each authority's dwellings in 2007–2008 HRA subsidy determination) × (its management allowance per dwelling in the 2006–2007 HRA subsidy determination) × *uplift*

uplift = (1 + *real increase* + *rebasing* + *inflation*)

real increase = 0.00

rebasing is 0.01

inflation is 0.027.

Hence, *uplift* is 1.037 that is a cash increase of 3.7% per dwelling.

Z = the sum over all authorities in the 2007–2008 HRA subsidy determination of their Step 6 costs.

14.1.29 Step 7 produces the final management allowance before transitional arrangements for each local authority.

14.1.30 The national scaling factor for 2007–2008 is 1.850766.

Calculation of management allowances per dwelling after transitional arrangements

14.1.31 Ministers have decided that an authority's 2007–2008 management allowance per dwelling after transitional arrangements will be at least equal in cash terms to its 2006–2007 management allowance per dwelling.

14.1.32 For some authorities the management allowance per dwelling is greater after than before transitional arrangements. For other authorities, the reverse is the case. In aggregate the gains to the former authorities equal the losses to the latter authorities.

14.1.33 An authority's management allowance for 2007–2008 will be the higher of:

(a) 99.55% of its management allowance for 2007–2008; and

(b) 100% of its management allowance for 2006–2007 before transitional arrangements, as calculated at Step 7 above.

Calculation of total management allowances

14.1.34 The management allowance per dwelling for 2007–2008 after transitional arrangements for each authority is specified in column 1 of Part I of Schedule 1 to the HRA subsidy determination 2007–2008. The full calculation for any authority is presented in *Annex B to the subsidy determination*.

14.1.35 The number of dwellings used in the calculation of total management allowances is pre-set at the total number of dwellings on 1 April 2006. This number includes:

(i) the authority's share of dwellings in shared ownership;

(ii) the dwellings equivalent of bed-spaces in hostels and houses in multiple occupation; and

(iii) PFI dwellings.

This number for each authority is specified in column 2 of Part I of Schedule 1 to the 2007–2008 HRA subsidy determination.

14.1.36 The management allowance per dwelling after transitional arrangements is multiplied by the number of dwellings to arrive at an authority's management allowance for 2007–2008.

14.1.37 An authority's management allowance for 2007–2008 will be recalculated if there is a change in the total number of dwellings over a two-year period of more than 10 per cent or 3,000, whichever is less (the 'threshold'). The two-year period extends from 1 April in the preceding year to 31 March of the subsidy year. For the 2007–2008 subsidy year, this means comparing the number of dwellings on 1 April 2006 with the number on 31 March 2008. There is no change to the management allowance per dwelling after transitional arrangements but the number of dwellings is recalculated to measure the average number of dwellings over the course of 2007–2008, using the following formula (which is specified in paragraph 4.4 of the 2007–2008 subsidy HRA determination):

> *The number of dwellings, including the authority's share of each shared ownership dwelling, and including also any dwelling that is included in an HRA PFI scheme within the authority's HRA throughout the period beginning on 1 April 2007 and ending on 31 March 2008, together with, where any such dwelling is within that HRA for only a proportion of that period, a proportion for any such dwelling calculated by dividing the number of days the dwelling is within the HRA by 365.*

14.2 Maintenance allowances

This section is divided into three parts:

(i) calculation of maintenance allowances per dwelling before transitional arrangements;

(ii) calculation of maintenance allowances per dwelling after transitional arrangements; and

(iii) calculation of total maintenance allowances.

Calculation of maintenance allowances per dwelling before transitional arrangements

14.2.1 There are seven steps in the calculation of maintenance allowances per dwelling before transitional arrangements:

Step 1: Calculate each authority's relative need to spend on responsive repairs for all archetypes

14.2.2 Each archetype's responsive repair base weight (see Table after Step 7 below) is multiplied by its relevant backlog factor and then rounded to an integer to give adjusted responsive repairs per dwelling.

14.2.3 Adjusted responsive repairs per dwelling for each archetype are multiplied by an authority's stock of that archetype and then summed across all archetypes. For each part of the maintenance calculations, stock excludes the authority's share of dwellings in shared ownership but includes:

(i) the dwellings equivalent of bed-spaces in hostels and houses in multiple occupation; and

(ii) PFI dwellings.

This total of adjusted responsive repairs for each authority excludes any expenditure related to crime. To allow for expenditure related to crime, the total of adjusted responsive repairs for each authority is increased by multiplying by crime factor #1 to give an authority's final relative need to spend on adjusted responsive repairs.

14.2.4 Crime factor #1 is based on

- criminal damage per 1,000 households – average rate for 2003–2004, 2004–2005 and 2005–2006.
- burglary per 1,000 households – average rate of 2003–2004, 2004–2005 and 2005–2006
- With the weight given to criminal damage being twice that given to burglary

14.2.5 These series have been obtained from the Home Office and can be seen for all authorities in columns 190 and 195 of *2007–2008 Final Determination Annexes Excel sheet LAData* which can be accessed via Communities and Local Government's website.

14.2.6 Both criminal damage and burglary are expressed per 1,000 households rather than per 1,000 population. The former is a better indicator of the likelihood of a dwelling requiring maintenance expenditure because of actual or potential crime.

14.2.7 We have adopted a rolling average of three years' series in order to smooth changes from one year's Determination to the next.

14.2.8 The formula for Crime factor #1 is shown at Line 22 of Annex A to the 2007–2008 HRA subsidy determination. Its theoretical minimum value is 1.00. In practice its value for each authority is greater than 1.00, thus serving to increase its relative need to spend on responsive repairs. The greater is its weighted crime rate and the greater is the proportion of medium and high rise dwellings in its stock, then the greater is its Crime factor #1.

Step 2: Calculate each authority's relative need to spend on planned works for all archetypes

14.2.9 Each archetype's planned works base weight (see table after Step 7 below) is multiplied by an authority's stock of that archetype and then summed across all archetypes.

Step 3: Calculate each authority's relative need to spend on basic works for re-lets and terminations for all archetypes

14.2.10 Each archetype's base weight for basic works for re-lets and terminations (see Table after 7 below) is multiplied by an authority's stock of that archetype and then summed across all archetypes.

14.2.11 This total of basic works for re-lets and terminations for each authority is then multiplied by that authority's re-lets and terminations percentage. This percentage is a proxy for dwellings whose tenancy is either re-let or terminated during the year.

14.2.12 The re-lets and terminations percentage is calculated as:

$$\frac{\text{(average of re-lets and terminations)}}{\text{stock.}}$$

14.2.13 The HRA maintenance costs to which the re-lets and terminations percentage is applied are costs associated with re-letting and terminations activities.

Step 4: Calculate each authority's relative need to spend on crime related works to voids for all archetypes

14.2.14 Each archetype's base weight for crime related works to voids (see Table after Step 7 below) is multiplied by an authority's stock of that archetype and then summed across all archetypes.

14.2.15 This total of crime related works to voids for each authority is then multiplied by that authority's 2005–2006 voids percentage. In the 2007–2008 Determination, this has been approximated as:

$$\frac{\text{(rent loss on void dwellings in the period 1 April 2005 to 31 March 2006)}}{\text{(total value of rent roll in the period 1 April 2005 to 31 March 2006).}}$$

14.2.16 This measure of average voids percentage throughout the year is considered more relevant than an end year voids percentage

14.2.17 There is then a further multiplication by crime factor #2 based on the same weighted crime series as for responsive repairs. This ensures that an authority's relative need to spend on crime related works to voids reflects the relative incidence of crime in that authority.

14.2.18 Crime factor #2 (see Line 36 in Annex A to the 2007–08 HRA subsidy determination) ranges from zero for a hypothetical authority with no crime to 1.00 for the authority with the highest crime rate.

Step 5: Total relative need to spend, prior to consideration of geographical variation in the cost of maintenance activities

14.2.19 Step 5 is the sum of the relative needs to spend calculated in Steps 1 to 4.

Step 6: Total relative need to spend, after consideration of geographical variation in the cost of maintenance activities

14.2.20 The location adjustment factor for the BCIS All-in Tender Price Index is available by county. It is published quarterly by BCIS in *Surveys of Tender Prices*. For 2007–2008, the simple average of this location adjustment factor for each county has been calculated from the February 2005, May 2005, August 2005 and February 2006 issues of *Surveys of Tender Prices*. The UK value is 1.00.

14.2.21 Each authority's relative need to spend on maintenance from Step 5 is multiplied by the location adjustment factor for its county. The following table gives these factors:

Table of BCIS location adjustment factors for Step 6 of calculation of maintenance allowances before transitional arrangements

BCIS (not GO) Region	County	BCIS Factor 2007–08
Northern	Cleveland	0.959
	Cumbria	0.995
	Durham	0.959
	Northumberland	0.985
	Tyne & Wear	0.959
Yorks & Humb	Humberside	0.954
	N Yorkshire	0.976
	S Yorkshire	0.960
	W Yorkshire	0.944
East Mids	Derbyshire	0.935
	Leics	0.940
	Lincolnshire	0.930
	Northants	0.989
	Notts	0.926
East Anglia	Cambs	1.038
	Norfolk	0.993
	Suffolk	1.008

BCIS (not GO) Region	County	BCIS Factor 2007–08
SE excl GL	Beds	1.054
	Essex	1.060
	Herts	1.104
	Kent	1.094
	Surrey	1.135
	East Sussex	1.094
	West Sussex	1.084
	Berkshire	1.075
	Bucks	1.067
	Hampshire	1.044
	Isle of Wight	1.036
	Oxfordshire	1.030
Greater London	Inner London	1.186
	Outer London	1.106
South West	Avon	1.015
	Cornwall	0.991
	Devon	0.991
	Dorset	1.023
	Gloucs	1.015
	Somerset	0.985
	Wiltshire	1.005
West Mids	Hereford & Worcester	0.949
	Shropshire	0.943
	Staffs	0.923
	Warks	0.979
	W Midlands	0.959
North West	Cheshire	0.964
	Greater Manchester	0.974
	Lancashire	0.974
	Merseyside	0.981

Step 7: Adjust all Step 6 totals of relative need to spend so that their aggregate equals the amount of maintenance allowances made available by the Spending Review

14.2.22 Step 7 allowance before transitional arrangements =

Step 6 total x national scaling factor

where:

national scaling factor = Y / Z

Y = the sum over all authorities in the 2007–2008 HRA subsidy determination of (each authority's dwellings in 2007–2008 HRA subsidy determination) × (its maintenance allowance per dwelling in the 2006–2007 HRA subsidy determination) × *uplift*

uplift = (1 + *real increase* + *rebasing* + *inflation*)

real increase = 0.00

rebasing is 0.01

inflation is 0.027.

Hence, *uplift* is 1.037, which is a cash increase of 3.7% per dwelling.

Z = the sum over all authorities in the 2007–2008 HRA subsidy determination of their Step 6 totals.

14.2.23 The national scaling factor for 2007–2008 is 0.660928.

Maintenance: base weights per archetype per dwelling

Archetype	Base weights				
	Responsive repairs £	Backlog Factor	Planned repairs £	Basic works for re-lets and terminations £	Crime related works to voids £
Traditional dwellings					
Pre-1945 small terrace houses	168	1.14	1,014	1,545	530
Pre-1945 semi-detached houses	190	1.64	1,042	1,606	530
All other pre-1956 houses	214	1.15	1,255	1,655	530
1945–64 small terrace houses	155	1.16	917	1,545	530
1945–64 large terrace, semi-detached and detached houses	186	1.28	970	1,632	530
1965–1974 houses	141	1.21	968	1,621	530
Post 1974 houses	207	1.23	995	1,621	530
Non-traditional dwellings					
All houses	173	1.30	1,190	1,606	530
Traditional and non-traditional dwellings					
Pre-1945 low rise (1–2 storey) flats	82	1.44	692	1,127	530
Post 1944 low rise (1–2 storey) flats	89	1.44	1,002	1,125	530
Medium rise (3–5 storey) flats	111	1.72	1,386	1,186	530
High rise (6 or more storey) flats	84	1.72	1,296	1,414	530
Bungalows	135	1.71	898	1,078	530
Multi-occupied dwellings					
Pre 1945 multi-occ dwellings	82	1.44	692	1,127	530
Post 1944 multi-occ dwellings	89	1.44	1,002	1,125	530

Calculation of maintenance allowances per dwelling after transitional arrangements

14.2.24 Ministers have decided that an authority's 2007–2008 maintenance allowances per dwelling after transitional arrangements will be at least equal in cash terms to its 2006–2007 maintenance allowance per dwelling.

14.2.25 For some authorities the maintenance allowance per dwelling is greater after than before transitional arrangements. For other authorities, the reverse is the case. In aggregate the gains to the former authorities equal the losses to the latter authorities.

14.2.26 An authority's maintenance allowance for 2007–2008 is the higher of:

(a) 100.00% of its maintenance allowance for 2006–2007; and

(b) 98.39% of its maintenance allowance for 2007–2008 before transitional arrangements, as calculated at Step 7 above.

Calculation of total maintenance allowances

14.2.27 The maintenance allowance per dwelling for 2007–2008 after transitional arrangements for each authority is specified in column 1 of Part II of Schedule 1 to the HRA subsidy determination 2007–2008. The full calculation for any authority is presented in *Annex A to the determination*.

14.2.28 The number of dwellings used in the calculation of total maintenance allowances is pre-set at the total number of dwellings on 1 April 2006. This number excludes the authority's share of dwellings in shared ownership but includes:

(i) the dwellings equivalent of bed-spaces in hostels and houses in multiple occupation: and

(ii) PFI dwellings.

This number for each authority is specified in column 1 of Part II of Schedule 1 to the HRA subsidy determination 2007–2008.

14.2.29 The maintenance allowance per dwelling after transitional arrangements is multiplied by the number of dwellings to arrive at an authority's maintenance allowance for 2007–2008.

14.2.30 An authority's maintenance allowance for 2007–2008 will be recalculated if there is a change in the total number of dwellings over a two-year period of more than 10 per cent or 3,000, whichever is less (the 'threshold'). The two-year period extends from 1 April in the preceding year to 31 March of the subsidy year. For the 2007–2008 subsidy year, this means comparing the number of dwellings on 1 April 2006 with the number on 31 March 2008. There is no change to the maintenance allowance per dwelling after transitional arrangements but the number of dwellings is recalculated to measure the average number of dwellings over the course of 2007–2008, using the

following formula (which is specified in paragraph 4.4 of the 2007–2008 HRA subsidy determination):

> *The number of dwellings, excluding the authority's share of each shared ownership dwelling, within the authority's HRA throughout the period beginning on 1 April 2007 and ending on 31 March 2008, together with, where any such dwelling is within that HRA for only a proportion of that period, a proportion for any such dwelling calculated by dividing the number of days the dwelling is within the HRA by 365.*

15 Rent Rebates

From April 2004, rent rebates granted to HRA tenants are no longer subsidised through HRA subsidy. However, Communities and Local Government retains an interest in the policy and operation of rent rebate subsidy limitation, including the calculation of the limit rent and collection of rent and service charge data from local authorities.

This chapter provides an overview of rent rebate subsidy limitation, including indicating how the limit rent and rent rebate subsidy limitation deductions from rent rebate subsidy are calculated, and the operation of the policy on derogations. Worked examples are included, where appropriate.

The following sections are included:

Section 15.1 *covers the introduction, statutory context, and the responsibilities of Communities and Local Government and the Department for Work and Pensions (DWP).*

Section 15.2 *describes the operation of rent rebate subsidy limitation.*

Annex A *is a calculation of the rent rebate subsidy limitation deduction.*

15.1 Introduction

Background

15.1.1 Housing benefit is paid in the form of either a **rent rebate** or a **rent allowance**. These terms are distinct. Rent rebates are granted to local authority tenants, including cases where HRA property is managed by some other body (including tenant management organisations or arms length management organisations) but where the authority remains the landlord. Rent allowances, however, are granted to tenants in other, non-local authority property. They are also payable if an authority leases any existing properties to another body (for example a housing association or private landlord) so that the occupants become tenants of (and so pay their rent to) that body.

15.1.2 For years up to and including 2002–2003, rent rebates granted to HRA tenants were accounted for in the HRA, and subsidised through HRA subsidy. However, as from April 2004, rent rebates to HRA tenants are no longer funded in the HRA, and do not attract HRA subsidy. Instead, DWP will be responsible for setting out eligibility for and administering the rent rebate subsidy scheme, which will be funded through the General Fund alongside subsidies for rent allowances and council tax benefit.

Statutory context

151.3 The housing benefit scheme is defined in sections 123, 130 and 134–136 of the Social Security Contributions and Benefits Act 1992; arrangements for the administration and funding of the scheme are set out in sections 134 and 140A–140G of the Social Security Administration Act 1992 (SSAA 1992). Sections 140A–140G replaced sections 135–137 and were inserted by the Housing Act 1996. These Acts replace the earlier provisions of the Social Security Act 1986. The Social Security (Consequential Provisions) Act 1992 repealed section 81 of the 1989 Act.

15.1.4 Amendments made to the Social Security Administration Act 1992 by the Local Government Act 2003 enable DWP to fund rent rebates to HRA tenants for years from 2004–2005 onwards. The Local Government Act 2003 also contains complementary amendments to the Local Government and Housing Act 1989 which remove rent rebates and associated subsidy from the HRA with effect for years 2004–2005 and onwards.

5.1.5 Entitlement to rent rebate, together with matters relating to the amount of and the claiming and payment of housing benefit, is governed by the Housing Benefit (General) Regulations 1987 (S.I. 1987/1971), as amended from time to time. There is a separate council tax benefit scheme. Detailed guidance on these two schemes is included in the Department for Work and Pensions' Housing Benefit/Council Tax Benefit Guidance Manual.

Responsibilities of the Department for Work and Pensions, local housing authorities and Communities and Local Government

15.1.6 DWP has overall policy responsibility for the housing benefit scheme, including rent rebates. They also have responsibility for the overall funding of the scheme through

subsidies for rent rebates and rent allowances, and have responsibility for setting out rules and procedures governing authorities' entitlement to subsidy and payment of that subsidy. In particular, DWP has overall responsibility for the operation of rent rebate subsidy limitation, and the granting of any derogations from that policy.

15.1.7 Communities and Local Government retains policy responsibility for the rules on the payment of HRA subsidy, including subsidy for rent rebates granted to HRA tenants for years up to and including 2003–2004. (Please see previous versions of the HRA manual for details). From 2004–2005, Communities and Local Government is not responsible for subsidising rent rebates, but retains an interest in rent rebate subsidy limitation due to the links with local authority rent setting and the policy of rent restructuring. Communities and Local Government will assist and advise DWP in the calculation of limit rents.

15.1.8 Local housing authorities are responsible, under section 134 of the SSAA 1992, for the funding and administration of rent rebates. However, most of the cost is met by central housing benefit subsidy from DWP.

15.1.9 The remainder of this chapter is concerned with the policy of rent rebate subsidy limitation which applies to rent rebates payable to HRA tenants only.

15.2 Rent rebate subsidy limitation

Introduction

15.2.1 Rent rebate subsidy limitation was introduced in order to give local authorities an incentive to control expenditure and the level of rent increase. Where an authority increases its average weekly rent above a limit set by the Secretary of State, it will only receive subsidy on rebates up to the limit and will have to fund the cost of the additional rebates above the limit rent itself (through the rents of tenants not in receipt of rebates). Where an authority has a higher than average proportion of tenants in receipt of rent rebates, rent rebate subsidy limitation is applied as if they only rebated at the national average.

15.2.2 In taking responsibility for administering subsidy for rent rebates as from April 2004, DWP Ministers agreed that rent rebate subsidy limitation remains important to protect the Exchequer. Communities and Local Government also retains an interest in the policy because since 2002–2003, the calculations involved have been adjusted to support the policy of rent restructuring, and additionally, any deductions from DWP subsidy as a result of limitation will remain a charge to the Housing Revenue Account (see *Chapter 6* for more details on debits to the HRA).

15.2.3 At least for 2007–2008, data collection and calculations necessary to implement rent rebate subsidy limitation will remain the responsibility of Communities and Local Government. Communities and Local Government has used the latest information taken from the base data forms 07B2 received by the deadline of 7th December 2006, together with assumptions as to rent levels if an authority were following the policy of rent restructuring, to calculate limit rents. These limit rents have been pre-set by

DWP in The Income-related Benefits (Subsidy to Authorities) Amendment Order 2004 ('Subsidy Amendment Order 2004') as amended.

15.2.4 Communities and Local Government will collect information on its HRA subsidy claim forms to enable monitoring of average rent levels and any other information necessary to the limitation formula. Communities and Local Government forms will also calculate deductions due to rent rebate subsidy limitation in percentage form. Local authorities should therefore be aware at any point during the year, of any limitation deduction to be applied.

15.2.5 Communities and Local Government will forward to DWP details of any deductions to be made under the rent rebate limitation formula as subsidy claim forms are received and processed during the year.

15.2.6 Communities and Local Government and DWP Ministers have agreed that to support the policy of rent restructuring, limitation will continue to operate along the lines previously used within HRA subsidy until 2003–2004. The rest of this section outlines the calculations involved.

Derivation of the limit rent

15.2.7 Between 1996–1997 and 2001–2002, the starting point in the calculation of the limit rent was the average rent for the week commencing 25 March 1996 – the 'base rent'. This is defined in paragraph 6.1.2.2 of the HRA Subsidy Determination 1996–1997. For further details of the calculation of the base rent and the limit rent for years prior to 2002–2003, readers should refer to previous versions of this manual.

15.2.8 From 2002–2003, the calculation of the limit rent has been altered to support the policy of rent restructuring. The starting point for the current calculation is the limit rent in 2001–2002, together with the **formula rent** for the authority, calculated in accordance with the national rents formula.

Limit rents 2007–2008

15.2.9 The first stage of the process of the calculation of the limit rent for 2007–2008 is to calculate the average formula rent for the authority for each year from 2002–2003 to 2007–2008, based on the stock as at April 2006. The calculation of the formula rent for each authority is described in *Chapter 8*.

15.2.10 The next stage is to take the authority's limit rent for 2001–2002, adjusted for data corrections that have been agreed by the authority's auditor and accepted by Communities and Local Government since the 2001–2002 determination was made, but not taking into account any derogations granted for 2001–2002, and uprate it by 2.2%. The 2.2% represents 1.7% assumed inflation as measured by RPI for September 2001 plus 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.11 Then the weekly limit rent for 2002–2003 (on a 1 April 2006 stock basis) is calculated as the uprated 2001–2002 limit rent plus 10% of the difference between the uprated 2001–2002 limit rent and the 2002–2003 average formula rent.

The weekly limit rent for 2002–2003 equals:

(Weekly limit rent for 2001–2002 times 1.022)

plus

0.10 times [(average formula rent for 2002–2003) minus (limit rent 2001–2002 times 1.022)].

15.2.12 The next stage is to take this re-calculated limit rent for 2002–2003 and uprate it by 2.2%. The 2.2% represents 1.7% assumed inflation as measured by the RPI for September 2002 plus 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.13 Then the weekly limit rent for 2003–2004 (on a 1 April 2006 stock basis) is calculated as the uprated 2002–2003 limit rent plus 1/9th of the difference between the uprated 2002–2003 limit rent and the 2003–2004 average formula rent.

15.2.14 The weekly limit rent for 2003–2004 therefore equals:

(Weekly limit rent for 2002–2003 times 1.022)

plus

1/9 times [(average formula rent for 2003–2004) minus (limit rent 2002–2003 times 1.022)].

15.2.15 The next stage is to take this re-calculated limit rent for 2003–2004 and uprate it by 3.3%. The 3.3% represents 2.8% assumed inflation as measured by RPI for September 2003 plus the 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.16 Then the weekly limit rent for 2004–2005 (on a 1 April 2006 stock basis) is calculated as the uprated 2003–2004 limit rent plus 1/8th of the difference between the uprated 2003–2004 limit rent and the 2004–2005 average formula rent.

15.2.17 The weekly limit rent for 2004–2005 therefore equals:

(Weekly limit rent for 2003–2004 times 1.033)

plus

1/8 times [(average formula rent for 2004–2005) minus (limit rent 2003–2004 times 1.033)].

15.2.18 The next stage is to take this re-calculated limit rent for 2004–2005 and uprate it by 3.6%. The 3.6% represents 3.1% assumed inflation as measured by RPI for September 2004 plus the 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.19 Then the weekly limit rent for 2005–2006 (on a 1 April 2006 stock basis) is calculated as the uprated 2004–2005 limit rent plus 1/7th of the difference between the uprated 2004–2005 limit rent and the 2004–2005 average formula rent.

15.2.20 The weekly limit rent for 2005–2006 therefore equals:

(Weekly limit rent for 2004–2005 times 1.036)

plus

1/7 times [(average formula rent for 2005–2006) minus (limit rent 2004–2005 times 1.036)].

15.2.21 The next stage is to take this re-calculated limit rent for 2005–2006 and uprate it by 3.2%. The 3.2% represents 2.7% assumed inflation as measured by RPI for September 2005 plus the 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.22 Then the weekly limit rent for 2006–2007 (on a 1 April 2006 stock basis) is calculated as the uprated 2005–2006 limit rent plus 1/6th of the difference between the uprated 2005–2006 limit rent and the 2006–2007 average formula rent.

15.2.23 The weekly limit rent for 2006–2007 therefore equals:

(Weekly limit rent for 2005–2006 times 1.032)

plus

1/6 times [(average formula rent for 2006–2007) minus (limit rent 2005–2006 times 1.032

15.2.24 The next stage is to take this re-calculated limit rent for 2006–2007 and uprate it by 4.1%. The 4.1% represents 3.6% assumed inflation as measured by RPI for September 2006 plus the 0.5% increase in local authority rents assumed in the 2002 spending review.

15.2.25 Then the weekly limit rent for 2007–2008 (on a 1 April 2006 stock basis) is calculated as the uprated 2006–2007 limit rent plus 1/5th of the difference between the uprated 2006–2007 limit rent and the 2007–2008 average formula rent.

15.2.26 The weekly limit rent for 2007–2008 therefore equals:

(Weekly limit rent for 2006–2007 times 1.041)

plus

1/5 times [(average formula rent for 2007–2008) minus (limit rent 2006–2007 times 1.041)]

The Impact of 'Caps' and 'Limits'

15.2.27 In line with the proposals announced in the June 2002 consultation paper Communities and Local Government has made adjustments to the limit rent for 2004–2005 to take account of the impact of the caps on formula rents announced in November 2001 and the RPI + 1/2% +/– £2 limit on annual rent changes. The limit rent is adjusted by adding the difference between the previous year's constrained and unconstrained rents (option 'A' in the July 2002 consultation) to the figure produced by the calculations in the paragraphs above, to arrive at the limit rent which will actually apply.

15.2.28 In order to make adjustments authorities are required to provide the necessary information about their constrained and unconstrained rents. For 2003–2004 only, this was optional. Where authorities were unable to produce the information relating to 2002–2003 in the base data return for 2003–2004, Communities and Local Government has made adjustments in respect of both 2002–2003 and 2003–2004 for the purposes of subsidy in 2004–2005. Subsidy assumptions in later years take account of these adjustments.

15.2.29 In the 2007–08 HRAS Determination, the Limit Rent was adjusted by the subtracting an amount equal to the Rental Constraint Allowance for 2006–07.

The effect of limitation

15.2.30 Subsidy is not paid in respect of rent rebates granted by an authority in excess of their limit rent. If an authority's average weekly actual rent is less than their limit rent, they will receive full subsidy on rent rebates (subject to the rules as set out by DWP from time to time e.g. for incentive areas – see the *Income Related (Subsidy to Authorities) Order 1998* as amended).

The operation of the rules

15.2.31 From 2004–2005, the formula used to calculate the amount of any deduction from subsidy, as a proportion of subsidy otherwise payable, in respect of rent rebate subsidy limitation depends on the authority's pre-set limit rent, the proportion of rental income which the authority rebates, its average weekly rent and also the average weekly amount per dwelling of service charges assumed to be separated out during the year.

15.2.32 If the authority rebates at or below the national average, which for 2004–2005 was 61% of total rental income, the deduction from subsidy in respect of rent rebate subsidy limitation, as a proportion of subsidy otherwise payable, is given by the formula:

$$1 - \frac{(\mathbf{O})}{\mathbf{Q} + (\mathbf{P} \times 0.7)}$$

where

O is the limit weekly rent per dwelling for the authority, specified in Part 3 of the *Subsidy Amendment Order 2004*;

P is the average weekly amount per dwelling of service charges deemed to be separated out for the authority in 2004–2005 and is calculated in accordance with paragraph 2(4) of the Subsidy Amendment Order 2004 as mentioned above. The 0.7 multiplier reduces by 0.1 each year, eventually declining to zero **(for 2007–08 it is 0.4)**;

Q is the average weekly rent per dwelling in the current year.

15.2.33 **P,** the amount of service charges deemed to be separated out during 2004–2005, was calculated according to the following formula:

$$\mathbf{P} = \mathbf{AB} - (\mathbf{AC} \times 1.0738) - \mathbf{AD}$$

unless the latter calculation produces a negative amount, in which case $\mathbf{P} = 0$

where

AB is the average weekly service charge per dwelling in 2004–2005 calculated by dividing the total service charges for 2004–2005 in respect of all dwellings in the HRA in 2004–2005 by the number of dwellings in the HRA in 2004–2005 and by the number of weeks where a charge was made;

AC is the average weekly service charge per dwelling in 2001–2002, calculated by dividing the total service charges for 2001–2002 in respect of all dwellings in the HRA in 2001–2002 which remain in the HRA in 2004–2005 by the number of dwellings in the HRA in 2004–2005 and by the number of weeks where a charge was made;

AD is the average weekly service charge per dwelling in 2004–2005 payable in respect of new services and is calculated by dividing the total service charges for new services for 2004–2005 by the number of dwellings in the HRA in 2004–2005 and by the number of weeks where a charge was made;

And AB, AC, and AD are to be adjusted as appropriate for charge free periods.

15.2.34 If the authority rebates more than the national average, then as a concession the limitation will apply as if they had rebated the national average. In such cases, the formula for calculating the deduction from subsidy in respect of rent rebate subsidy limitation in 2004–2005, as a proportion of subsidy otherwise payable, is given by the formula:

$$\frac{[(\mathbf{Q} + (\mathbf{P} \times 0.7)) - \mathbf{O}]}{[\mathbf{Q} + (\mathbf{P} \times 0.7)]} \times \frac{0.61}{\mathbf{K}}$$

where

O, P and **Q** are the same as in the previous formula;

K is the amount of rebates granted by the authority divided by the total amount of rental income.

Audit requirements

15.2.35 The entries relating to rent rebate subsidy limitation on the HRA subsidy claim form will be subject to certification by external auditors in the usual way. Each authority should therefore ensure that its rent system can produce the information needed for the relevant years, i.e.:

(i) the average weekly rent (excluding all separate service charges) for all tenanted dwellings (including 'clusters' and groups of three bed-spaces in hostels) which applied for each week in a subsidy year together with the number of 'dwellings' (including 'clusters', three bed-spaces in hostels and the authority's part of shared-ownership dwellings) which were tenanted for each week. This information should then be used to calculate the weighted average weekly rent for the year reflecting disposals and acquisition of stock during the year;

(ii) the average weekly separate service charge (excluding charges for services now defined as Supporting People services, and excluding any charges ineligible for Housing Benefit) for all tenanted dwellings (including 'clusters' and groups of three bed-spaces in hostels) which applied for each week in a subsidy year together with the total number of 'dwellings' (including 'clusters', three bed-spaces in hostels and the authority's part of shared-ownership dwellings) which were tenanted for each week. This information should then be used to calculate the weighted average weekly service charges for the year across the whole stock (including stock which does not attract a separate service charge), reflecting disposals and acquisition of stock during the year. This information is required for both the year in question and for the year 2001–2002. The latter calculation should be averaged across those dwellings which were in the HRA in 2001–2002 and remain in the HRA in the relevant year;

(iii) the average weekly separate service charge in respect of new services for the year, where a new service is defined as a service provided in 2004–2005 which was not provided in 2001–2002, or the extension to a service, where the service is provided to a greater extent in 2004–2005 than in 2001–2002, or a service provided in 2004–2005 for which a charge is imposed for the first time in 2004–2005 because the service was funded previously by a specific grant or subsidy (other than HRA subsidy).

Derogations: general policy

15.2.36 Ministers are prepared to consider granting full or partial exemption from rent rebate subsidy limitation for one year where an authority can demonstrate that due to exceptional and unforeseeable circumstances outside its control, the authority needed to set the aggregate of its average weekly rent for that year and those service charges deemed to have been separated out from rent in the *Subsidy Amendment Order 2004 (as amended)* above the level at which rent rebate subsidy limitation applies, and it would face significant or complex financial difficulties in that financial year in its Housing Revenue Account without a derogation. However, it should be noted that:

(a) Authorities have had more than eight years to adjust their spending plans to take into account rent rebate subsidy limitation: problems that arise from the normal

operation of the rent rebate subsidy limitation system will not be eligible for derogation.

(b) An authority's decision to keep rent increases down in prior years (e.g. by drawing on balances) or a decision to set a rent above guidelines in previous years is not regarded as reasonable grounds for derogation.

(c) The impact of changes in the calculation of subsidy entitlement as a consequence of the introduction of arrangements for the separate identification of service charges will not be considered as grounds for a derogation.

(d) Changes arising from the removal of rent rebates from the HRA, or the 'pooling' of HRA surpluses, the abolition of the MRP, the changes in determining M&M allowances, and other new arrangements introduced in the Housing Revenue Account (HRA) Subsidy Determination for 2004–2005 do not constitute grounds for a derogation.

15.2.37 Ministers are prepared to consider granting full or partial exemption from rent rebate subsidy limitation for one year, where an authority has incurred costs that it could not reasonably foresee as a result of a large scale voluntary transfer, which are chargeable to the HRA and, as a consequence, the authority needed to set the aggregate of its average weekly rent and those service charges deemed to have been separated out from rent in the Subsidy Amendment Order 2004 above the level at which rent rebate subsidy limitation applies.

Criteria that will be applied to any application

15.2.38 Applications will be considered in the light of each authority's HRA income and expenditure over the previous three years and that proposed for the current year. Each application will be considered on its merits, against the policy set out above. However, as a general guide, Ministers will look at the following considerations:

- What action has the authority taken to try to keep within the subsidy limit?
- Has the authority sufficient resources available to it to meet a reasonable level of expenditure in the current year, bearing in mind past trends in expenditure and known commitments?

15.2.39 Account will be taken of commitments and contingent liabilities, and whether an authority can draw on other reserves. Communities and Local Government will compare an authority's balances with those of other authorities, and will have regard to the realism of an authority's estimates measured by the accuracy by which it has historically forecast end-year balances.

15.2.40 Ministers take the view that any increase in salaries falling to the HRA (including national and local salary awards and the cost of staff moving up salary scales) since 1996–1997 should be met from efficiency savings.

15.2.41 Ministers will assume that changes in overall management and maintenance expenditure per dwelling since 1996–1997 should reflect changes in an authority's HRA subsidy since then.

15.2.42 On capital expenditure Ministers will assume that: the level of revenue contributions to capital should be no greater in cash terms than in previous years.

15.2.43 Ministers will consider the extent to which authorities have used, or plan to use, the resources allocated to them to meet capital expenditure on housing. They will also have regard to the use made of retained HRA capital receipts.

15.2.44 If an authority obtained a derogation in some previous year, Communities and Local Government will have regard to the extent to which the latest estimates for income and expenditure for that year are in line with budget provision at the time the derogation was sought, and to whether any terms under which the derogation was issued have been met.

15.2.45 If:

- an authority's external auditor has issued, since 1998–1999, a public interest report under either section 15(3) of the Local Government Finance Act 1982 or section 8 of the Audit Commission Act 1998 that has a bearing on HRA expenditure or income; or

- the authority has been subject to a Best Value, Housing Inspectorate or other inspection that has a bearing on HRA expenditure or income.

the authority will be expected to supply Communities and Local Government with a copy of the report(s) and provide details of the action being taken to resolve the issues identified. It will be assumed that any potential efficiency improvements identified in the report(s) will be realised by the authority and savings made.

15.2.46 Authorities will be expected to demonstrate a robust strategy for resolving the problem that had given rise to their application for a derogation, and should set out that strategy as part of their application.

Procedure

15.2.47 If a derogation is granted, it will apply for one year only. Exemption from rent rebate subsidy limitation shall not be carried over into the following financial year (the same principle applied to derogations granted for previous years).

15.2.48 Applications should be made in the first instance to Communities and Local Government and copied to DWP. Administration of the policy for rent rebate subsidy limitation remains with Communities and Local Government, but final decisions on rent rebate expenditure, including derogations, now falls to DWP.

15.2.49 The procedure for responding to applications will be similar to that employed for previous years. We will acknowledge all applications. Following this, there will normally be a two-stage process:

- Based on recommendations from Communities and Local Government, DWP will respond with a provisional decision, summarising the authority's case and the key facts and setting out the reasons for the DWP's decision.

- It will be open to the authority to make further written representations where the DWP is minded not to grant the full derogation requested. The DWP will respond to any further representations with a final decision in the same format as for the provisional decision, but will take account of any relevant additional or revised information the authority has supplied and any further recommendations made by Communities and Local Government.

Annex A: Calculation of Rent Rebate Limitation Deduction from Rent Rebate Subsidy 2004–2005

Example (A) showing subsidy effects where authority reduces rent when separating out service charges

Manual Reference	Stage of Calculation	Subsidy Formula	Subsidy Amendment Order Reference	0401 Claim Form Reference	Worked Example (£)
15.2	Calculate Deduction for Rent Rebate Subsidy Limitation				
15.2.9–15.2.17	1. Take the limit weekly rent per dwelling for the authority for 2004–2005.	O	Schedule 4A 2(1) & Table 3	F001rr	37.69
	2. Add amount of derogation from rent rebate subsidy limitation granted, if any.			F002rr	0
15.2.23	3. Identify the average weekly amount per dwelling of service charges deemed to be separated out by the authority in 2004–2005.	P	Schedule 4A 2(4)	F007rr	10.00
	4. Take average weekly rent charged per dwelling in 2004–2005 (in accordance with definition given in the Subsidy Amendment Order 2004).	U	Schedule 4A 2(3a)		32
	5. Establish number of weeks in 2004–2005 during which rent charged.	V	Schedule 4A 2(7a)		50 weeks
	6. Establish number of weeks in 2004–2005 during which rent not charged.	W			2 weeks
	7. Multiply (4) by (5) and divide by the sum of (5) and (6) to produce the average weekly rent per dwelling for 2004–2005 appropriately adjusted for rent-free periods.	Q	Schedule 4A 2(3b)	F003rr	32 × 50 ÷ (50 + 2) = 30.77
	8. Multiply (3) by 0.7	P x 0.7			7.00
	9. Add (7) to (8).	Q + (P × 0.7)			37.77
	10. Divide (1) + (2) by (9) to give the rent rebate subsidy limitation factor for 2004–2005				37.69 ÷ 37.77 = 0.997882
	11. Where (10) is equal to or greater than 1, there is no deduction from rent rebate subsidy for 2004–2005 in respect of rent rebate subsidy limitation.				
	12. Where (10) is less than 1, calculate proportion of rental income rebated I to four decimal places.	K		F011rr ÷ F009rr = F012rr	0.5850 (13) or 0.6667 (14)

Manual Reference	Stage of Calculation	Subsidy Formula	Subsidy Amendment Order Reference	0401 Claim Form Reference	Worked Example (£)
15.2.22	13. Where (10) is less than 1 and (12) is less than or equal to 0.61, the limitation deduction from rent rebate subsidy for 2004–2005, as a proportion of subsidy otherwise due, will be 1 -(10).		Schedule 4A, 3(1)	F000rr	1- 0.997882 = 0.002118 or a deduction of 0.2118%
15.2.24	14. If (10) is less than 1, and (12) is greater than 0.61, the limitation deduction from rent rebate subsidy for 2004–2005, as a proportion of subsidy otherwise due, will be (9) – [(1) + (2)] divided by (9) multiplied by 0.61 divided by (12).		Schedule 4A 3(1)	F000rr	[(37.77 – 37.69) ÷ 37.77] × [0.61 ÷ 0.6667] = 0.001938 or a deduction of 0.1938%.

Example (B) showing subsidy effects where authority fails to reduce rent when separating out service charges

Manual Reference	Stage of Calculation	Subsidy Formula	Subsidy Amendment Order Reference	0401 Claim Form Reference	Worked Example (£)
15.2	Calculate Deduction for Rent Rebate Subsidy Limitation.				
15.2.9–15.2.17	1. Take the limit weekly rent per dwelling for the authority for 2004–2005.	O	Schedule 4A 2(1) & Table 3	F001rr	37.69
	2. Add amount of derogation from rent rebate subsidy limitation granted, if any.			F002rr	0
15.2.23	3. Identify the average weekly amount per dwelling of service charges deemed to be separated out by the authority in 2004–2005.	P	Schedule 4A 2(4)	F007rr	10.00
	4. Take average weekly rent charged per dwelling in 2004–2005 (in accordance with definition given in the Subsidy Amendment Order 2004).	U	Schedule 4A 2(3a)		42
	5. Establish number of weeks in 2004–2005 during which rent charged.	V	Schedule 4A 2(7a)		50 weeks
	6. Establish number of weeks in 2004–2005 during which rent not charged.	W			2 weeks
	7. Multiply (4) by (5) and divide by the sum of (5) and (6) to produce the average weekly rent per dwelling for 2004–2005 appropriately adjusted for rent-free periods.	Q	Schedule 4A 2(3b)	F003rr	42 × 50 ÷ (50 + 2) = 40.38
	8. Multiply (3) by 0.7	P × 0.7			7.00

Manual Reference	Stage of Calculation	Subsidy Formula	Subsidy Amendment Order Reference	0401 Claim Form Reference	Worked Example (£)
	9. Add (7) to (8)	Q + (P × 0.7)			47.38
	10. Divide (1) + (2) by (9) to give the rent rebate subsidy limitation factor for 2004–2005				37.69 ÷ 47.38 = 0.795483
	11. Where (10) is equal to or greater than 1, there is no deduction from rent rebate subsidy for 2004–2005 in respect of rent rebate subsidy limitation.				
	12. Where (10) is less than 1, calculate proportion of rental income rebated I to four decimal places.	K		F011rr ÷ F009rr = F012rr	0.5850 (13) or 0.6667 (14)
15.2.22	13. Where (10) is less than 1 and (12) is less than or equal to 0.61, the limitation deduction from rent rebate subsidy for 2004–2005, as a proportion of subsidy otherwise due, will be 1 – (10).		Schedule 4A, 3(1)	F000rr	1- 0.795483 = 0.204517 or a deduction of 20.4517%
15.2.24	14. If (10) is less than 1, and (12) is greater than 0.61, the limitation deduction from rent rebate subsidy for 2004–2005, as a proportion of subsidy otherwise due, will be (9) – [(1) + (2)] divided by (9) multiplied by 0.61 divided by (12).		Schedule 4A 3(1)	F000rr	[(47.38 – 37.69) ÷ 47.38] × [0.61 ÷ 0.6667] = 0.187123 or a deduction of 18.7123%.

16 Charges for Capital and Interest on Receipts

This chapter covers the subsidy calculations for both ***capital charges and interest on receipts****. It should be read in conjunction with* ***section 5.8 and Chapter 7*** *on capital charges and interest in the HRA.*

Section 16.1 *covers the calculation of the subsidy capital financing requirement (SCFR), which features in the calculation of both capital charges and interest on receipts*

Section 16.2 *explains the capital charges formula*

Section 16.3 *explains the interest on receipts formula*

Annex A *sets out the calculation of the SCFR*

Annex B *gives a comparison of the SCFR and the mid-year HRA CFR*

Annexes C and D *summarise the subsidy formulae for capital charges and interest on receipts respectively*

Annex E *summarises the differences between the amounts debited or credited to the actual HRA in respect of capital charges and interest (in accordance with the Item 8 determination) and the amounts allowed for in the notional HRA for subsidy purposes (in accordance with the HRA subsidy determination)*

Capital charges*, along with management and maintenance allowances, rent rebates and the Major Repairs Allowance (*see *Chapters 14, 15 and 17), are one of the key expenditure components in the overall subsidy calculation, currently accounting for around £1.2 billion a year.*

By contrast, ***interest on receipts*** *is a relatively minor item overall, accounting for around £15m, although it can be significant for individual authorities. It is a negative item and therefore decreases entitlement to subsidy.*

The subsidy calculations for capital charges and interest on receipts are the notional HRA equivalents of the Item 8 debit and credit calculations in the actual HRA. There are, however, a number of important differences which are discussed later in this chapter. The formulae for the calculations are set out each year in the ***HRA subsidy determination*** *(whereas those for the actual HRA calculations are set out in the Item 8 determination). The formula for calculating* ***capital charges*** *is:*

$$(G \times H) + I + Z$$

where:

G *is the subsidy capital financing requirement (SCFR), or zero if a negative amount (see section 16.1)*

H *is the consolidated rate of interest for the authority (see section 7.4)*

I *is the debt management expenses (see paragraph 16.2.3(ii))*

Z *is the allowance for premiums and discounts (see paragraph 16.2.3(iii)).*

G *and* ***I*** *are pre-set and specified in Schedule 2 attached to the HRA subsidy determination, although G may change if the authority's stock changes by more than 3,000 dwellings or 10%, whichever is less.*

The formula for calculating ***interest on receipts*** *is:*

*(****AA*** *x average three-month sterling London Interbank Bid Rate at 30 September in the preceding financial year) + **BB***

Where:

AA *is the equivalent positive value of the SCFR, or zero if it is nil or a positive amount (see paragraph 16.3.3)*

BB *is the amount of interest receivable by the authority on its HRA mortgages (see paragraph 16.3.4)*

AA *and* ***BB*** *are pre-set and specified in Schedule 5 to the HRA subsidy determination, although* ***AA*** *may change if the authority's stock changes by more than 3,000 dwellings or 10%, whichever is less. The interest rate used for a year is pre-set and specified in the HRA subsidy determination: for 2006–2007 it is 4.52%.*

16.1 The subsidy capital financing requirement (SCFR)

Introduction

16.1.1 The HRA CFR is a measure of HRA debt. It is used to calculate the HRA's share of debt financing costs if it is positive, or investment income if it is negative. The SCFR is a version of the HRA CFR which is used to calculate subsidy entitlement in the light of these costs or this income. It is in effect a measure of HRA debt for subsidy purposes, taken at the mid-year point.

16.1.2 The SCFR is pre-set before the start of each new subsidy year on the basis of audited data. Not all HRA expenditure and income is taken into account in the subsidy calculation. The SCFR is therefore constructed in a different way from the HRA CFR, as follows:

(i) it takes account of receipts from qualifying disposals (LSVTs and SSVTs – see *paragraph 7.1.8*) up to two years before the subsidy year – for example, the SCFR for 2006–2007 takes account of such receipts up to and including 2004–2005;

(ii) it takes account of the total amount of capital expenditure for HRA purposes funded by borrowing which is supported through HRA subsidy, rather than actual capital expenditure funded by borrowing. This is calculated by DCLG on the basis of information provided by individual authorities *(*see paragraphs 16.1.7–16.1.8);

(iii) it takes account of transfers of property from the General Fund to the HRA (e.g. due to appropriation for the purposes of Part II of the Housing Act 1985); and

(iv) transfers of property from the HRA to the General Fund (e.g. due to appropriation for purposes other than Part II of the Housing Act 1985): 75% of the certified value of dwellings and 50% of the certified value of land or other property are either added (for transfer to the HRA) or deducted (for transfer to the General Fund) from the SCFR. A two-year time lag applies in the same way as for receipts from qualifying disposals.

Annex B sets out comparisons between the SCFR and mid-year HRA CFR.

The calculation of the SCFR for 2006–2007

16.1.3 The SCFR is calculated as follows:

Take

The SCFR for 2005–2006

Add:

(i) 50% of the HRA element of Supported Capital Expenditure (Revenue) 2005–2006 (as defined in paragraph 16.1.9 below);

(ii) 50% of the HRA Supported Capital Expenditure (Revenue) (SCE) for 2006–2007 (as defined in paragraph 16.1.7 below); and

(iv) The value of land, houses or other property which was newly accounted for in the HRA in 2004–2005;

(v) 50% of ALMO supported borrowing for 2005–2006

(vi) 50% of ALMO supported borrowing for 2006–2007

Subtract:

(i) the reserved part of capital receipts from qualifying disposals arising in 2004–2005; and

(ii) 75% of the certified value of any dwellings and 50% of the value of any other land or property other than dwellings transferred out of the HRA in 2004–2005;

Equals:

Current year's SCFR

16.1.4 DCLG did not collect data on the value of dwellings and land or other property transferred into the HRA in 2002–2003 *(*see *paragraph 16.1.2(iii)*). Consequently, for 2005–2006 only, the respective proportion of the value of any such transfers was added in to the SCFR, along with the respective proportion of the value of property transferred into the HRA in 2003–2004.

16.1.5 Once pre-set, the SCFR is not normally changed throughout the subsidy year or retrospectively to correct mistakes. Exceptions are:

(i) when a special determination is issued to an authority amending the SCFR for the subsidy year. This may be done where, for example, the authority carries out an LSVT and is left with 'overhanging debt' *(*see *Chapter 11*);

(ii) when an authority's housing stock changes by more than 3,000 dwellings or 10% (whichever is less) between 1 April of the financial year prior to the subsidy year and 31 March of the subsidy year (for 2006–2007, between 1 April 2005 and 31 March 2007). In such circumstances, the authority is required to recalculate the SCFR to take account of a proportion of the capital receipts from qualifying disposals in both the year prior to the subsidy year and the subsidy year itself. This has the effect of bringing forward the year in which such capital receipts are taken into account in the SCFR. For example, the 2006–2007 SCFR would be reduced by the total reserved receipts from qualifying disposals in 2005–2006 and by a proportion of each capital receipt in 2006–2007. That proportion would be calculated by multiplying 75% of the capital receipt, after administrative costs and any levy payment have been deducted, by the ratio of the number of days remaining in the year after the receipt to 365 (or 366 in a leap year). This ensures that, where significant stock changes take place, subsidy is not paid in respect of HRA debt which the authority has the ability to repay. The

proportion of capital receipt used in the calculation may be increased from 75% if specified by the Secretary of State, if a higher figure is necessary to repay this debt.

16.1.6 This recalculation of the SCFR does not affect the calculation of subsidy for the following years. In the example above, it is the original SCFR for 2006–2007, which would be taken as the starting point for the calculation of the 2007–2008 SCFR.

The HRA supported capital expenditure specified amount

16.1.7 With the abolition of Basic Credit Approvals from April 2004, authorities are informed of the amount of capital expenditure that will attract revenue support, either through HRA subsidy or through Revenue Support Grant. As in previous years, 50% of the assumed HRA proportion of that supported capital expenditure (SCE) will be added to the SCFR in the present year and 50% in the following year. The HRA SCE(R) attracts HRA subsidy whether or not that actual amount of borrowing is used in practice for HRA purposes; it is not amended retrospectively to take account of actual use.

LSVT Authorities

16.1.8 Authorities that have completed a Large Scale Voluntary transfer in, say, 2004–2005 will have been allocated a nil SCFR, Debt Management Expenses and HRA SCE specified amount for 2006–2007 in the HRA subsidy determination 2006–2007.

16.2 The subsidy calculation: capital charges

16.2.1 The formula for calculating capital charges is set out below, and appears at *paragraph 6.1 of the HRA subsidy determination*. A summary of the calculation and a worked example is shown in *Annex C*. The corresponding Item 8 debit calculation, to which the capital charges subsidy entitlement relates, can be found in *Chapter 7*.

16.2.2 Charges for capital are calculated by applying the formula:

$$(\mathbf{G} \times \mathbf{H}) + \mathbf{I} + \mathbf{Z}$$

Where:

G is the subsidy capital financing requirement (see *section 16.1*)

H is the consolidated rate of interest for the authority (see *section 7.4*)

I is the allowance for debt management expenses (see *paragraph 16.2.3(ii)*)

Z is an allowance for premiums and discounts (see *paragraph 16.2.3(iii)*).

16.2.3 There are therefore three elements in the capital charges calculation:

(i) **notional interest charges** payable by the authority on estimated HRA debt (**G** x **H** in the formula). This is calculated by:

(a) taking the authority's subsidy capital financing requirement where this is positive (**G** in the formula). This will be nil if the subsidy capital financing requirement is zero or negative;

(b) multiplying it by the consolidated rate of interest (CRI) for subsidy purposes (**H** in the formula). This is calculated in exactly the same way as for the Item 8 debit (the formula is set out in *paragraph 7.4.7;* see also *Annex F of Chapter 7 for a worked example*). Whereas the SCFR is pre-set for each subsidy year (and adjusted only in the case of significant stock transfers), the CRI (and therefore interest charges eligible for subsidy) is calculated by authorities at the end of the financial year and entered on each claim form;

(ii) **debt management expenses** (**I** in the formula) – an allowance for debt management expenses is pre-set for each subsidy year, and is specified in the subsidy determination. It comprises a fixed sum (e.g. £35,576 for 2006–2007) plus an amount (e.g. £429 in 2006–2007) for each £1m of an authority's SCFR where this is a positive amount. These figures are based on an initial regression analysis of authorities' 1994–1995 debt management expenses, updated each year to take account of inflation. Where an authority has a negative or nil subsidy capital financing requirement, they are assumed to be free of HRA debt and will receive no allowance for debt management expenses;

(iii) **HRA share of premiums and discounts** (**Z** in the formula) – the full amount of the HRA share of any premiums debited to the HRA arising from the early redemption of fixed-rate debt since 1 April 1995 is eligible for HRA subsidy (see *paragraph 6.4 of the HRA subsidy determination* for the calculation, *paragraphs 7.3.3–7.3.10* for a full explanation and *Annex E of Chapter 7 for a worked example*). This component of the capital charges subsidy entitlement is not pre-set but is adjusted throughout the year to take account of any new premiums payable, in line with the amount actually debited to the HRA. This figure is reduced by the amount of the HRA share of any discounts received by the authority since 1 April 1995 on the early redemption of a fixed-rate loan and credited to the HRA under Item 8 (this amount is calculated in exactly the same way as the HRA share of premiums – see *Annex B of Chapter 5*).

Comparison with Item 8 debit

16.2.4 The allowance for debt management expenses differs from the amount debited to the HRA under Item 8, as this is calculated in accordance with proper practices rather than being pre-set with reference to the authority's SCFR.

16.2.5 No allowance is included in the capital charges part of the subsidy calculation for the other components of the Item 8 debit to the HRA – that is, interest on notional cash balances and transfers to the Major Repairs Reserve and General Fund. Interest on certain pre-1990 deferred purchase arrangements (DPAs) may be eligible for HRA subsidy under the allowance for other reckonable expenditure (see *Chapter 19*).

16.2.6 See Table 2 in *Annex E* for a comparison between the actual HRA Item 8 debit for capital charges, and the amounts allowed for in the notional HRA for subsidy purposes.

16.3 The subsidy calculation: interest on receipts

16.3.1 The formula for calculating interest on receipts is set out below, and appears at *paragraph 9.1 of the HRA subsidy determination*. A worked example is shown at Annex D. The corresponding Item 8 credit calculation, to which the 'interest on receipts' subsidy allowance relates, can be found in section 5.8.

16.3.2 Interest on receipts is the amount calculated by applying the formula:

> (**AA** × average three-month sterling London Interbank Bid Rate at 30 September in the preceding financial year) + **BB**

Where:

> **AA** is the equivalent positive value of the SCFR, or zero if it is nil or a positive amount;
>
> **BB** is the amount of interest receivable by the authority on its HRA mortgages.

The interest rate is pre-set. For example, for 2006–2007 it was **4.52%**.

The notional interest earned on net HRA capital investments

16.3.3 If an authority's SCFR is zero or positive, the notional interest earned on net HRA capital investments is assumed to be nil. If the SCFR is negative, the authority is assumed to be free of debt, and instead has capital to invest (in that case, **AA** is the equivalent positive value of the SCFR). The return on that investment is taken as the average three-month sterling London Interbank Bid Rate at 30 September of the previous year. As with HRA capital charges, the SCFR used in this calculation will be recalculated in the case of significant stock changes (see *paragraph 16.1.5(ii)*).

Assumed interest receivable on an authority's HRA mortgages (BB in the formula)

16.3.4 This is specified in Schedule 5 of the HRA subsidy determination. It is calculated by multiplying the principal outstanding on mortgages granted by the authority at 1 April of the subsidy year by the average rate of interest payable as at 1 August of the previous subsidy year on such mortgages. The figure for the principal outstanding as at 1 April is estimated by the authority, based on the amount outstanding on the loans at 1 August of the previous financial year less estimated repayments of principal between 2 August and 31 March of the previous financial year, but excluding premature repayments and sales of mortgage portfolios. This information is collected from individual authorities in the base data return for each new subsidy year.

Differences between the subsidy formula and Item 8 Credit

16.3.5 No allowance is included in the subsidy calculation for the other elements of the Item 8 credit formula – interest on notional cash balances and transfers from the Major Repairs Reserve.

16.3.6 The amounts calculated under the HRA subsidy determination in respect of interest on investments and HRA mortgages may differ from the amounts credited to the HRA under the Item 8 credit. This is because of differences between the HRA and subsidy CFRs, different interest rates being used, and differences arising from pre-setting the subsidy allowances.

16.3.7 See Table 1 in *Annex E* for a comparison between the actual HRA Item 8 credit for interest on receipts and the amounts allowed for in the notional HRA for subsidy purposes.

Annex A: Calculation of the Subsidy Capital Financing Requirement for 2005–2006

Manual reference	Stage of Calculation	Worked Example (£)
16.1.3	1. Take the Subsidy Capital Financing Requirement 2005–2006	37,706,473
16.1.7	2. Add: (i) 50% of HRA element of Supported Capital Expenditure (Revenue) 2005–2006	1,891,500
16.1.7	(ii) 50% of HRA element of Supported Capital Expenditure (Revenue) 2006–2007	2,031,500
16.1.2	The value of land, houses or other property which are newly accounted for in the HRA in 2004–2005	0
16.1.2	50% of ALMO allowance 2005–2006	250,000
16.1.2	50% of ALMO allowance 2006–2007	250,000
	Sub Total:	4,423,000
16.1.3	3. Deduct: (i) Reserved part of capital receipt arising from qualifying disposals in 2004–2005.	0
16.1.3	(ii) The equivalent reserved part of certified value of property which ceased to be accounted for in the HRA in 2004–2005 (other than by disposal)	60,000
	Sub Total:	60,000
	4. The sum of 1 and 2, less 3, gives the Subsidy Capital Financing Requirement for 2006–2007	42,069,473

Annex B: Calculation and Comparison of Mid Year HRA and Subsidy Capital Financing Requirements for 2006–2007

HRA	Subsidy (calculated by DCLG)
Opening HRA CFR 2006–2007	SCFR 2005–2006
plus	plus
50% of capital expenditure financed by borrowing or credit approvals that is incurred during 2006–2007 on land, houses or other property in the HRA, either new or existing	50% of HRA BCA specified amount for 2005–2006
+	+
50% of the value of land, houses or other property which commenced or recommenced to be accounted for in the HRA in 2006–2007 for a reason other than acquisition (e.g. by appropriation)	50% of HRA element of SCE(R) in 2006–2007
	+
	The value of land, houses or other property newly accounted for in the HRA in 2004–2005
	+
	50% of ALMO SCE(R) 2005–2006
	+
	50% of ALMO SCE(R) 2006–2007
minus	minus
37.5% of the certified value of dwellings and 25% of the certified value of other HRA land or property that ceased to be accounted for in the HRA in 2006–2007 (other than by disposal)	Reserved part of capital receipt arising from qualifying disposals in 2004–2005
+	+
50% of voluntary set aside (e.g. 50% of the amount that the authority determined during 2006–2007 to set aside from the MRR for the repayment of debt)	75% of the certified value of dwellings and 50% of the certified value of other HRA property that ceased to be accounted for in the HRA other than by disposal.
+	
50% of the value of any payment by the Secretary of State to the PWLB, less the amount used to repay premiums, to pay off overhanging debt in 2006–2007	
equals	equals
Mid Year HRA CFR 2006–2007	SCFR 2006–2007

Annex C: Calculation of HRA Subsidy – Charges for Capital 2006–2007

Manual reference	Stage of calculation	Subsidy Formula	Subsidy Determination Reference[1]	Worked Example (£)
16.1.3 16 Annex A	1. Take the 2006–2007 Subsidy Capital Financing Requirement (positive)[2]	G	6.1 (Schedule 2, column 1)	41,207,705
7.4.7 7 Annex F	2. Calculate the Consolidated Rate of Interest (CRI) for 2006–2007	H	6.3.1 and 6.3.2	7.16%
16.2.3 (i)	3. Multiply G by H to give interest charges on HRA debt admissible for subsidy. This will be nil where the SCFR (G) is a negative amount.	(G × H)	6.1	2,950,472
16.2.3 (ii)	4. Take the specified amount for debt management expenses for 2006–2007	I	6.1 (Schedule 2, column 2)	50,719
7.3.4 and 16.2.3(iii)	5. Take the HRA share of amortised premiums and discounts for 2006–2007	Z	6.4	221,029
	6. Add together the sums at stages 3, 4 and 5 above to give the amount for capital charges reckonable for subsidy.	(G × H) + I + Z	6.1	3,222,220

[1] References are to 2006–2007 Subsidy Determination
[2] Should be recalculated in accordance with paragraph 6.2 of the 2006–2007 Subsidy Determination in the event of a change in dwelling numbers between 1 April 2005 and 31 March 2007 of more than 3,000 or 10%, whichever is less.

Annex D: Calculation of HRA Subsidy – Interest on Receipts 2005–2006

Manual reference	Stage of calculation	Subsidy Formula	Subsidy Determination Reference[1]	Worked Example (£)[2]
16.1.3	1. Take the Subsidy Capital Financing Requirement for 2006–2007 (If negative, equals equivalent positive amount; if nil or positive, equals zero)[3]	AA	9.1 (Schedule 5, column 1)	4,600,000
16.3.2	2. Take the LIBID[4] rate as at 30 September 2005		9.1	4.52%
16.3.3	3. Multiply AA by the LIBID rate to give an assessment of interest earned on HRA capital resources (This will be nil if the SCFR (AA) is a positive amount or nil)	AA × 0.0452	9.1	207,920
16.3.4	4. Take the assumed interest receivable in 2005–2006 on mortgages or loans granted by the authority to buyers of HRA dwellings	BB	9.1 (Schedule 5, column 2)	100,000
	5. Add together the sums derived at stages 3 and 4 above to give the amount of interest on receipts reckonable in the subsidy calculation	(AA × 0.0452) + BB		307,920

[1] References are to the 2006–2007 Subsidy Determination
[2] Different figures have been used in this calculation compared with those used in other worked examples to illustrate the example of an authority with a negative HRA capital financing requirement.
[3] Should be recalculated in accordance with paragraph 6.2 of the 2006–2007 Subsidy Determination in the event of a change in dwelling numbers between 1 April 2005 and 31 march 2007 of more than 3,000 or 10%, whichever is less.
[4] LIBID = average three-month sterling London Interbank Bid Rate

Annex E: Interest on Receipts and Charges for Capital – comparison between HRA entries and subsidy 2005–2006

Table 1 – Interest

Stage of calculation	Item 8 Credit[1]	Subsidy[1]	Comments
Notional Investment Income	Mid-year **HRA** capital financing requirement where negative **(A).** × Average rate of interest on investments; if no investments, a rate no lower than Consolidated Rate of Interest **(B)**	subsidy capital financing requirement where negative (AA) × LIBID rate as at 30 September 2005 (0.0452)	If subsidy capital financing requirement **negative** (i.e. notional capital resources exceed notional debt), assume authority will invest the surplus. This results in credit to HRA and reduction in subsidy entitlement.
+			
Interest on notional cash **credit** balance	Average notional cash balance where positive (excess of cash receipts over cash payments) **(C)** × Average rate of interest on investments; if no investments, a rate no lower than Consolidated Rate of Interest **(B)**	Nil	**If cash payments exceed cash receipts, this component is nil.** Average notional cash balance is defined in *paragraph 2.1 of the Item 8 determination*
+			
Interest on mortgages	**Actual** interest **(E)**	Secretary of State's assumption as to interest receivable on loans made by authority to enable a borrower to acquire a dwelling within the authority's HRA. **(BB)**	This relates to interest payments on mortgages and loans granted by authorities to purchasers of HRA dwellings. The assumed interest for subsidy purposes and the actual interest for HRA purposes may not be identical
+			
Transfer from Major Repairs Reserve	Transfer from the Major Repairs Reserve **(T)**	Nil	This component in the Item 8 credit formula reverses out any excess of the depreciation charge debited to the HRA over the Major Repairs Allowance
+			
HRA share of discounts	HRA share of discounts receivable on premature repayment of fixed rate loans. **(W)**	Nil	HRA share of discounts is taken into account in capital charges element of subsidy calculation as part of consolidated **Z**, which also includes premiums

[1] References in brackets are to the Item 8 and subsidy formulas, respectively

Table 2 – Capital charges

Item	Item 8 Debit[2]	Subsidy[2]	Comments
Capital Asset Charge	Impairment charges for land or property within the authority's HRA + deferred charges attributable to the HRA **(R)**	Nil.	
+			
Depreciation for HRA dwellings	Depreciation for dwellings within the authority's HRA, other than the authority's share of any dwelling subject to shared ownership lease **(SA)**	Nil.	In most cases DTLR would expect authorities to use the Major Repairs Allowance (MRA), together with any depreciation charge in respect of assets not covered by the MRA to calculate depreciation.
+			
Depreciation for other HRA property	Depreciation on other land, houses and property within the authority's HRA **(SB)**	Nil.	Other HRA property might include garages, estate shops, housing offices and commercial property
+			
Debt Management Expenses	HRA share of authority's debt management expenses **(K)**	This amount is specified in the HRA subsidy determination **(I)**	Item 8 amount calculated in accordance with proper accounting practices
+			
HRA share of premiums	Premium payable by authority on early repayment of loan **(V)**	Allowance for premiums and discounts **(Z)**	Calculated in accordance with *paragraph 6.4 of the HRA subsidy determination.*
+			
Interest on net HRA debt	Mid year HRA Capital financing requirement **(G)** x Consolidated Rate of Interest **(H)**	**Subsidy capital financing requirement** (G) **where positive** × Consolidated Rate of Interest **(H)**	Consolidated Rate of Interest is calculated in accordance with formulae in *paragraph 5 of the Item 8 Determination and paragraphs 6.3.1 and 6.3.2 of the HRA subsidy determination*
+			
Interest on notional cash debit balance	Average notional cash balance for 2006–2007 **(I)** x Consolidated Rate of Interest **(H)**	Nil.	Where **I** is a credit balance, it shall be nil
+			
Interest payments on deferred/hire purchase agreements	Interest on certain pre-1988 deferred purchase arrangements, and under restitution or compromise agreements where original arrangements were or may be *ultra vires* **(L)**	Amounts included among 'other items of reckonable expenditure' in paragraph 7.1, head 6	Agreements entered into or varied on or after 7 July 1988 classed as credit arrangements (section 52 of the 1989 Act)

continued

Item	Item 8 Debit[2]	Subsidy[2]	Comments
+			
Transfer to Major Repairs Reserve	Transfer to Major Repairs Reserve **(U)**	Nil.	If the depreciation charge for HRA dwellings (other than shared ownership) is lower than the MRA, authorities are required to transfer an amount equivalent to the difference from the HRA to the Major Repairs Reserve.
[2] References in brackets are to the Item 8 and subsidy formulas, respectively			

17 The Major Repairs Allowance

17.1 The Major Repairs Allowance (MRA) was introduced in 2001–2002. It represents the estimated long-term average amount of capital spending required to maintain a local authority's housing stock in its current condition.

17.2 The 2007–2008 MRA is based on a set of national average unit costs for each of 13 property types (or 'archetypes'). These are shown in the following table:

Major Repairs Allowance: unit costs per archetype

Archetype	National average MRA per Archetype (2007–2008 prices) £
Traditional dwellings	
Pre-1945 small terrace houses	378
Pre-1945 semi-detached houses	434
All other pre-1956 houses	445
1945–64 small terrace houses	616
1945–64 large terrace, semi-detached and detached houses	709
1965–1974 houses	698
Post 1974 houses	519
Non-traditional dwellings	
All houses	567
Traditional and non-traditional dwellings	
Pre-1945 low rise (1–2 storey) flats	496
Post 1944 low rise (1–2 storey) flats	736
Medium rise (3–5 storey) flats	748
High rise (6 or more storey) flats	899
Bungalows	566
Multi-occupied dwellings	
Pre 1945 multi-occ dwellings	496
Post 1944 multi-occ dwellings	736

Nb: Between its introduction in 2001–2002 and 2004–2005, the MRA calculation was based upon 11 archetypes. The weights for those archetypes for 2004–2005 are given in Annex A to this Chapter.

17.3 These national unit costs were calculated by estimating the annual cost of replacing individual building elements (e.g. windows, kitchen, bathroom, roof) as they reach

the end of their useful life. Data from the English House Condition Survey and the Valuation Office Agency were then used to establish, at the national level, the likely timings and costs of replacement of building elements for each archetype. These amounts were summed to estimate the total expenditure needed for each archetype to replace these building elements over the next 30 years. Finally, these totals were converted into annual average MRA costs per archetype.

17.4 The 2007–2008 MRA per dwelling for each authority is calculated as follows:

(i) Multiply the number of dwellings at 1 April 2006 (including non-permanent dwellings, but excluding shared ownership dwellings and excluding PFI dwellings) in each of the 13 MRA archetypes by the national average MRA per dwelling appropriate to each archetype;

(ii) Summing across all archetypes, the resulting total is the *unadjusted MRA* for an authority;

(iii) An authority's MRA equals its *unadjusted MRA* times its *geographical cost factor* times the *geographical adjustmen*t;

(a) The *geographical cost factor* for an authority is the same BCIS measure as described above at maintenance Step 6. It is listed in Annex 1 below.

(b) The *geographical adjustment* for 2007–2008 is 0.972210. It is the *sum over all authorities of their unadjusted MRAs* divided by the *sum over all authorities of their unadjusted MRAs times their geographical cost factors*. The *geographical adjustment* ensures that application of the geographical cost factors does not change the total spending on MRA. The *geographical adjustment* is less than one because the *geographical cost factor* is centred on UK = 1.00 and, on average, English HRAs have a *geographical cost factor* greater than one.

(iv) An authority's MRA is divided by its total number of relevant dwellings as at 1 April 2006 to produce its MRA per dwelling. This is shown in Schedule 1 Part III, Column 1 of the 2007–2008 HRA Subsidy Determination. The full calculation for any authority is presented in *Annex F to the HRA Subsidy Determination*.

PFI dwellings

17.5 Where an authority enters a PFI contract in respect of dwellings accounted for in the HRA, the PFI allowance is payable pro-rata from the date the contract is signed. This allowance is intended to cover the capital expenditure element of PFI schemes. As indicated above, the MRA provides resources to local authorities to maintain their stock in its current condition. The MRA is not paid for dwellings that are part of a PFI scheme, as the capital costs of maintaining those dwellings are already reflected in the PFI credit and the subsidy that it attracts. MRA ceases in respect of the dwellings covered by the PFI scheme from the date the contract is signed.

17.6 Where a PFI contract is entered into part way through a year a special Determination is normally issued to the authority to generate the payment of its PFI Allowance and to adjust its MRA entitlement. The methodology used by CLG to recalculate the authority's MRA entitlement for the year(s) covered by the special Determination is as follows:

> *the MRA per dwelling (as detailed in column 1 of schedule 1 to the Determination) is multiplied by the number of dwellings which are included in the PFI scheme. This figure is then subtracted from the overall MRA entitlement for the authority (as detailed in the List of Major Repairs Allowances which accompanies the Determination).*

17.7 The above recalculation only applies to the first and possibly second year of a PFI scheme as the number of dwellings included in the PFI scheme will eventually feed into the Base Data Return.

17.8 However, dwellings in PFI schemes that are only concerned with one element of the dwelling, e.g. heating, continue to attract MRA.

17.9 Further details on the MRA can be found on CLG's web site at http://www.communities.gov.uk/index.asp?id=1154213 This includes a description of the role played by the MRA within the new financial framework; a more detailed account of the methodology underlying the unit costs for each archetype; a more detailed description of the archetypes proposed for the longer term and the way that they differ from the 2001–2002 archetypes; and an account of how the MRA will be updated over time.

17.10 It is necessary to distinguish the basis on which the MRA has been calculated and allocated to local authorities from the rules governing the way that it can be spent. In broad terms, the only restrictions on the use of the MRA are that it should be spent on works relating to stock within the **HRA**, and that it should be used for **capital** expenditure (other than demolition) or repayment of debt. The treatment of the MRA in the accounts is described in more detail in *section 7.2.*

Annex A

The 2004–2005 MRA was based on a set of national average unit costs for each of **eleven** property types (or 'archetypes'). These are shown in the following table:

Major Repairs Allowance: unit costs per archetype

Archetype	National Average MRA per Archetype (2004–2005 Prices) (£)
Flats	
Pre-1945 Low-Rise (including multi-occupancy dwellings)	424
Post-1944 Low-Rise (including multi-occupancy dwellings)	667
Medium Rise	676
High Rise	831
Traditional houses	
Pre-1945 1–2 Bedroom	422
Pre-1945 3+ Bedroom	439
1945–64 1–2 Bedroom	627
1945–64 3+ Bedroom	640
1965–74	621
1975+	347
All non-traditional houses	580

18 Guideline Rents

Introduction

The guideline rent calculated each year for each local housing authority is the main item of notional income in the calculation of HRA subsidy. Guideline rents are covered by paragraph 8 of the HRA subsidy determination.

18.1 In December 2000, the Government announced that it would be introducing a new national formula for calculating social rents, (i.e. covering both the local authority and Registered Social Landlord sectors), and that it would introduce this new formula rent progressively over ten years from April 2002 (see *Chapter 8*). Following a consultation exercise in 2001, the Government announced that the rents used in the HRA subsidy system at the time (i.e. the guideline rent and the limit rent for rent rebate subsidy limitation purposes) would also be aligned with the new formula over the same ten year period. (From 2004–2005 the limit rent is no longer part of the HRA subsidy system, but is part of the calculation of the rent rebate subsidy payable by DWP. However, the guideline rent remains part of the HRA subsidy system). Starting in 2002–2003, therefore, the guideline rent has moved gradually from its value in 2001–2002 towards a value based on the new formula, the aim being that the guideline rent should generally approach the formula rent in reasonably even steps over ten years.

18.2 The calculation of guideline rents for subsidy purposes in 2004–2005 is set out below with a worked example at *Annex A*. It should, however, be stressed that local authorities' general responsibilities for rent setting have not been changed and they may decide to levy an average rent that is higher or lower than the guideline rent, depending on their view of spending needs and the requirement to balance the HRA (see *Chapter 8*).

18.3 Although formula rents will need to be calculated for each individual property, the HRA subsidy calculation is based on average values and does not make any assumptions about the distribution of rents around the guideline rent within the authority. Guideline rents for each authority are set out in column 2 of Schedule 4 of the HRA subsidy determination.

Limits on rent changes

18.4 Councils should move the rent for each council property to the formula rent (or within 5%, subject to local circumstances), so far as possible by March 2012. However, protecting tenants from large annual rent rises takes precedence and so Ministers do not want any tenant's rent to change by more than RPI + 0.5% +/– £2 in any year. That may mean that some authorities will require longer than 10 years to restructure all their rents.

Rent caps

18.5 In high property value areas, it is possible that the moderating effect of the relative earnings factor will not preclude formula rents at unacceptably high levels.

18.6 To protect tenants in high property value areas, Ministers therefore announced in November 2001 that there would be a maximum ceiling or 'cap' to the formula rent depending on property type. If the formula rent for a particular property is higher than the rent cap, then the formula rent will be replaced by the rent cap.

18.7 In introducing these caps, it is not intended that authorities reduce rents to the caps instantly. If an authority has actual rents higher than the rent caps, the subsidy system will assume movement towards the formula rent in ten roughly equal steps, subject to the RPI + 0.5% – £2 limit on rent reductions.

The replacement formula rent caps for 2007–2008 are:

Bedsit	£102.32
1 bedrooms	£102.32
2 bedrooms	£108.33
3 bedrooms	£114.36
4 bedrooms	£120.37
5 bedrooms	£126.39
6+ bedrooms	£132.41

The caps will increase each year by RPI + 1%, where RPI is the all-items increase as at September of the preceding year.

The impact of 'caps' and 'limits'

18.8 In line with the proposals announced in the June 2002 consultation paper adjustments will be made in the HRA subsidy determination for 2003–2004 and onwards to the guideline rent to take account of the impact of caps and the limit on annual rent changes.

18.9 Adjustments are made on the basis of the difference between what the average rent would have been without limits and caps had the rent restructuring guidelines been followed in full in all other respects and what it would have been with the limits and caps. The effect of this is that an authority which has applied the policy in full should not be significantly worse or better off than it would have been had there been no limits or caps. Adjustments are made a year in arrears (using option 'A' from the consultation paper of June 2002).

18.10 It was only possible to make adjustments in the 2003–2004 HRA subsidy determination for those authorities who provided the necessary information in the base data return form 03B2. For that year only, this was optional. Where authorities were unable to produce the information, the former ODPM made adjustments in respect of 2002–2003 and 2003–2004 in the 2004–2005 HRA subsidy determination. **Authorities must ensure that they are in a position to provide the information that will enable the necessary calculations to be made for future years.**

Calculation of guideline rents for 2007–2008

18.11 The basic steps involved in the calculation are as for 2002–2003, with the base data rolled forward accordingly. (Please see the previous version of the HRA manual for the calculation of 2002–2003 and 2003–2004 guideline rents.) The calculation is as follows:

(a) Calculate the average formula rent for 2007–2008 for each authority. The calculation of the average formula rent for subsidy purposes is described in *Chapter 8.*

(b) Uprate each authority's guideline rent for 2006–2007 by 4.1% to bring it up to 2007–2008 values.

(c) Derive the guideline rent for 2007–2008 by moving the uprated guideline rent as at (b) 1/5th of the way towards the formula rent at (a). Hence:

Weekly Guideline Rent for 2007–2008 equals:

(Weekly Guideline Rent for 2006–2007 times 1.041)

plus

1/5 times [(Average Weekly Formula Rent 2007–2008) minus (Weekly Guideline Rent 2006–2007 times 1.041)]

The result is rounded to the nearest penny per week.

(d) Make the adjustments for 'caps' and 'limits'. The adjustment is rounded to the nearest penny per week. (There was no adjustment to the guideline rent in the 2007–08 HRA Subsidy Determination. Instead, a **Rental Constraint Allowance** was paid. For further details, please refer to paragraph 7 of the 2007–08 HRA Subsidy Determination.) A brief description is given at paragraph 18.17 below.

(e) Multiply the adjusted guideline rent by 52 to provide the 2007–2008 annual guideline rent per dwelling. This figure is shown to two decimal places.

18.12 For the purposes of HRA subsidy, the guideline rent is converted into an assumed, or notional, rent income. This is done by multiplying the annual guideline rent by the number of dwellings, and then multiplying the total by a factor of 0.98. The factor of 0.98 allows for the expectation that it will not generally be possible for all properties to be occupied at any one time. The calculation therefore allows for 2% of properties to be void and hence generating no rent income. The 2% is applied to all authorities – no account is taken of the **actual** level of voids in individual authorities. This means that authorities have an incentive to minimise the level of voids, in order to benefit from any increase in rental income which this generates. A level of voids lower than 2% will not lead to any reduction in subsidy.

18.13 The factor of 1.041 applied to the 2006–2007 guideline rents in the procedure above is based on the outcome of the Three Year Review which confirmed a real terms rent increase of 0.5% for the local authority sector in 2006–2007. The 4.1% uplift factor comprises the RPI at September 2006 (3.6%) plus a 0.5% real terms increase.

18.14 The subsidy calculations for the 2002 Spending Review were based on the assumption that the average guideline rents would increase in line with actual rents. However, actual rents in 2001–2002 were, on average, some 16% above guideline. The result is that moving guideline rents towards formula rents has the effect of raising guideline rents by more than the expected increase in actual rents. The average guideline rent increase for 2007–2008 was 7.11%. The average actual unconstrained rental increase would for 2007–08 was 6.4%. This has the effect of reducing total local authority HRA resources. The Government, however, decided that this effect on resources should be offset by an equivalent increase in management and maintenance allowances. In 2007–08, this rebasing element increased management and maintenance allowances by 1% (see *Chapter 14*).

18.15 The number of dwellings used in the calculation is pre-set at the total number of dwellings (including the authority's share of dwellings in shared ownership, and the dwellings equivalent of bed-spaces in hostels and houses in multiple occupation) as at the 1 April preceding the financial year. For the 2004–2005 HRA subsidy determination, therefore, the relevant dwellings are as at 1 April 2003.

18.16 The calculation of notional rental income remains at this pre-set level except where there is a change in the total number of dwellings of more than 10 per cent or 3,000, whichever is less (the 'threshold'). The change is measured by comparing the pre-set dwellings total with the position at the end of the financial year (as recorded on subsidy claim forms). In the case of the 2007–2008 HRA subsidy determination, this means comparing the number of dwellings as at 1 April 2006 with the number as at 31 March 2008. If the change is greater than the threshold then the assumed rental income for the year is recalculated. There is no change to the pre-set guideline rent but the number of dwellings is recalculated to measure the average number of dwellings over the course of the financial year in the way described in paragraph 4.4 of the HRA subsidy determination 2007–2008.

Rental Constraint Allowance

18.17 The Determination includes the new Rental Constraint Allowance originally introduced in The Housing Revenue Account Subsidy Determination 2006–2007 Amending Determination 2006. This provides for the calculation and payment of an off-set in-year for authorities who implement the recommended 5% cap on rent increases and also replaces the previous calculations for compensation for "caps and limits".

18.18 As in 2006–2007, it is anticipated that the rental constraint allowance will be included in the second advance claim form.

Annex A: Guideline Rents for 2007–2008

Guideline Rent Calculation 2007–2008: Paragraph 8 of the HRA Subsidy Determination 2007–2008

	Stage of Calculation	Worked Example	Base Data Form (07B2) Reference
	Stage 1: Calculate Formula Rent		
1	Dwellings as at 1 April 2006	2,735	F012ri
2	Number of 1 bedroom dwellings as at 1 April 2006 (bedroom weight=0.9)	786	F004ri
3	Number of 2 bedroom dwellings as at 1 April 2006 (bedroom weight=1.0)	953	F005ri
4	Number of 3 bedroom dwellings as at 1 April 2006 (bedroom weight=1.1)	815	F006ri
5	Number of 4 bedroom dwellings as at 1 April 2006 (bedroom weight=1.2)	35	F007ri
6	Number of 5 bedroom dwellings as at 1 April 2006 (bedroom weight=1.3)	3	F008ri
7	Number of 6 or more bedroom dwellings as at 1 April 2006 (bedroom weight=1.4)	0	F009ri
8	Number of bedsits as at 1 April 2006 (bedroom weight=0.8)	143	F010ri
9	Number of HMO dwellings equivalent as at 1 April 2006 (bedroom weight=1.0)	0	F011ri
10	Average LA bedroom weighting	0.9935	
11	National Average Manual Earnings 1997–99	£316.40	
12	National Average Property Value in January 1999	£49,750	
13	National Average Rent in April 2000	£54.62	
14	Authority's County Average Manual Earnings 1997–99	£332.50	
15	Local Average LA Property Value at 1 April 2006 in January 1999 prices	£51,945	F002ri
16	Relative county manual earnings [Line 14 divided by Line 11]	1.0509	
17	Relative property value [Line 15 divided by Line 12]	1.0441	
18	2001–2002 Formula Rent per dwelling per week [Yr 2000–2001 Formula Rent multiplied by 1.043]	£59.48	
19	2002–2003 Formula Rent per dwelling per week [Line 18 multiplied by 1.022]	£60.79	
20	2003–2004 Formula Rent per dwelling per week [Line 19 multiplied by 1.022]	£62.13	
21	2004–2005 Formula Rent per dwelling per week [Line 20 multiplied by 1.033]	£64.18	
22	2005–2006 Formula Rent per dwelling per week [Line 21 multiplied by 1.036]	£66.49	
23	2006–2007 Formula Rent per dwelling per week [Line 22 multiplied by 1.032]	£68.61	
24	2007–2008 Formula Rent per dwelling per week [Line 23 multiplied by 1.041]	£71.43	

continued

	Stage of Calculation	Worked Example	Base Data Form (07B2) Reference
	Stage 2 : Calculate Guideline Rent		
25	Pre-set Guideline Rent for 2002–2003 per dwelling per week	£47.86	
26	2002–2003 Pre-set Guideline Rent per dwelling per week uprated by 2.2% [Line 25 multiplied by 1.022]	£48.91	
27	2003–2004 Imputed "Guideline Rent" per dwelling per week [If Line 1 > 0, then Line 26 + { 1/9 × (Line 20 – Line 26)}]	£50.38	
28	2003–2004 Imputed "Guideline Rent" per dwelling per week uprated by 3.3% [Line 27 multiplied by 1.033]	£52.04	
29	2004–2005 Imputed "Guideline Rent" per dwelling per week before caps & limits adjustment {Line 28 + { 1/8 × (Line 21 – Line 28)}]}	£53.56	
30	2004–2005 Imputed "Guideline Rent" per dwelling per week before caps & limits adjustment, uprated by 3.6% [Line 29 multiplied by 1.036]	£55.48	
31	2005–2006 Imputed "Guideline Rent" per dwelling per week before caps & limits adjustments{ Line 30 + { 1/7 × (Line 22 – Line 30)}]}	£57.06	
32	2005–2006 Imputed "Guideline Rent" per dwelling per week before caps & limits adjustment, uprated by 3.2% [Line 31 multiplied by 1.032]	£58.88	
33	2006–2007 Imputed "Guideline Rent" per dwelling per week before caps and limits adjustments {Line 32 + { 1/6 × (Line 23 – Line 32)}]}	£60.50	
34	2006–2007 Imputed "Guideline Rent" per dwelling per week before caps & limits adjustment, uprated by 4.1% [Line 33 multiplied by 1.041]	£62.98	
35	2007/08 imputed Guideline rent pd pw (no caps and limits adjustment in 07/08)	£64.67	
36	2007–2008 Pre-set Annual Guideline Rent per dwelling [Line 35 multiplied by 52]	£3,363.01	
	Stage 3 : Calculate Notional Rental Income		
37	Line 36 × Line 1 × 0.98	£9,013,875.70	

19 Other Items of Reckonable Expenditure

19.1 Introduction

19.1.1 In addition to the main items of expenditure (management and maintenance allowances, the Major Repairs Allowance and capital charges), a number of miscellaneous items are taken into account in the overall HRA subsidy calculation. Although these represent a relatively small percentage of total subsidy paid to authorities, substantial sums can sometimes be involved for individual authorities.

19.1.2 The following sections of this chapter describe each of these items, which are known as **other items of reckonable expenditure** in the HRA subsidy determination (paragraph 7 and the various 'heads'), as follows:

19.2 – Rent of Leasehold Property

19.3 – Leased Equipment

19.4 – Deferred purchase and other credit agreements.

19.1.3 ***Annex A*** lists the individual items, indicates where they are recorded in the HRA, and summarises the extent to which they qualify for HRA subsidy (with cross-references to the HRA subsidy determination).

19.1.4 The HRA subsidy rules for some of these miscellaneous items are complex and, to a certain extent, intertwined with the HRA Item 8 and capital charges subsidy rules and also with the Capital Finance Regulations 2003. However, the common factors are that, to be reckonable for HRA subsidy:

(i) the expenditure in question must relate to HRA property;

(ii) it must be recorded in the HRA; and

(iii) HRA subsidy on the expenditure in question must not be claimed as part of the capital charges subsidy.

19.1.5 Not all miscellaneous items of expenditure recorded in the HRA are taken into account in the HRA subsidy calculation.

19.1.6 An authority's assumed expenditure on these other items is fixed on the basis of contractual commitments at 1 August in the year preceding the subsidy year. Where an individual agreement includes variable elements, for example interest rates, which may affect the payment due, the amount is based on the rates applying at 1 August of the previous year. Equally, when a lease is due to expire during the year, or the authority is planning to dispose of the properties or vary the terms of the contract, the amount of HRA subsidy claimed should be only the contractual amount payable up to the date of the scheduled expiry, disposal or variation.

19.2 Rent of leasehold property

(Heads 1–4 of Table A in HRA subsidy determination)

These Heads relate to the payment of rent on land, dwellings and other properties in the HRA, which are leased rather than owned by an authority.

19.2.1 Under the capital finance system (see *Chapter 3*), most new leases taken out on or after 1 April 1990 are treated as credit arrangements. As such, authorities require credit cover for the initial cost of these leases which in many cases is the capital cost of the lease, comprising both the cost of any premium and the net present value of the rental payments due under the lease.

19.2.2 This principle is the basis for the treatment for HRA subsidy purposes of rents paid by authorities on leased property within the HRA. Rental payments on such properties are not generally charged to the HRA directly. Instead, leases are taken into account in an authority's HRA and subsidy capital financing requirements (CFRs) and, where these CFRs are positive, will increase the Item 8 debit to the HRA and attract HRA subsidy indirectly as capital charges. New leases (i.e. since 1 April 1990), and certain variations of existing leases, are generally treated as new borrowing. HRA subsidy on the corresponding payments will be paid if the credit cover relied upon is taken into account in the subsidy capital financing requirement (SCFR) (see *Chapter 16.1*).

19.2.3 Rental payments on various types of leases acquired before the current capital finance system came into effect are charged directly to the HRA under debit Item 3, but are eligible for HRA subsidy on a revenue rather than a capital basis.

19.2.4 The key factors in determining whether rental payments are reckonable expenditure for HRA subsidy purposes are that:

(i) they are not to be treated as expenditure for capital purposes;

(ii) the lease should be recorded in the HRA, rather than in the General Fund;

(iii) the particular details of the lease come within one of the heads defined in the subsidy determination.

19.2.5 These factors in turn will depend on:

(i) the **date** the lease was acquired, renewed or, in some cases, varied; and

(ii) the **length** of the lease.

Date of acquisition, renewal or variation

19.2.6 The key date is **23 October 1990**. From that date, rental payments (as well as premiums) on all new leases over three years have been treated as capital expenditure for HRA and HRA subsidy purposes, as described in *paragraphs 19.2.1 and 19.2.2* above.

19.2.7 In general terms, subject to certain value-for-money controls, rents on leases acquired before 23 October 1990 are reckonable for direct HRA subsidy on a revenue basis, whereas those acquired after that date attract HRA subsidy indirectly as capital charges. HRA subsidy is no longer payable for expenditure on rent for an interest in land for development acquired between 1 April 1981 and 22 October 1990.

19.2.8 The HRA subsidy rules summarised at *Annex A* are primarily concerned with leases acquired before 23 October 1990. Within this broad group there are various sub-divisions, with different rules applying to leases acquired in different periods, according to the HRA subsidy rules applying at the time.

19.2.9 In all cases the date of acquisition is determined, for HRA subsidy purposes, by the date on which an authority enters into a binding contract, not the date of physical acquisition.

Length of lease

19.2.10 All leases of up to ten years of dwellings taken on after 31 March 1997 for the purpose of housing homeless households (see *the HRA (Exclusion of Leases) Direction 1997*) are excluded from the HRA. No HRA subsidy can be claimed on rents arising under short-term leases from 1 April 1995, the date when transitional arrangements for rents on short-term leases ceased.

19.3 Leased equipment

(Head 5 of Table A in the HRA Subsidy Determination)

This Head relates to annual payments made under contracts entered into by authorities for leased equipment in new-build or renovation schemes for HRA purposes. Examples include leases for vehicles, plant or machinery, such as central heating equipment.

19.3.1 Annual payments under agreements to hire equipment (irrespective of whether these are called 'hire purchase' or 'leasing' agreements) are reckonable for HRA subsidy purposes if they arise from a contract entered into on or before 21 December 1989, provided that:

(i) they are not credit arrangements as defined in section 7 of the Local Government Act 2003 or in the Capital Finance Regulations 2003;

(ii) the terms of the lease have not been varied since that date;

(iii) in cases where the installation of the equipment was not complete when the contract was entered into, the authority actually became the lessee of the equipment on or before 30 September 1990;

(iv) there is no binding obligation (as opposed to an option) in the agreement to purchase the equipment; and

(v) the payments are annual rental payments under the lease, and that lease does not make any distinction between the principal and interest elements of the payments. If it does, HRA subsidy may only be claimed on the interest element.

19.3.2 Any payments made in respect of the termination of a lease, or for the purchase of the equipment or other lump sum (as opposed to annual) payments, do not generally qualify as reckonable expenditure for HRA subsidy purposes. This applies even if any termination payments are calculated by reference to the annual payments which would otherwise have been made, although HRA subsidy would be allowed on any rental payments which are payable up to the date of termination.

19.3.3 Increases in payments as a result of additional tax liabilities to the finance institution would also not be eligible for HRA subsidy if this increase is payable only by means of a lump-sum payment. But where the increase is in the form of adjusted future annual payments, under the terms of the lease agreement, the payments generally will qualify for HRA subsidy.

19.3.4 HRA subsidy is not payable (under either this head or under the capital charges provisions) on any payments for equipment leases entered into between 22 December 1989 and 31 March 1990. However, in respect of leases entered into after 31 March 1990, HRA subsidy may be payable as part of the capital charges element, provided that:

(i) the lease is a credit arrangement as defined in section 7 of the 2003 Act;

(ii) credit cover for the initial cost of the lease was provided by a supported borrowing approval taken into account in the calculation of the subsidy capital financing requirement (SCFR).

19.3.5 **Operating leases** are not credit arrangements and no HRA subsidy is payable on these as either capital charges or other items of reckonable expenditure.

19.4 Deferred purchase and other credit agreements

(Head 6 of Table A in the HRA subsidy determination)

This Head relates to interest payments on certain credit agreements entered into under the former Housing Subsidy regime. These include deferred purchase agreements but exclude those leasing agreements covered by Head 5, which are covered in section19.3.

19.4.1 In order to qualify for HRA subsidy, such agreements must:

(i) not already attract HRA subsidy as capital charges under paragraph 6 of the HRA subsidy determination (i.e. the amount of any outstanding advance from the authority's loans fund in respect of such agreements must not have been included in their initial opening subsidy credit ceiling for 1 April 1990);

(ii) relate to expenditure on property, works or equipment which would otherwise have been debited to the HRA;

(iii) either:

(a) have been entered into by the authority before 7 July 1988; or

(b) have come into being on or after 7 July 1988 and before 1 April 1990 but which were not transitional credit arrangements by virtue of section 52(2)(d) of the 1989 Act;

(iv) have not been varied since 21 December 1989.

19.4.2 The amount of interest qualifying for HRA subsidy under this Head is the lower of:

(i) the actual payments due (based upon contractual commitments at 1 August in the year preceding the subsidy year); or

(ii) notional interest payable if the Consolidated Rate of Interest (CRI) had been used (see *paragraphs 7.4.6–7.4.8* for the calculation of CRI).

19.4.3 Other liabilities payable under the terms of individual agreements, such as legal fees and indemnities against additional tax payments, are not eligible for HRA subsidy.

19.4.4 HRA subsidy is also paid under Head 6 in respect of payments of interest under restitution or other compromise arrangements, in cases where there is doubt about the *vires* of the original agreement. The amount of HRA subsidy in such circumstances is limited to the lower of the amount that would have been eligible under the original agreement, and actual interest payments under the restitution or compromise arrangement. But if an authority has simply suspended payments on a deferred purchase agreement, without entering into a compromise arrangement, no HRA subsidy will be payable.

HRA subsidy treatment of other agreements

19.4.5 With effect from 1 April 1990, deferred purchase, hire purchase and similar arrangements are generally treated as **credit arrangements**. This means that credit cover is generally required for the initial cost of each arrangement entered into or varied on or after 1 April 1990, **at the time the contracts are entered into**. In the case of leases, which are also generally credit arrangements, credit cover is generally needed at the time when the authority becomes the lessees under the arrangement. See section 7 of the 2003 Act and the Capital Finance Regulations for more details, and in particular for exceptions to the general rules. Agreements entered into for these purposes will therefore increase an authority's HRA and HRA subsidy CFRs and (provided these are positive) increase the Item 8 debit and their entitlement to subsidy on loan charges. Interest payments on agreements entered into on or after 1 April 1990 do not therefore attract subsidy under this Head.

HRA subsidy treatment of repayment of principal

19.4.6 The rules on the repayment of principal on or after 1 April 1990 are as follows:

(i) repayment of principal on **agreements entered into after 1 April 1990** may be met from an authority's provision for credit liabilities (PCL) as they arise;

(ii) sums due on or after 1 April 1990 on **transitional credit agreements** may also be met from PCL, but any such payments on HRA-related agreements are not eligible for HRA subsidy; and

(iii) repayment of sums due on or after 1 April 1990 under agreements entered into **before 8 July 1988** cannot, however, be met from PCL and must be met from other resources available to an authority, revenue contributions or credit approvals. If met from credit approvals, such repayments will be eligible for HRA subsidy in the usual way.

Annex A: Other Items of Expenditure – subsidy/HRA comparison

Type of Expenditure	HRA Subsidy Determination for 2004–2005	HRA	Amount of reckonable expenditure specified in
Reckonable for Subsidy			
Rent of leasehold property			
Rent for an interest in land, houses and other property acquired before 1 April 1981	Head 1	Debit Item 3	Column 1 Schedule 3
Rent for an interest in dwellings acquired between 1 April 1981 and 16 August 1989 for which a premium is payable	Head 2	Debit Item 3	Column 2 Schedule 3
Rent for an interest in dwellings acquired between 1 April 1981 and 16 August 1989 for which no premium is payable, where the rent has not changed since 16 August 1989	Head 3	Debit Item 3	Column 3 Schedule 3
Rent for an interest in dwellings acquired between 17 August 1989 and 22 October 1990 (whether or not a premium is payable) together with rent for an interest in dwellings acquired between 1 April 1981 and 16 August 1989 for which no premium is payable, where the rent has changed since 16 August 1989	Head 4	Debit Item 3	Column 4 Schedule 3
Annual payments for **leased equipment**, excluding any payments for purchase, in new-build or renovation schemes, where the authority became lessee – on or before 21 December 1989, or – on or before 30 September 1990 where – the contract for installation was let, or – the equipment installation work started on or before 21 December 1989 and where there was in existence on 21 December 1989 an agreement under which the authority would become lessee of the equipment **and** the terms of the lease have not been varied since 21 December 1989	Head 5	Debit Item 3	Column 5 Schedule 3
Interest payments not covered by paragraph 5 or Head 5 under arrangements which would have been credit arrangements under s7 of the 2003 Act if entered into on or after 1 April 1990 (**deferred purchase arrangements**) where – the arrangements were used to meet expenditure on property, works or equipment which would otherwise have been debited to the HRA – the authority entered into the contract for the property, works or equipment before 7 July 1988 or after 7 July 1988 and the arrangement is not a transitional credit arrangement – the terms of the arrangement have not been varied since 21 December 1989	Head 6	Debit Item 8 (Item L in the Item 8 capital charges accounting adjustment in paragraph 4.5)	Column 6 Schedule 3

20 Claims, Payments, Collection of Negative HRA Subsidy and Certification Procedures

This chapter covers the conditions and procedures for claiming HRA subsidy, for making subsidy payments and collecting assumed HRA surpluses.

Annex A *provides a timetable for the annual base data and claim sequence.*

Annex B *sets out the Recoupment of Housing Revenue Account Subsidy Rules 2004.*

Annex C *sets out the General Determination of Administration of Housing Revenue Account Subsidy 2004.*

The statutory framework

20.1 Sections 79(2), 80(3), 80A, 80ZA, 85, 86 and 87 of the 1989 Act set out the statutory framework for the administration of HRA subsidy *(*see *Chapter 13 Annex A*). The General Determination of Administration of Housing Revenue Account Subsidy 2004 *(*see *Chapter 20 Annex C)*, sets out the conditions and procedures for claiming HRA subsidy and the time and manner of subsidy payments and collections. All earlier General Determinations of Administration of Housing Revenue Account Subsidy are revoked from 16th February 2004.

The claim process

20.2 HRA subsidy has the following stages:

Data collection

(i) advance base data return certified by 31st August in the year preceding the claim year; and

(ii) auditor base data return certified by 10th October in the year preceding the claim year;

Claims

(i) first advance claim certified by 31st March in the year preceding the claim year;

(ii) second advance claim certified by 31st August in the claim year;

(iii) advance final claim certified by 30th September in the year following the claim year; and

(iv) auditor final claim certified by 31st December in the year following the claim year.

(If any of these dates fall on a bank holiday or weekend, the deadline is the last working day before the date.)

20.3 ***Annex A*** illustrates the timetable for the claim process.

The claim cycle

20.4 DCLG's internet based subsidy and grants system – LOGASnet – is based on activity 'cycles'. A cycle may comprise the whole of a claims cycle, from base data capture to auditor-certified final claim, spanning a 30 months+ period. However, it could comprise two cycle steps, for example the advance base data return and the auditor base data return. Each step within a cycle has a reference consisting of four characters. The first two characters identify the financial year concerned, e.g. 05 (2005–2006); the second two identify the step e.g. 02 (the second step in that cycle). The cycle steps used, and due to be used, in respect of the financial year 2005–2006 are as follows:

05B1 Advance Base Data Return – *due by 31st August 2004*

05B2 Auditor-certified Base Data Return – *due by 10th October 2004*

0501 First Advance Claim Form – *due by 31st March 2005*

0502 Second Advance Claim Form – *due by 31st August 2005*

0503 Advance Final Claim Form – *due by 30th September 2006*

0504 Auditor-certified Final Claim Form – *due by 30th December 2006.*

20.5 The **advance base data returns** are used by DCLG to collect provisional data from authorities for use in the calculation of the pre-set element of HRA subsidy for the following year.

20.6 The **auditor-certified base data return** is identical to the advance base data return and contains the same information. The auditor certified base data return will be made available by DCLG to each authority's auditor via LOGASnet. When authorities have completed the advance return they should notify their auditor that the data is available for certifying. Auditors will require authorities to make any necessary changes themselves to the advance base data return. This is in line with Audit Commission practice for other certified claims.

20.7 Once satisfied with the certified amendments which authorities have made the auditor will certify (or re-certify) the data on line, thus automatically making the certified data available to DCLG. The auditor-certified data will be used by DCLG in the calculation of the pre-set element of HRA subsidy for the following year.

Claims, payments, collections and audit procedures

20.8 Where the auditor-certified base data return is not certified by the deadline, DCLG may not have sufficient time to make the calculation for an authority before the issue

of the annual general determination of HRA subsidy. In that event, DCLG may, in order to protect the Exchequer, make assumptions about an authority's data which might have an adverse effect on the pre-set specified amounts for the following year. It is in the authority's interests, therefore, to ensure that the auditor-certified base data return is completed correctly and certified by the deadline.

20.9 DCLG also expects local authorities to check thoroughly the data entered on the return. DCLG continues to receive a number of requests to amend pre-set data after the annual HRA subsidy determination has been finalised and issued. Ministers' policy is not normally to change pre-set figures after the determination has been made. It is therefore of prime importance that authorities check the certified data, or those entered on any previous return (e.g. the base rent for limitation purposes, as provided on electronic claim form 97B2), if those data are to be used for pre-setting.

20.10 The **first advance claim should be certified by authorities by 31st March.** On-account payments of HRA subsidy and on-account collection of amounts of negative HRA subsidy due in the period from May to September will be based on the data in this form and the HRA subsidy determination for the year.

20.11 The **second advance claim should be certified by authorities by 31st August.** On-account payments of HRA subsidy and on-account collection of amounts of negative HRA subsidy due in the period from October to February will be based on the second advance claim form and the subsidy determination for the year.

20.12 The **advance final claim** sets out the authority's unconfirmed outturn figures for the year. It is due by 31st December in the year following the relevant subsidy year. It is the basis for calculating any balance due to the authority or receivable by DCLG, after deducting the amounts already paid or collected in respect of the first and second advance.

20.13 The **auditor-certified final claim** is identical to the advance final claim form. At the same time that authorities certify the advance final claim form, which then becomes available to DCLG, the authority should notify its auditor that the data are available for certifying. Auditors will require authorities to make any necessary changes themselves to the advance final claim. Once satisfied with the certified data submitted by an authority, the auditor will certify the data on line, thus automatically making that data available to DCLG.

20.14 The first and second advance claim forms are also used to collect additional information for monitoring and developing the HRA subsidy system. Authorities should note that inaccurate data certified in this part of these claim forms may lead to DCLG making incorrect assumptions about the impact of future changes in the HRA subsidy system. Data required for information purposes may vary from year to year, as may the information required for the HRA subsidy calculation. This additional information may include items such as actual HRA data, data on rent arrears and rent increases and information on the purchase and disposal of dwellings.

Validation and overclaiming checks

20.15 On line claims may contain checks which restrict entries which can be made to particular fields. Where an entry fails a check, an error message will appear which will explain the scope of the restriction. In some instances, the authority will be allowed to confirm that the entered data is in fact correct, in which case the validation message will not prevent submission of the data. In other cases it will not be possible to certify the data while the error message is generated and the authority will have to insert data that meets the validation criteria. Such criteria might, for example, require that average rent per week cannot be more than a certain set amount, so as to avoid submission of incorrect data. In addition, DCLG may carry out validation checks which test an entry on the form against certain conditions – for example, previously supplied data. Details of the main tests will be explained on the claim, or in accompanying correspondence.

20.16 Forms may also contain overclaiming checks, or overclaiming checks may be carried out separately. It is DCLG's usual policy that, where a return fails an overclaiming check, the authority will be notified of the failure and asked to submit either an explanation or corrections within a specified period. Similar checks will identify potential under-statement of negative HRA subsidy to be paid to DCLG.

20.17 In addition, DCLG may look at the pattern of authorities' claims across several years – for example substantial reductions or increases between the second advance and the advance final. Where this pattern points to persistent overclaiming, under-collection, or weaknesses in authorities systems, DCLG will take the matter up with the authority.

20.18 Where a claim or return fails a validation or overclaiming check and a satisfactory explanation has not been provided, DCLG may reduce, withhold or delay payment until a satisfactory response is received.

Certification

20.19 The Chief Finance Officer (CFO) of the authority (or an officer delegated to act on his or her behalf) must certify the advance base data return, first and second advance claim and the advance final claim forms on-line on LOGASnet. The auditor version of the base data return and the auditor version of the final claim form must be certified on-line on LOGASnet by the authority's auditor appointed by the Audit Commission.

20.20 In certifying the authority's data the CFO confirms that he or she has carried out the appropriate checks and that the data provided are, in accordance with the relevant legislation, circulars, notes and instructions and that to the best of his or her knowledge and belief the information provided is correct. The CFO undertakes that the authority has systems and controls in place to check the data provided, and that the authority will notify DCLG immediately of any matters which raise questions of financial principle (e.g. regularity and propriety, known or suspected frauds and losses) relating to HRA subsidy.

Copies of claim forms and records

20.21 Local authorities must keep records relating to their returns and claims to enable them to show, and their auditor to check, that the auditor-certified base data return and the final claim forms have been correctly certified and to satisfy DCLG that all returns and claims have been correctly completed.

Change of address, bank or other details

20.22 Where an authority changes their address, bank or other details, the CFO should notify DCLG in writing. DCLG conducts various checks to ensure that the changes are valid.

The payment process

20.23 There are currently ten scheduled on-account payments and collections of HRA subsidy each financial year, monthly from May to February. Payments are normally to be made on the 15th day of the month or the first working day after the 15th. Authorities are notified of the payment dates before the beginning of the financial year, and are notified of the amounts to be paid or collected normally at least 10 working days in advance of payment. Payments will be made via the Bankers Automated Clearing Services (BACS), with payments of negative HRA subsidy due to the Secretary of State being made by direct debit where authorised by authorities.

20.24 Provided complete and properly made data returns and claims are submitted on time, the amounts paid or collected are based on the following:

(i) first advance claim – five payments or collections, each being equal to one-tenth of the total amount of subsidy claimed or the total amount of negative HRA subsidy due to the Secretary of State in accordance with the data in the first advance claim; these five payments or collections to be made in the months of May to September;

(ii) second advance claim – five payments or collections, each being equal to one-tenth of the total amount claimed or the total amount of negative subsidy due in accordance with the data in the second advance claim, but adjusted to take into account any amounts of subsidy overpaid or underpaid to the authority, or any negative subsidy overpaid or underpaid to DCLG, in respect of the first advance claim; these five payments or collections to be made in the months of October to February;

(iii) advance final claim – **for authorities in receipt of subsidy**, a single payment, or one (or, if necessary, more) recovery. Where the claim shows a balance due to an authority, DCLG will pay 80% of the balance due as a single amount on the first practical payment date at least two weeks after certification of the claim. Where the claim shows a balance due to DCLG, DCLG will recover the amount of the excess. This recovery will be made, by the issue of an Invoice.

For authorities from whom negative subsidy is being collected, a single (or, if necessary, more) collection or payment. Where the claim shows a balance due to DCLG, DCLG will collect the balance due as a single amount on the first practical payment date at least two weeks after certification of the claim. Where the claim shows a balance due to the authority, DCLG will pay the amount of the excess. Collection will normally be by direct debit or such other arrangement as has been made with the authority for collecting negative subsidy;

(iv) auditor-certified final claim – **for authorities in receipt of subsidy**, a single payment or one (or, if necessary, more) recovery. Where the claim shows a balance due to an authority, and provided the claim is not accompanied by an auditor's qualification letter, DCLG will pay the balance due to the authority. Where the claim is accompanied by an auditor's qualification letter, DCLG will consider the issues raised and discuss them with the authority and withhold any further payment until the authority's entitlement to HRA subsidy is determined. Where the claim shows a balance due to DCLG, DCLG may recover the amount of the excess whether or not the claim was accompanied by an auditor's qualification letter. This recovery will be made, by the issue of an Invoice.

For authorities from whom negative subsidy is being collected, a single (or, if necessary, more) collection or payment. Where the claim shows a balance due to an authority, and provided the claim is not accompanied by an auditor's qualification letter, DCLG will pay the balance due to the authority. Where the claim is accompanied by an auditor's qualification letter, DCLG will consider the issues raised and discuss them with the authority and withhold any further payment until the authority's entitlement to a refund of negative HRA subsidy is determined. Where the claim shows a balance due to DCLG, DCLG may recover the amount of the excess whether or not the claim was accompanied by an auditor's qualification letter. This will normally be done by direct debit or such other arrangement as has been made with the authority for collecting negative subsidy;

(v) authorities may move during the year between being entitled to receive HRA subsidy and being required to pay amounts of negative HRA subsidy to the Secretary of State for a year. Where this is the case, payments or collections will be adjusted as necessary to take account of collections or payments already made.

20.25 Authorities should note that it is **not DCLG**'s practice to accept:

(i) claims or base data returns other than on-line through the LOGASnet system or such other system as the Secretary of State may approve;

(ii) amendments to advance claims or returns submitted after the deadline for the form or return, although in exceptional circumstances DCLG may consider making changes – e.g. where the authority have overclaimed HRA subsidy. It will, however, be possible for authorities to amend their certified data up until an amendment deadline, which will be the same as their certification (in effect their submission) deadline, as specified in paragraph 4.1 to the Determination. This

means that authorities may certify and submit data more than once (including their advance final claim), provided that is done before the relevant deadline. They should inform their auditors if they propose to do so, to avoid abortive work on their part;

(iii) amendments to claims or returns other than on-line through the LOGASnet system or such other system as the Secretary of State may approve.

Interim payments

20.26 Only in very exceptional circumstances will DCLG consider making an interim payment to an authority. Such a payment would be made at any time during the year.

Demands for repayment

20.27 DCLG will normally recover overpayments of subsidy paid on account. An Invoice will be issued requiring settlement within a specified period. Authorities are expected to settle by making a payment to DCLG by the settlement date. Where an overpayment relates to a claim against an authority which has been abolished following local government reorganisation, DCLG will issue an Invoice to the successor authority or will abate the successor authority's on-account payment in line with the Invoice. DCLG may charge interest and or costs where an Invoice is not settled as required.

Interest

20.28 DCLG may, as a matter of policy, charge interest on any negative amounts of HRA subsidy required to be paid which have not been received by the due date, and may also charge other costs arising from the collection of late payments. Authorities have been encouraged to mandate the use of direct debits in order to avoid the possibility of late payment.

Charges for interest, whether against an unpaid Demand Note or in respect of unpaid negative subsidy, will be raised as separate Demand Notes, which authorities will be expected to settle by making a payment to DCLG by the settlement date. It is not currently proposed that interest charges should be recovered by Direct Debit.

Late claims

20.29 [LAGGARDS PROCESSING] If a form is not certified by an authority on the Logasnet system by the deadline, DCLG will normally take the following action:

(i) advance and auditor-certified base data return – part or all future on-account payments of HRA subsidy will be withheld until the form is received;

(ii) first advance claim – there is provision in the 2004 Administration Determination for DCLG to make assumptions about the amounts of HRA subsidy to be paid or the amounts of negative HRA subsidy to be recovered in such cases. DCLG

proposes to use these powers to determine on-account payments of negative HRA subsidy, relying on its powers to withhold or abate on account payments where subsidy is due to authorities;

(iii) second advance claim – DCLG proposes to adopt a similar approach at this stage;

(iv) advance final claim – where appropriate, some or all future on-account payments of HRA subsidy will be withheld until the claim is received; and

(v) auditor-certified final claim – where appropriate, part or all future on-account payments of HRA subsidy will be withheld until the claim is received.[5] In addition, payment may be withheld or delayed pending receipt by DCLG of information relating to the authority's claim for any year where DCLG has asked for extra information;

(vi) It is DCLG's policy normally to refuse requests by local authorities for extensions to the deadlines for certification of claims and base data returns.[6]

The audit certification process

20.30 A condition of HRA subsidy is that an authority must provide a base data return and a final claim form, both certified by an auditor appointed by the Audit Commission. DCLG may make assumptions about the amounts of negative HRA subsidy to be recovered where no data or claim form has been provided.

20.31 The auditor will test the return and claim against a number of prescribed tests set out in annual Certification Instructions issued by the Audit Commission. The Audit Commission aims to issue the Certification Instructions in July each year. The auditor must perform all the tests in accordance with the Certification Instructions. The auditor may perform additional tests if these are felt to be necessary.

20.32 The Certification Instruction tests are designed to ensure that the return or claim:

(i) complies with the subsidy determinations;

(ii) is correctly compiled; and

(iii) agrees with the authority's accounts.

20.33 Where the auditor is satisfied that the return or claim complies with the tests and is fairly stated, the auditor will certify the return or claim form.

5 Authorities should note that DCLG will not accept an auditor-certified final claim which has been heavily qualified as a result of the authority not having kept adequate records and supporting information. Authorities should note that it is their responsibility to ensure that adequate records are maintained which enable the auditor to certify the return or claim. It is also their responsibility to agree with their auditors a timetable that will allow the auditor-certified returns to be entered onto the Logasnet system by the relevant deadline.

6 This is not the same as 'unlocking' a claim on LOGASnet to enable an authority to make such amendments after the normal deadline, as may be required by the authority's auditor to enable him to certify the claim without qualification. DCLG will, of course, action such requests provided they are made by the auditor and in accordance with published procedures. See 20.37 et seq.

20.34 Where the auditor is not satisfied that the return or claim is fairly stated, the auditor may certify the return or claim, subject to:

(i) amendments which have been agreed with and provided by the authority – in such cases the auditor may identify the amendments in a qualification letter; or

(ii) a qualification letter setting out the areas of concern. The auditor will set out the areas of concern, refer to the relevant subsidy determinations and Certification Instruction tests, and quantify where possible the amounts involved in terms of subsidy entitlement.

20.35 Where an auditor-certified final claim is accompanied by an auditor's qualification, DCLG will normally:

(i) recover in full any balances receivable;

(ii) withhold payment of any balance of HRA subsidy due to the authority against the auditor-certified final claim until the issues raised by the auditor have been considered and resolved to the satisfaction of DCLG and the authority's entitlement to HRA subsidy has been determined;

(iii) notify the authority of the action which needs to be taken in respect of each issue raised by the auditor and copy the correspondence to the Audit Commission;

(iv) require the authority to respond by a specified date (normally within four weeks from the date of DCLG's request) and the auditor to certify the response and comment as appropriate;

(v) where an agreement cannot be reached, consult the authority on the action which DCLG intends to take, prior to making any payment or seeking further recovery; and

(vi) notify the authority electronically, once the issues have been resolved of its intention to issue a final decision under section 80A of the 1989 Act.

20.36 DCLG seeks to respond to audit qualifications as soon as possible but may need some time to consider the issues raised.

Amendments to auditor-certified final claim forms

20.37 DCLG may consider an adjustment by the authority to the auditor-certified final claim, whether or not that claim is accompanied by a qualification letter from the auditor, where it is satisfied that the adjustment is required to properly reflect the amount of HRA subsidy due to the authority for the relevant year. Adjustments can, however, only be made before the Secretary of State makes a final decision under section 80A of the 1989 Act.

20.38 Authorities should note that DCLG has powers to reopen a claim at any time before a decision is made under section 80A of the 1989 Act where it is considered that an

authority has overclaimed HRA subsidy. Any proposed recovery would be subject to the Recoupment of Housing Revenue Account Subsidy Rules 2004 and the authority would be consulted on any such proposed recovery.

Final decision as to the amount of HRA subsidy

20.39 The Secretary of State will make a final decision according to section 80A as to the amount of HRA subsidy payable to a local housing authority for a year and will notify the authority of his decision electronically after the end of the financial year. Once this amount has been notified to the authority, neither the local authority nor DCLG will be able to amend the claim.

20.40 DCLG makes its final decision once the auditor-certified final claim has been received and any matters raised by the auditor in any qualification letter accompanying the claim form or any other outstanding issues have been resolved. Where the amount of subsidy already paid to an authority for the financial year is less than the amount finally decided, the authority would be entitled to be paid the balance. Where subsidy has been paid to an authority in excess of the amount finally decided, the Secretary of State is empowered to recover the excess.

20.41 DCLG will make its decision only once all payments and recoveries have been made so that the amount of HRA subsidy payable corresponds to the amount actually paid.

Recoupment

20.42 The Recoupment Rules made under section 86 of the 1989 Act set out the circumstances where DCLG may recover overpaid HRA subsidy *(see The Recoupment of HRA Subsidy Rules 2004: Annex B*).

These are where:

(i) a claim is incorrect;

(ii) information or records, including audit trails, are considered to be incorrect, misleading or inadequate;

(iii) there is a miscalculation of HRA subsidy entitlement; or

(iv) there is a breach of a condition in an HRA subsidy determination or a special determination relating to the payment of HRA subsidy.

20.43 Where DCLG proposes to recover overpaid subsidy under the Recoupment Rules, the authority concerned will be consulted on the proposed recovery.

Special determinations and directions

20.44 The Secretary of State has power under sections 80 and 87 of, and Schedule 4 to, the 1989 Act to vary the subsidy rules and the Item 8 debit and credit rules set out in the

general determinations and to vary the provisions of Schedule 4 by virtue of section 87A.

20.45 An authority may apply to DCLG for a special determination or direction. In certain circumstances DCLG may instigate the special determination or direction.

20.46 When submitting an application for either a special determination or a direction, authorities should provide the following information:

(i) the sub-paragraph(s) of the general determination or direction which the authority wants to be changed;

(ii) the reason for the change, including the financial impact of the current rule on the authority in terms of subsidy loss, impact on council rents and the General Fund;

(iii) the amendment required and the year(s);

(iv) an estimate of the financial impact on the authority if the request is granted, in terms of subsidy, council rents and the General Fund;

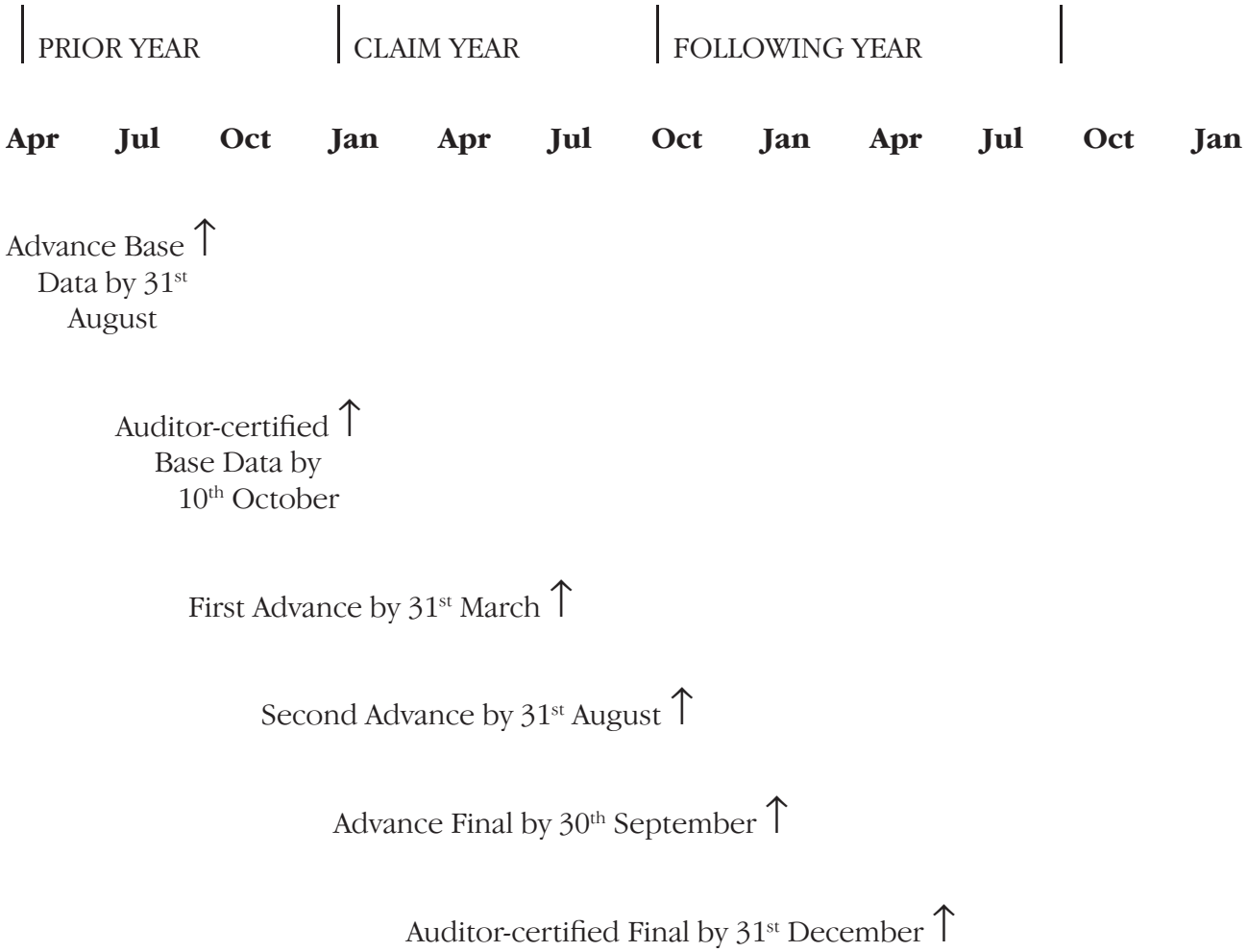
(v) any other relevant information and copies of papers, including committee reports and minutes; and

(vi) a contact point at the authority.

20.47 DCLG will ensure that all applications are considered fairly and consistently. A substantive response setting out DCLG's initial view will generally be sent to the authority within four weeks of receipt of the application. Where an application is rejected, the authority will have four weeks to respond with further supporting evidence.

20.48 Where an application is accepted, the authority is given at least four weeks to consider a draft of the special determination or direction. Subject to their comments, the special determination/direction will then be issued.

Annex A: The HRA Subsidy Claim for One Year from 2004–2005 onwards



Annex B: The Recoupment of Housing Revenue Account Subsidy Rules 2004

The First Secretary of State, as respects all local housing authorities in England, in exercise of the powers conferred on him by section 86 of the Local Government and Housing Act 1989 hereby publishes the following rules:-

Citation and Commencement

1.1 These Rules may be cited as The Recoupment of Housing Revenue Account Subsidy Rules 2004 and shall have effect as respects the recoupment of HRA Subsidy by the Secretary of State from February 16 2004.

1.2 Subject to paragraph 1.3 The Recoupment of Housing Revenue Account Subsidy Rules 1993 are hereby revoked.

1.3 The Recoupment of Housing Revenue Account Subsidy Rules 1993 shall continue to have effect as respects the recoupment of HRA Subsidy by the Secretary of State prior to February 16 2004.

Interpretation

2. In these Rules:-

"authority" means a local housing authority; and

"HRA Subsidy" means Housing Revenue Account Subsidy

Cases of Recoupment

3. Where HRA Subsidy has been paid to an authority the Secretary of State may recover the payment in the cases mentioned below.

Rule 1

Where HRA Subsidy has been overpaid because:

(a) a claim is incorrect;

(b) information or a record kept by the authority or supplied by the authority to the Secretary of State is incorrect, misleading or inadequate;

(c) a miscalculation of the authority's entitlement to HRA Subsidy was made by the authority or the Secretary of State.

Rule 2

Where there is a breach of a condition whether or not in a Special Determination and relating to the payment of HRA Subsidy.

Amount Recoverable

4. (a) Rule 1, the amount by which HRA Subsidy has been overpaid;

(b) Rule 2, the amount by which HRA Subsidy has been overpaid as a result of the breach of condition.

Means of Recovery

5. (a) Recovery of overpayment shall be made by a demand note requesting an amount to be repaid which is issued by the Secretary of State;

(b) where repayment is not made as requested, interest may be charged on the outstanding amount from the due date at the current Bank of England base rate plus 2%.

John Apps
For and on behalf of the Secretary of State

16 February 2004

Annex C: The General Determination of Administration of Housing Revenue Account Subsidy 2004

The First Secretary of State as respects all local housing authorities in England, in exercise of the powers conferred on him by sections 79(2), 80ZA and 87 of the Local Government and Housing Act 1989, and of all other powers enabling him in that behalf, after consulting such representatives of local government and relevant professional bodies as appear to him to be appropriate, and with the consent of the Treasury, hereby makes the following determination:-

Citation, commencement and savings

1.1 This determination may be cited as the General Determination of Administration of Housing Revenue Account Subsidy 2004 and shall have effect in relation to the payment of HRA subsidy and collection of negative HRA subsidy for the year beginning 1 April 2004 and subsequent years.

1.2 This determination shall have immediate effect in relation to the payment and recoupment of HRA subsidy for the years beginning 1 April 2003 and preceding years.

1.3 The General Determination of Administration of Housing Revenue Account Subsidy 2002 is hereby revoked.

Interpretation

2. In this determination:

"authority" means a local housing authority;

"base data" means such data as the Secretary of State requires to be provided by local authorities in advance of the relevant year, to be used for the purposes of determining HRA subsidy for that year;

"cycle" means the claims cycle period in respect of HRA subsidy and negative;

"cycle step" means a requirement to supply base data or claims information on the Logasnet data capture screen as appropriate at a specified point in the cycle, for the purposes of calculating the amount of HRA subsidy payable to an authority or the amount of negative HRA subsidy due from an authority, as the case may be;

"debit" means, where it refers to the debit of negative HRA subsidy by the Secretary of State, the collection of sums due by any appropriate method, including but not limited to, a direct debit arrangement with an authority;

"demand note" means a request for recovery of overpayment of HRA subsidy paid on account;

"HRA subsidy" means Housing Revenue Account subsidy payable to an authority under section 79 of the Local Government and Housing Act 1989;

"Logasnet" refers to the ODPM Internet based local government grants and subsidies system;

"negative HRA subsidy" means the amount debited by an authority to its HRA and payable to the Secretary of State under section 80ZA(1) of the Local Government and Housing Act 1989;

"SAP" refers to the ODPM finance and accounting system;

"relevant year" means the year for which HRA subsidy is payable; and

"year" means a period of 12 months beginning on 1st April.

General conditions for payment of HRA subsidy to authorities and collection of negative HRA subsidy from authorities

3.1 Subject to compliance by the authority with the provisions of this determination:-

3.1.1 the Secretary of State shall make payments of HRA subsidy to an authority on account of the authority's entitlement to HRA subsidy, or collect payments of negative HRA subsidy on account of an authority's liability to pay the Secretary of State, for the relevant year, as appropriate, in accordance with paragraph 5;

3.1.2 such payments of HRA subsidy or receipts of negative HRA subsidy on account may be adjusted during the relevant year in accordance with paragraph 6. Such adjustments may involve an authority which has initially received payment of HRA subsidy being required during the relevant year to pay negative HRA subsidy to the Secretary of State where revisions during that year result in an authority becoming liable to pay negative HRA subsidy rather than being entitled to receive HRA subsidy; or an authority which has initially paid negative HRA subsidy becoming entitled, as a result of revisions, to receive HRA subsidy;

3.1.3 the Secretary of State may at any time after the end of the relevant year and prior to the final decision for the relevant year revise his estimate of the total amount of HRA subsidy payable or negative HRA subsidy due for that year and may credit the outstanding amount or recover any excess from the authority in accordance with paragraph 7;

3.1.4 the Secretary of State shall, where revised data indicates that additional HRA subsidy is payable or negative HRA subsidy due, make a further payment of HRA subsidy on account or make a further debit of negative HRA subsidy on account, as applicable, following receipt of the advance final claim for the relevant year in accordance with paragraph 8;

3.1.5 the authority's entitlement to HRA subsidy or liability for negative HRA subsidy for the relevant year, as applicable, shall be determined after both the end of that year and receipt by the Secretary of State of auditor-certified data for that year, and a further payment or recovery made, in accordance with paragraph 9 of this determination and section 80A of the Local Government and Housing Act 1989.

3.2 Where an authority fails to comply with the provisions of this determination, the Secretary of State may make such assumptions as he considers appropriate in calculating the amounts of HRA subsidy to be paid to, or the amounts of negative HRA subsidy to be recovered from, an authority in accordance with this determination.

Information to be supplied and records to be kept

4.1 Subject to paragraph 4.3, authorities shall prepare and ensure certification of, in respect of each relevant year:-

4.1.1 an advance base data return no later than 31 August in the year preceding the relevant year;

4.1.2 an auditor-certified base data return, to be received by the Secretary of State directly from the authority's auditor appointed by the Audit Commission, no later than 10 October in the year preceding the relevant year;

4.1.3 a first advance claim by no later than 31 March in the year preceding the relevant year;

4.1.4 a second advance claim by no later than 31 August in the relevant year;

4.1.5 an advance final claim by no later than 30 September in the year subsequent to the relevant year;

4.1.6 an auditor-certified final claim, to be received by the Secretary of State directly from the authority's auditor appointed by the Audit Commission, by no later than 31 December in the year subsequent to the relevant year.

4.2 Subject to paragraph 4.3, authorities may certify, in respect of each relevant year:

4.2.1 following receipt by the Secretary of State of the advance base data return, one or more revised advance base data returns by no later than 31 August in the year preceding the relevant year;

4.2.2 following receipt by the Secretary of State of the first advance claim, one or more revised first advance claims by no later than 31 March in the year preceding the relevant year;

4.2.3 following receipt by the Secretary of State of the second advance claim, one or more revised second advance claims by no later than 31 August in the relevant year;

4.2.4 following receipt by the Secretary of State of an advance final claim, one or more revised advance final claims by no later than 30 September in the year subsequent to the relevant year.

4.3 Where any date referred to in paragraphs 4.1 or 4.2 falls on a Saturday, Sunday or bank holiday, authorities shall ensure that the return or claim, as the case may be, is certified by no later than the immediately preceding working day.

4.4 All returns and claims shall be submitted by means of the data capture screen on the Logasnet system or such other system as the Secretary of State may approve, and shall be accompanied by such information, as is required, either generally or in any particular case, in order to satisfy the Secretary of State that the return or claim has been correctly completed and contains the correct information.

4.5 At the same time as submitting each advance base data return, revised advance base data return, advance final claim and revised advance final claim to the Secretary of State, an authority shall, where necessary, notify its auditor appointed by the Audit Commission, of the completion, certification and availability of each advance base data return, revised advance base data return, advance final claim and revised advance final claim submitted by it to the Secretary of State.

4.6 Where, in the course of examining, as part of the certification process,

(a) an advance base data return or revised advance base data return sent to it by the authority, prior to submitting an auditor-certified base data return to the Secretary of State; or

(b) an advance final claim or revised advance final claim prior to submitting an auditor-certified final claim to the Secretary of State;

the auditor appointed by the Audit Commission considers that changes to the entries on such a return or claim should be made, the authority shall make such changes to the returns or claims as the authority and auditor agree should be made.

4.7 Where, following the submission by the auditor appointed by the Audit Commission of an auditor-certified base data return or auditor-certified final claim, the Secretary of State considers that revisions to the entries on such a return or claim should be made, to properly reflect the amount of HRA subsidy payable to or negative HRA subsidy due from the authority for the relevant year, authorities will be required to make such revisions and, as necessary, notify the auditor that amendments have been made and re-certified by the authority and that the return or claim is available to be re-certified by the auditor. The auditor shall submit to the Secretary of State a re-certified return or claim as the Secretary of State may require.

4.8. Authorities shall ensure the proper process of certification of returns and claims; and in particular:

4.8.1 shall nominate a claims administrator to the Secretary of State to carry out such functions as are required for the completion of the submission process for claims and returns on the Logasnet system.

4.8.2 shall nominate a claims certifier to the Secretary of State to certify base data and claims data for submission on the Logasnet system. This should be the authority's chief finance officer, within the meaning given by section 5(8) of the Local Government and Housing Act 1989, or an officer of the authority to whom the authority's chief finance officer has formally delegated such powers and formally notified the ODPM.

4.8.3 the claims certifier is deemed to have accepted that any amounts claimed or payable are correct and that any demand for a debit or recovery of a payment will be paid by the due date.

4.9 The authority shall keep records relating to its base data returns and to claims in respect of HRA subsidy and collection of negative HRA subsidy in such a way and for such period:

4.9.1 as will enable it to show, and its auditor to check, that the certified return or claim for each relevant year has been fairly stated; and

4.9.2 as are required to satisfy the Secretary of State that all returns and claims have been correctly completed.

Payments of HRA subsidy and collection of negative HRA subsidy on account

5.1 Subject to paragraph 6, payments of HRA subsidy, and collection of negative HRA subsidy, on account for the relevant year shall be made as follows:

5.1.1 payments shall be made during the relevant year upon ten dates notified to authorities by the Secretary of State prior to the commencement of the relevant year; and

5.1.2 each payment of HRA subsidy, and collection of negative HRA subsidy, on account shall be equal to one tenth of such amount as is estimated by the Secretary of State, having regard to the first and second advance claim, and any other relevant information available to him, to be the total amount of HRA subsidy due, or negative HRA subsidy payable, for the relevant year.

5.2 Subject to paragraphs 5.1, 5.3 and 6, collection from authorities of negative HRA subsidy shall be debited in such manner as is agreed between the authority and the Secretary of State from time to time.

5.3 Where the Secretary of State issues a demand note via the SAP system requiring payment by an authority of an amount in respect of recovery of subsidy, or requires an amount to be debited in respect of negative HRA subsidy, the authority shall make payment of the amount required in the manner agreed and at such time or within such period as the Secretary of State may require.

Adjustments during the relevant year

6.1 The Secretary of State may at any time during the relevant year, having regard to the first and second advance claims and any other relevant information, revise his estimate of the total amount of HRA subsidy payable or negative HRA subsidy due for the relevant year and in that event the amount of each payment or debit outstanding in respect of the relevant year shall be revised accordingly.

6.2 A payment of HRA subsidy on account which is due on one of the dates notified to authorities in accordance with paragraph 5 may be reduced, withheld or delayed:

6.2.1 where a base data return or claim, whether or not in relation to the relevant year, which the authority is required to prepare and submit by a date specified in paragraph 4.1 of this determination, (whether that base data return or claim is required to be submitted to the Secretary of State directly by the authority, or by the authority's auditor appointed by the Audit Commission) has not been received by the Secretary of State by the required date; or

6.2.2 pending receipt by the Secretary of State of information or records relating to the authority's HRA subsidy entitlement or liability for negative HRA subsidy for any year as specified in paragraph 4.9.

6.3 Where a demand note issued or debit requested has not been paid in accordance with paragraph 5.3 (including refusal of a direct debit under an existing arrangement), the following applies:

6.3.1 interest may be payable on the amount outstanding from the due date at the current Bank of England base rate plus 2%; such interest to be debited separately from any other debit of negative HRA subsidy or recovery of HRA subsidy, for payment to the Exchequer, and to be excluded from the calculation of total subsidy otherwise paid, debited or recovered; and

6.3.2 in addition, in respect of a debit of negative HRA subsidy due and not paid, the Secretary of State may charge an authority an amount equal to any further costs incurred by him as a result of late payment of sums due, such amount to be debited separately from any other debit of negative HRA subsidy or recovery of HRA subsidy, for payment to the Exchequer, and to be excluded from the calculation of total subsidy otherwise paid, debited or recovered.

Adjustments after the end of the relevant year

7. At any time after the end of the relevant year and prior to the final decision for the relevant year in accordance with paragraph 9.3, the Secretary of State may, having regard to any claim for the relevant year and any other relevant information, revise his estimate of the total amount of HRA subsidy payable to the authority, or of the total amount of negative HRA subsidy payable to the Secretary of State for the relevant year.

7.1 Where the revised estimate of the total amount of HRA subsidy payable to the authority is less than the previous estimate, the Secretary of State may recover

the excess from the authority, or where it is greater, pay the authority the difference.

7.2 Where the revised estimate of the total amount of negative HRA subsidy payable to the Secretary of State is less than the previous estimate, he may pay the authority the difference, or where it is greater, recover the difference from the authority.

Payment and collection on account following advance final claim

8.1 Following receipt by the Secretary of State of the authority's advance final claim for the relevant year in accordance with paragraph 4.1.5, the Secretary of State shall, having regard to any claim for the relevant year and any other relevant information, revise his estimate of the total amount of HRA subsidy payable or negative HRA subsidy due for the relevant year.

8.2 Subject to paragraph 8.4, the Secretary of State shall make an adjusting payment or recovery of HRA subsidy as applicable on account for the relevant year, as follows:-

8.2.1 such payment or recovery on account shall be made on the first practicable date following receipt of the advance final claim; and

8.2.2 the amount of any such payment on account shall be 80% of the difference between the aggregate of payments of HRA subsidy on account made to the authority for the relevant year and the revised estimate made following receipt of the advance final claim of the amount of HRA subsidy due to the authority for the relevant year.

8.3 Subject to paragraph 8.4, the Secretary of State shall make an adjusting debit or credit of negative HRA subsidy as applicable on account for the relevant year, on the first practicable date following receipt of the advance final claim.

8.4 In respect of such adjusting payment or recovery of HRA subsidy or adjusting debit or credit of negative HRA subsidy, nothing will prejudice the power of the Secretary of State to:

8.4.1 withhold or delay any such payment, recovery, debit or credit pending receipt by the Secretary of State of information or records relating to the authority's HRA subsidy entitlement or liability to negative HRA subsidy for any year as specified in paragraph 4.9; and

8.4.2 make any such payment, recovery, debit or credit on dates other than those previously notified.

Final decision

9.1 Following receipt by the Secretary of State of an auditor-certified final claim, the Secretary of State will not consider any adjustment by the authority to that claim

except if an amendment is submitted as a revised auditor-certified final claim, or in accordance with this paragraph:

9.2 If the auditor-certified final claim is accompanied by a qualification letter issued by the auditor through the Logasnet system:

9.2.1 the Secretary of State will discuss this with the authority as appropriate and will seek to resolve all the matters to which the qualification letter relates; and

9.2.2 where:

(i) the amount of HRA subsidy claimed for the relevant year is greater than the aggregate of payments of HRA subsidy on account (if any) made in respect of the relevant year; or,

(ii) the amount of negative HRA subsidy due is less than the aggregate of amounts of negative HRA subsidy collected (if any);

the Secretary of State will not pay any excess or repay any amount overpaid by the authority:

(a) until the Secretary of State has decided whether or not the auditor's qualification letter raises matters about which he needs to consult the authority; and

(b) until all the matters to which a qualification letter relates are resolved.

9.3 Section 80A of the Local Government and Housing Act 1989 (final decision on amount of HRA subsidy) shall apply and therefore:

9.3.1 the Secretary of State shall, as soon as he thinks fit after the end of the year, make a final decision as to the amount (if any) of HRA subsidy payable to an authority or negative HRA subsidy due from an authority for that year and notify the authority of his decision by e-mail;

9.3.2 once notified to the authority the decision is conclusive as to the amount (if any) payable by way of subsidy or due as negative subsidy and shall not be questioned in any legal proceedings;

9.3.3 where the amount (if any) of HRA subsidy paid to an authority is less than the amount finally decided, or the amount (if any) of negative HRA subsidy collected from an authority is more than the amount finally decided, the authority is entitled to be paid or repaid the balance;

9.3.4 where the amount (if any) of HRA subsidy paid to an authority is in excess of the amount finally decided, the Secretary of State may recover the excess, and may charge interest from such time and at such rates as he thinks fit;

9.3.5 where the amount (if any) of negative HRA subsidy collected from an authority is less than the amount finally decided, the Secretary of State shall

issue a demand for the amount due. Interest and costs may be charged in accordance with paragraph 6.3;

9.3.6 without prejudice to other methods of recovery, a sum recoverable under section 80A may be recovered by withholding or reducing subsidy;

9.3.7 nothing in section 80A affects any power of the Secretary of State to vary a determination as to the amount of subsidy before the final decision is made.

John Apps
for and on behalf of the Secretary of State

16 February 2004

21 Former Negative Subsidy Authorities – The Transitional Measures Scheme and The Interim Measures Scheme

Authorities that were required to transfer resources from their Housing Revenue Account (HRA) to their General Fund under section 80(2) of the Local Government and Housing Act 1989 are known as ***former negative subsidy*** *authorities. These authorities had assumed rental and other income greater than both their assumed expenditure on the housing stock, and their entitlement to subsidy on rent rebates granted to HRA tenants. Up to and including 2003–2004, such authorities were required to transfer an amount equivalent to the resulting negative amount of HRA subsidy from their HRA to their General Fund.*

With effect for the financial year from April 2004 and onwards, rent rebate expenditure and associated subsidy has been removed from the HRA, and the requirement to make such section 80(2) transfers has been repealed. Instead, where the amount of HRA subsidy calculated is negative, an authority is required to pay an equivalent amount to the Secretary of State (see Chapter 13). Subject to the measures described below, this will prevent housing resources being lost to other services.

From April 2001, when the Major Repairs Allowance (MRA) was paid for the first time, former negative subsidy authorities generally had to make a much smaller transfer, as they were eligible for more HRA subsidy than without the MRA. In many cases the transfers ended.

This chapter sets out why special measures were needed, explains the form of the measures and summarises the procedures for making an application under the transitional measures scheme.

An authority may apply in years from 2004–2005 onwards for a transitional measures transfer from its HRA to its General Fund. For years up to and including 2003–2004, an authority could apply for both a transitional measures transfer from its HRA to its General Fund and a interim measures transfer from its Major Repairs Reserve to its HRA. The interim measures scheme ran for three years, and so from 2004–2005 such transfers are no longer available. If an authority wishes to apply for an interim measures transfer in respect of an earlier year, they should consult Chapter 22 of the previous edition of this manual for more details. Obviously if the combined total of the interim measures and transitional measures transfers exceeds the total resources in the Major Repairs Reserve, part or all of the transitional measures transfer to the General Fund will have to be financed from resources in the HRA, not the Major Repairs Reserve.

21.1 Transitional measures scheme

21.1.1 Some local authorities in the past have relied on the transfer from the HRA to the General Fund when drawing up their annual budgets and expenditure plans. These authorities have a number of options to compensate for the reduction in the transfer from their HRA. In principle they could reduce the cost of services charged to their General Fund, fund them in the short term from reserves, or increase their council tax. It is for the authority to decide how it adapts to this change in the income to their General Fund. However, Ministers have agreed to provide transitional measures for these authorities to allow them time to phase in the reduction in the transfer to the General Fund and adjust to their new financial position. These measures were announced to Parliament on 21 November 2000 in reply to a *Parliamentary question from Bill Rammell MP (Hansard column 124)*.

Form of transitional measures

21.1.2 There is no compulsion on authorities to take advantage of these transitional measures. Ministers take the view that it is for the local authority to decide whether to leave resources in the HRA, or Major Repairs Reserve, where they can be used to support the housing service, or to transfer them under the transitional measures to the General Fund to support other services. An authority is free to adopt a different policy on applying for transitional measures in each year for which measures are available. Authorities wishing to take advantage of these transitional measures will need to apply each year to the Secretary of State for an Item 10 direction to allow a transfer under the terms of the transitional measures.

21.1.3 These transitional measures allow authorities that were in 'negative subsidy' in the financial year 1999–2000 to transfer extra resources from their HRA to their General Fund if they choose for a period of no more than ten years from that date. There is an upper limit to the amount that can be transferred in each year during that period. An authority may also choose to fund this transfer, or part, from the HRA to the General Fund from the resources in its Major Repairs Reserve (equivalent to its Major Repairs Allowance) by means of a parallel Item 9 direction crediting the HRA.

Amount and period of the measures

21.1.4 Communities And Local Government would, of course, consider representations from authorities as to the amount to be transferred in respect of any financial year. But, other than in very exceptional circumstances, it expects to adopt the following approach to calculate the maximum amount an authority may transfer each year.

21.1.5 The maximum period for any authority for which transitional measures are available is ten years. Transitional measures are available to many authorities only for a shorter period. The first year in which authorities could benefit from these transitional measures was 2001–2002.

21.1.6 The maximum amount that an authority is allowed to transfer each year under the transitional measures depends on a **base amount** for each authority, and is reduced year by year, by a fixed **step reduction**, from this base amount.

21.1.7 The base amount for each authority is equal to the amount which was transferred under section 80(2) from their HRA to their General Fund in the financial year 1999–2000. The calculation is based on the position in 1999–2000 as that is the latest year for which audited data were available when the scheme was introduced. The step reduction in the amount of the maximum transfer for each authority is the larger of:

(i) the additional amount that would be raised from an increase of £10 in Band D council tax (and equivalent increases in the other bands) based on the authority's council tax base for 1999–2000;

or

(ii) one-tenth of the base amount, so that after ten years the amount of the transfer under the transitional measures will be nil.

21.1.8 The maximum amount an authority could apply to transfer under the transitional measures in 2001–2002, therefore, was the base amount less one step reduction, less any transfer the authority is required to make under section 80(2). The maximum amount in year two (2002–2003) was the base amount less two step reductions, less any transfer under section 80(2), and so on. In each year up to and including 2003–2004 an authority also had to make any transfer required under section 80(2).

Special arrangements

21.1.9 Where an authority which makes a transfer under the transitional measures in 2001–2002, makes no such transfer in 2002–2003, but in 2003–2004 applies to make a further transfer, the maximum amount the authority will be allowed to transfer in year three will be the 'base amount', less any transfer under section 80(2), less three step reductions.

21.1.10 The amount of the maximum transfer the authority can apply to make under the transitional measures, and the period of the transitional measures, may be reduced. This will happen if there is a significant improvement in an authority's financial position, in respect of either their HRA or their General Fund, as a result of some other factor, or if the size of the authority's stock changes by 10 per cent or 3,000 properties from their 1999–2000 figure.

21.1.11 In any event, Communities And Local Government would not expect to agree to transitional measures, in addition to any section 80(2) transfer, if their effect would be to increase the total transfer from the HRA to the General Fund above a limit calculated as the amount of the transfer in 1999–2000 less the annual step reductions for that authority.

Funding transfers under the scheme

21.1.12 From 2004–2005, in light of additional pressures on some eligible authorities as a result of the repeal of section 80(2), Communities And Local Government will recycle some of the additional money to be captured from surplus authorities towards the cost of the scheme.

21.1.13 Those eligible authorities who choose to make a transfer under the scheme must fund one third of the amount themselves. Communities And Local Government is content that authorities use MRA resources to fund this if they so wish. The remaining two thirds will be met by way of a reduction in the amount they would otherwise be due to pay the Exchequer.

21.1.14 Authorities are required to make a depreciation charge in their HRA and to transfer a sum equivalent to this (or the MRA if higher) to the Major Repairs Reserve. Authorities granted a direction to make a transfer to their General Fund under the transitional measures scheme would be allowed to transfer back a proportion from the Major Repairs Reserve to the HRA.

21.1.15 This transfer would be shown in the HRA as an adjustment below the net cost of services. This will enable authorities to show the full depreciation charge in the net cost of services and also allow them to part fund the transitional transfer to the General Fund from MRA resources. Communities And Local Government considers this preferable to requiring authorities to fund such transfers by making savings elsewhere in the HRA or by increasing rents.

Making an application

21.1.16 From 2004–2005 onwards, Communities And Local Government will give effect to the measures by making Item 10 debit directions to require an authority which chooses to apply for the scheme to transfer resources from its HRA to its General Fund. A parallel item 9 credit direction will also be made where an authority wishes to fund the transfer using resources from its Major Repairs Reserve. An authority which wants to benefit from the transitional measures should apply for an Item 10 debit direction (and Item 9 credit direction if appropriate), setting out the amount of the transfer they would like to make from their HRA to their General Fund for the financial year in question, and explaining how this fits within the terms of the transitional measures (whether it is the maximum permissible or is some lesser amount).

21.1.17 A special determination of HRA subsidy will also be made for the authority, giving effect to the part-funding of the transfer by Communities And Local Government as outlined above.

21.1.18 When an authority makes an application under this scheme either:

(i) their auditor should confirm the amount of their section 80(2) transfer in 1999–2000 and the annual step reduction that will apply for the authority; or

(ii) their Chief Financial Officer should certify that the figures being used are in accordance with those in the authority's audited accounts, and draw Communities And Local Government's attention to the location of these figures in the authority's accounts.

21.1.19 An authority should only make one application in respect of each financial year, although Communities And Local Government is flexible about when applications can be made. Applications should be made *after* the HRA Subsidy and Item 8 general determinations for the financial year have been made, and *before* any final decision under section 80A of the 1989 Act as to the amount of subsidy payable for that financial year.

22 Dwelling Definitions for Subsidy Purposes

The HRA subsidy calculation is based in part on the number of dwellings in a local authority area. This chapter explains how that figure, and others derived from it, are worked out.

Introduction

22.1 Dwellings data are used in a number of ways in the HRA subsidy calculations:

(i) the total number of local authority dwellings is used in the calculation of assumed income from guideline rents, the allowances for management and maintenance, and the Major Repairs Allowance (MRA);

(ii) a detailed breakdown of dwellings by built form, number of bedrooms and age is used in the calculation of maintenance allowances and the MRA;

(iii) a breakdown of dwellings as between houses, high-rise flats and low/medium-rise flats is used in the calculation of management allowances and, before 2002–2003, was also used in the calculation of guideline rents;

(iv) starting in 2002–2003, a breakdown of dwellings by number of bedrooms is used in the calculation of formula (and, therefore, guideline and limit) rents.

22.2 The number of dwellings used in these calculations is normally the number which is assumed to be within the authority's HRA on 1 April in the year preceding the financial year.

What is a dwelling?

22.3 For subsidy purposes, a dwelling is defined by the HRA subsidy determination – see, in particular, the 'interpretation' section, paragraph 2.1. In general a dwelling means one of the following:

(i) a building or part of a building (together with any yard, garden, etc.) which is provided by a local authority for occupation by a single family unit together with any lodger;

(ii) a 'cluster', which means a set of rooms in a house in multiple occupation (HMO), where there is separate accommodation for two or more persons but sharing a common kitchen, bathroom and lavatory. For these purposes, where such a house accommodates six persons or less, it counts as one cluster, and where it accommodates more than six persons, the number of clusters is calculated by dividing the number of persons by six, with any balance counting as one cluster (note that this calculation is done separately for each HMO and not for the total of bed-spaces across all HMOs in the authority);

(iii) a group of bed-spaces in a hostel. For these purposes, a hostel with up to three bed-spaces is counted as one group, while for a hostel with more than three bed-spaces, the number of groups is calculated by dividing the total by three, with any balance counting as one group (note that this calculation is done separately for each hostel and not for the total of bed-spaces across all hostels in the authority);

(iv) a dwelling within the above categories that is being used by the authority for another purpose (e.g. other than as a dwelling) provided that it is not a permanent change of use.

22.4 A dwelling occupied by a local authority tenant to whom section 100(2) of the Housing Act 1988 applies (i.e. a tenant of the local authority who has opted not to become a tenant of a person approved by the Housing Corporation under section 94 of that Act) does not count as a dwelling for subsidy purposes.

22.5 All dwellings for which the authority has granted a lease for a period of 21 years or more (other than a shared ownership lease) should be excluded from the HRA. Dwellings within the HRA for which the authority has granted a lease of less than 21 years should be included – this includes those leased to, or managed by, registered social landlords. It should be noted that the key criterion for these purposes is the length of lease granted and not the length of a lease which remains to run.

22.6 Dwellings which have been disposed of under the rent to mortgage scheme should be excluded entirely from the count of dwellings for all HRA subsidy purposes.

22.7 Dwellings may be omitted from the count if they been permanently removed from the list of properties available for occupation and are effectively uninhabitable, e.g. because the roof has been removed or because they could not be made fit for habitation without major works. They should not be omitted simply on the basis of whether they are currently occupied or available for letting. Nor should they be omitted simply because they have been unoccupied for some time or are temporarily unavailable for occupation while awaiting refurbishment.

22.8 The 2001–2002 determination introduced a further set of dwellings which should be excluded from the 1 April 2000 count. These are dwellings which:

(i) were unoccupied and not available for letting on 1 April 2000; and which

(ii) the authority had formally resolved, before 1 April 2000, should be disposed of or demolished.

22.9 It should be noted that, for the purposes of exclusions under the previous paragraph in respect of the 2001–2002 determination, the reference date of 1 April 2000 continues to apply when dwelling numbers are being recalculated in the event of a significant change in the number of dwellings (according to paragraph 4.4 of the 2001–2002 determination). In effect, this means that council resolutions made after 1 April 2000 have no effect on the number of dwellings for the 2001–2002 determination. Similarly, even where a resolution has been made before 1 April 2000, a dwelling cannot be excluded if it only becomes empty and unavailable for letting after 1 April 2000.

22.10 For the 2002–2003 determination, this reference back to the 1 April was dropped. The effect is that an unoccupied dwelling which, at any time, the authority has formally resolved should be demolished or disposed of and which is no longer available for letting, shall from that time not be treated as a dwelling for the purposes of the determination. This change does not affect the number of dwellings as at 1 April that are pre-set in the determination. It may, however, affect the number of dwellings which are taken into account when an authority examines whether its HRA stock has changed by more than 3000 dwellings or 10% by the end of year to which the determination relates. The change means that an authority needs to look at whether it has formally resolved, after 1 April in the preceding financial year (i.e. the date as at which dwellings are counted for pre-setting purposes), to dispose of or demolish any dwellings and whether those dwellings are unoccupied and no longer available for letting. Any such dwellings should be excluded from the stock count from the date at which all the relevant conditions applied.

22.11 It is important to note that the changes noted above apply only for the purposes of the determination in which they were included. Hence, the change noted in *paragraph 22.8* applies only to subsidy claims for 2001–2002 and not to claims relating to earlier years. Similarly, the further change noted in *paragraph 22.10* applies only to subsidy claims for 2002–2003 onwards.

Classification of dwellings

22.12 For various elements of the subsidy calculation, the number of dwellings needs to be broken down into certain categories, as follows:

(i) **Shared ownership** – the calculation of management allowances and guideline rent income includes the authority's share of dwellings in shared ownership. The calculation of maintenance allowances and the MRA excludes the authority's share. (The tenant's share is ignored for all subsidy purposes);

(ii) **Non-permanent dwellings** – the calculation of the MRA in 2001–2002 also excluded non-permanent dwellings on the grounds that the MRA measures the average capital spending needed to maintain a home in its current condition over a 30-year period. Non-permanent dwellings include prefabs, mobile homes, caravans and houseboats. From 2002–2003, non-permanent dwellings are no longer classified separately and do therefore attract MRA;

(iii) **Flats** – a flat is a self-contained dwelling where a material part of that dwelling lies above or below the remainder of the building in which it is situated. There is no separate category of maisonette as such. But, on the basis of this definition, most maisonettes are, in practice, likely to fall within the definition of a flat. Non-permanent and multi-occupied dwellings cannot be classified as flats and must be counted as houses;

(iv) **High/Medium/Low-Rise** – blocks of flats of up to two storeys are classified as low-rise, three to five storeys as medium-rise, and more than five storeys as high-rise. When classifying flats on this basis, the ground floor is always to be included to give the total number of storeys above ground level even if the lowest floors do not contain flats or the ground floor contains open space. Basement flats

should, however, be disregarded in determining the number of storeys, so that a block which has e.g. a basement flat, a ground floor flat and a first floor flat would count as two storeys and hence a low rise block. Once a block has been put into a particular height category, all the flats in the building fall within the relevant category. (For example, the two lowest floors in a high-rise block still count as high-rise flats and not as low-rise);

(v) **Houses** – a house is any dwelling which is not a flat. At the moment this means that bungalows are classed as houses although, in the future, a separate bungalow archetype is likely to be created for MRA purposes;

(vi) **Age of dwelling** – the age of a dwelling relates to the original date of construction and not the date of any subsequent conversion or refurbishment;

(vii) **Traditional/non-traditional** – for MRA purposes, houses are split between traditional and non-traditional. Traditional dwellings are those with masonry or timber structure, while non-traditional are those with concrete or metal-framed structure (see MRA documentation – *http://www.communities.gov.uk/stellent/groups/odpm_housing/documents/page/odpm_house_027161.hcsp*). If a dwelling has two types of structure, the predominant structure should determine its classification;

(viii) **Bedsits** – a bedsit is a self-contained flat without bedrooms. For 2001–2002, bedsits were included in the one-bedroom category. From 2002–2003, bedsits continue to count as one bedroom dwellings for the purpose of the maintenance calculation. They are, however, a category in their own right for the purposes of calculating formula rents;

(ix) **HMOs and Hostels** – the distinction between hostels and houses in multiple occupation (HMOs) is not always clear-cut. The first consideration is the extent to which facilities are shared. If key facilities (kitchen, bathroom and lavatory) are not shared, then it is likely that the dwelling should be considered as a hostel rather than a HMO. In some cases, however, some or all of the key facilities may be shared, but there may be other reasons for regarding the dwelling as a hostel rather than a HMO. An example would be the provision of welfare services to the occupants – such services are not normally provided to occupants of HMOs;

(x) **Hostels versus separate dwellings** – authorities may sometimes be uncertain as to whether what they regard as a hostel should be treated as a group of separate dwellings for HRA subsidy purposes. There is inevitably a degree of discretion to be used in making such a judgement. However, in the Department's view, separate dwellings is unlikely to be the appropriate classification where facilities are shared (even if this is only a living room rather than kitchen/bathroom) or where welfare services are provided;

(xi) **Bed-spaces** – a bed-space is any space for one person in a bed: a double bed is two bed-spaces. There is no distinction by age – even a cot counts as a bed-space. For most subsidy purposes, bed-spaces are converted into dwellings using the formula described above. However, for the purposes of the maintenance allowance calculation, there are specific weights to be applied directly to bed-spaces.

Appendix A Contact List

Enquiries	Contact	Telephone number	E-mail address
Arms Length Management Organisations (ALMO)	Julia Gristwood	020 7944 3713	Julia.gristwood@communities.gsi.gov.uk
Capital charges in HRA	Steve McAllister	020 7944 3582	Stephen.mcallister@communities.gsi.gov.uk
Closure of HRA	Victoria Akeredolu	020 7944 3506	Victoria.akeredolul@communities.gsi.gov.uk
Dwellings	Somnath Chatterjee	020 7944 3588	Somnath.chatterjee@communities.gsi.gov.uk
Housing Supported Capital Expenditure (SCE) Allocations	Stephen Biddulph	020 7944 3576	Stephen.biddulph@communities.gsi.gov.uk
HRA and HRA subsidy – general policy	Bryan Lea	020 7944 3585	Bryan.lea@communities.gsi.gov.uk
HRA Private Finance Initiative (PFI):			
– policy	Ellie Simcox	020 7944 3606	Ellie.simcox@communities.gsi.gov.uk
– HRA subsidy	Steve McAllister	020 7944 3582	Stephen.mcallister@communities.gsi.gov.uk
HRA subsidy – payments and claims	Victoria Akeredolu	020 7944 3602	Victoria.Akeredolu@communities.gsi.gov.uk
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Appendix B General Determinations, Directions and Rules

Extant administration determinations for 1996–97 onwards

With effect for 1997–98 onwards

The General Determination of Administration of Housing Revenue Account Subsidy (No. 2) 1997 amended by the General Determination of Administration of Housing Revenue Account Subsidy 1998

With effect from 2002–2003 onwards

The General Determination of Administration of Housing Revenue Account Subsidy 2002

With effect from 2004–2005 onwards

The General Determination of Administration of Housing Revenue Account Subsidy 2004– see *Chapter 20, Annex C*

Extant directions

With effect from 1990–91

The Housing Revenue Account (Dwellings in the Account) Direction 1990

The Housing Revenue Account (Arrears of Rents and Charges) Directions 1990

With effect from 1992–93

The Housing Revenue Account (Exclusion of Short Term Leases) Direction 1991 (does not apply in relation to any property acquired after 31 March 1997)

With effect from 1997–98

The Housing Revenue Account (Exclusion of Leases) Direction 1997

The Housing Revenue Account (Modification of the Item 3 Debit) Direction 1997

With effect from 2000–01

The Housing Revenue Account (Accounting Practices) Directions 2000

The Housing Revenue Account (Mortgages) Direction 2000

With effect from 2003–04

The Housing Revenue Account (Support Services) Direction 2003

With effect from 2004–05

The Housing Revenue Account (Rent Rebate Subsidy Deductions) Direction 2003

With effect from 2006–07

The Housing Revenue Account (Accounting Practices) Directions 2007

Extant orders

With effect from 2004–05

The Income-related Benefits (Subsidy to Authorities) Amendment Order 2004

Housing revenue account subsidy and item 8 determinations from 1996–97 onwards

1996–97

The Housing Revenue Account Subsidy Determination 1996–97

The Item 8 Credit and Item 8 Debit (General) Determination 1996–97

1997–98

The Housing Revenue Account Subsidy Determination 1997–98, as amended by the Housing Revenue Account Subsidy and Item 8 (Amendment) Determination 1997

The Item 8 Credit and Item 8 Debit (General) Determination 1997–98, as amended by the Housing Revenue Account Subsidy and Item 8 (Amendment) Determination 1997

1998–99

The Housing Revenue Account Subsidy Determination 1998–99 amended by the Housing Revenue Account Subsidy Determinations 1998–99 and 1999–00 (Amendment) Determination 1999 and the Housing Revenue Account Subsidy Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

The Item 8 Credit and Item 8 Debit (General) Determination 1998–99 amended by the Item 8 Credit and Item 8 Debit (General) Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

1999–2000

The Housing Revenue Account Subsidy Determination 1999–00 amended by the Housing Revenue Account Subsidy Determinations 1998–99 and 1999–00 (Amendment) Determination 1999 and the Housing Revenue Account Subsidy Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

The Item 8 Credit and Item 8 Debit (General) Determination 1999–00 amended by the Item 8 Credit and Item 8 Debit (General) Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

2000–01

The Housing Revenue Account Subsidy Determination 2000–01 amended by the Housing Revenue Account Subsidy Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

The Item 8 Credit and Item 8 Debit (General) Determination 2000–01 amended by the Item 8 Credit and Item 8 Debit (General) Determinations 1998–99, 1999–00 and 2000–01 (Amendment) Determination 2000

2001–02

The Housing Revenue Account Subsidy Determination 2001–02

The Item 8 Credit and Item 8 Debit (General) Determination 2001–02

2002–03

The Housing Revenue Account Subsidy Determination 2002–03

The Item 8 Credit and Item 8 Debit (General) Determination 2002–03

2003–04

The Housing Revenue Account Subsidy Determination 2003–04 amended by The Housing Revenue Account Subsidy Determination 2003–2004 Amending Determination 2003 and The Housing Revenue Account Subsidy Determination 2003–2004 (Amendment No. 2) Determination 2003

The Item 8 Credit and Item 8 Debit (General) Determination 2003–04

2004–05

The Housing Revenue Account Subsidy Determination 2004–05

The Item 8 Credit and Item 8 Debit (General) Determination 2004–05

2005–06

The Housing Revenue Account Subsidy Determination 2005–06

The Item 8 Credit and Item 8 Debit (General) Determination 2005–06

2006–07

The Housing Revenue Account Subsidy Determination 2006–07

The Item 8 Credit and Item 8 Debit (General) Determination 2006–07

The Item 8 Credit and Item 8 Debit (General) Determination 2005–06 Amending Determination 2006

Recoupment rules

With effect for 1990–91 until 10 May 1993

The Recoupment of Housing Revenue Account Subsidy Rules 1991

With effect from 10 May 1993

The Recoupment of Housing Revenue Account Subsidy Rules 1993

With effect from 16 February 2004

The Recoupment of Housing Revenue Account Subsidy Rules 2004 – see *Chapter 20, Annex B*

Appendix C Key Abbreviations and Terms

Terms

1985 Act: The Housing Act 1985

1989 Act: The Local Government and Housing Act 1989

1993 Act: The Leasehold Reform, Housing and Urban Development Act 1993

2003 Act: The Local Government Act 2003

2003 Regulations: The Local Authorities (Capital Finance and Accounting) (England) Regulations 2004 as amended

Admissible Allowance: the obligation to set aside 2% of the opening HRA credit ceiling (HRA set-aside), as the HRA's contribution to the authority's *Minimum Revenue Provision*, was abolished by the Local Government Act 2003. At the same time, the corresponding *HRA subsidy* element, Admissible Set Aside (ASA), which was calculated with reference to the Mid Year Subsidy Credit Ceiling (MYSCC), has been removed. In some cases removal of both the charge and the subsidy element represented a net loss to the authority. ODPM therefore introduced transitional arrangements in the form of an Admissible Allowance, payable until 2006–2007, to allow authorities time to adjust to the loss in HRA subsidy entitlement.

Amortisation: where the whole of an Item of expenditure is not taken to a revenue account in the year in which it is incurred – the process of spreading the cost over a number of years.

Archetype: the term used for the classification of different types of dwellings, for example, in the calculation of the *Major Repairs Allowance* (MRA). *Maintenance allowances* and major repairs allowances were based on 11 archetypes (see *Chapter 17*) in 2004–2005 but they will be based on 13 archetypes from 2005–2006.

Bedsit: a dwelling defined as a self-contained flat without a bedroom. Although at present, for the calculation of *HRA subsidy*, a bedsit is classified as a one-bedroom flat, in the future it may become a separate category (see *Chapter 22*).

Bed-space: a space in a *hostel* or *HMO* for any one person in a bed. No distinction is made for the age of that person so that a cot is counted as one bed-space and a double bed is counted as two bed-spaces. For most purposes of the *HRA subsidy*, bed-spaces are converted into dwellings using the formula described in *paragraph 2.1 of the HRA subsidy determination*, referred to in the definitions of *hostel* and *HMO* (see *Chapter 22)*.

Capital Charges: roughly speaking, charges in respect of borrowing and credit used to finance capital expenditure. The charges for capital are one of the key expenditure components in the overall *HRA subsidy* calculation (see *paragraph 6 of the HRA*

subsidy determination). The term is also used to refer to the Item 8 debit to the HRA (see *Chapters 7 and 16*).

Capital Finance Regulations: The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (S.I. 2003/3146) as amended.

Chief Finance Officer (CFO): officer of a local authority with responsibility for the administration of its financial affairs (see section 5(8) of the *1989 Act*).

CIPFA Code: The Prudential Code for Capital Finance in Local Authorities published by the Chartered Institute of Public Finance and Accountancy (CIPFA) (2003).

Cluster: a group of rooms in a *House in Multiple Occupation* serving as separate accommodation for two or more persons but sharing a common kitchen, bathroom and lavatory. Accommodation for six or fewer persons in a *HMO* counts as one cluster. Where a *HMO* accommodates more than six people, the number of clusters shall be calculated by dividing the number of persons by six, with any balance counting as one cluster (see *paragraph 2.1 of the HRA subsidy determination*).

Consolidated Rate of Interest (CRI): the average interest rate for the year on all money borrowed by an authority (not just relating to the HRA) including temporary borrowing. It is calculated on an accruals basis. The level of the CRI will depend on the proportion and level of fixed and variable interest rates, on the historical profile of borrowing and the authority's debt management policy over the years. There is a unique CRI for each authority (see *paragraph 5.4.1 of the HRA subsidy determination, paragraph 5 of the Item 8 determination and Chapter 7.4*).

Credit arrangements: the definition of credit arrangements relies on the accounting concept of liabilities. Section 7 of the *2003 Act* identifies the **qualifying liabilities** which are to give rise to credit arrangements – these are meant to be long-term liabilities arising from the acquisition of capital assets. There is power to refine that definition by regulations, to target it more precisely and regulations have been made to this effect.

Debt-free: an authority is debt-free when it has no money outstanding by way of borrowing other than disregarded borrowing (see regulation 1 of the *Capital Finance Regulations* for the full definition*).*

Depreciation: the measure of the value of a fixed asset consumed during an accounting period (see *Chapter 7.2*).

Discounts: amounts receivable in respect of loans redeemed earlier than the originally agreed term, where the lender can now re-lend the money at a higher interest rate (see *Chapters 5.8 and 16*).

Dwelling: this is defined each year in *paragraph 2.1 of the HRA subsidy determination*, for the purposes of *HRA subsidy* (and for estimating the number of dwellings remaining within the HRA when an authority applies for a direction under section 74(3)(d) of the *1989 Act* allowing it to account for dwellings outside the HRA). A dwelling is defined as:

(i) a building or part of a building (together with a yard, garden etc.) which is provided for occupation by a single family unit together with any lodger;

(ii) a *cluster* of rooms in a *House in Multiple Occupation* serving as separate occupation for two or more persons but sharing a common kitchen, bathroom and lavatory;

(iii) a group of three bed-spaces in a *hostel*;

(iv) a dwelling within the above categories which is temporarily being used by an authority for another purpose other than that of a dwelling.

But a dwelling falling within any of paragraphs (i) to (iv) above is not a dwelling for the purposes of HRA subsidy and estimating dwelling numbers if it is either:

(i) a dwelling which is occupied by a tenant to whom section 100(2) of the Housing Act 1988 applies; or

(ii) an unoccupied dwelling which the authority had formally resolved before 1 April 2000 should be demolished or disposed of and which was no longer available for letting on 1 April 2000 (see *Chapter 22*).

Flat: a flat is defined as a self-contained dwelling where a material part of that dwelling lies above or below the remainder of the building in which it is situated. For the purposes of the HRA subsidy most maisonettes are likely to fall within the definition of a flat.

Formula Rent: the rent arising from the application of the new national formula announced in December 2000. The aim is to gradually implement the new national formula rent over a period of ten years, starting in April 2002. The formula is based partly on the relative capital value of the property, partly on manual earnings in the surrounding area, and partly on the number of bedrooms.

GDP Deflator: Gross Domestic Product (GDP) is the value of the aggregate production of goods and services in the economy within a given time period – usually a year. The GDP Deflator is an index used to estimate the real price of goods and services in the economy within the current time period. It is calculated by dividing the total value of GDP by a measure of the real volume of GDP in the same period.

General Determination: a determination (e.g. of *HRA subsidy*) which applies to all local authorities.

General Fund: refers to the General Fund excluding the ring-fenced HRA, and where the 1989 Act refers to 'some other revenue account of the authority' (section 91 of the Local Government Finance Act 1988 requires authorities to keep a General Fund).

Geographical Cost Factors: there is one factor used in the calculation of management allowances for the variation in management costs between geographical areas; and another factor used in the calculation of maintenance allowances for the variation in maintenance costs between geographical areas (see *Chapter 14*).

Guideline Rent: a rent per week per dwelling calculated annually for every local housing authority and constituting the main Item of notional income in the determination of *HRA subsidy* (see *Chapter 18* and *paragraph 8 of the HRA subsidy determination*).

High-Rise: a block of flats of six or more storeys. All flats in a high-rise block are classified as high-rise flats.

Hostel: a building in which residential accommodation is provided other than in separate and self-contained sets of premises, and either board or facilities for food preparation are provided. A group of three bed-spaces in a hostel counts as one dwelling for *HRA subsidy* purposes (see *paragraph 2.1 of the HRA subsidy determination*). Factors which may distinguish a *hostel* from a *House in Multiple Occupation* are the provision of welfare services to residents, and key facilities (kitchen, bathroom and lavatory) not necessarily being shared in a hostel (see *Chapter 22*).

House: for the purposes of the *HRA subsidy* a house is any *dwelling* which is not a *flat*. From 2005–2006, bungalows are a separate bungalow *archetype* in the calculation of MRA and maintenance allowances.

House in Multiple Occupation (HMO): a house occupied by persons who do not form a single household. A *cluster* of rooms in an HMO counts as a *dwelling* for *HRA subsidy* purposes. A HMO cannot be classified as a *flat* and must be counted as a *house*.

Housing Revenue Account (HRA): Housing Revenue Account kept in accordance with Part VI of the 1989 Act, as amended by the 1993 Act, the 1996 Act and the Local Government and Housing Act 1989 (Electronic Communications) Order 2000 (S.I. 2000/3056).

Housing Revenue Account Capital Financing Requirement (HRA CFR): a measure of HRA debt. The two measures of debt used are: the position at the start of the financial year (termed the opening HRA CFR), and an average figure for debt throughout the year (termed the mid-year HRA CFR). The HRA CFR replaces HRA credit ceiling.

Housing Revenue Account (HRA) Subsidy: where assumed expenditure in meeting the running costs of HRA stock exceeds assumed income, HRA subsidy is paid by central Government grant to local authorities; where assumed expenditure is less than assumed income, "negative subsidy" is paid to central Government by local authorities (see sections 79–86 of the *1989 Act,* the *HRA subsidy determination* and *Chapters 13 to 22*).

HRA Subsidy Determination: the General Determination of Housing Revenue Account Subsidy for the financial year in question.

HRA Property/HRA Stock: land, houses and other buildings within the HRA, as defined in section 74 of the 1989 Act and any directions under that section (see *Chapter 4.1*).

Item 8: refers to Item 8 of Parts I and II of Schedule 4 to the 1989 Act. These require authorities to credit/debit (respectively) to their HRA amounts in accordance with a formula determined by the Secretary of State. The formula provides for amounts to be credited in respect of interest and debited in respect of capital charges in relation to HRA property.

Item 8 Determination: a determination made under either or both of Item 8 of Part I or Item 8 of Part II of Schedule 4 to the 1989 Act. Normally the term 'the Item 8 determination' is used in the manual to refer to the Item 8 Credit and Item 8 Debit (General) Determination for the financial year in question.

Local Authorities: Local Housing Authorities in England (see section 1 of *the 1985 Act*).

Low-Rise: a block of flats of up to two storeys.

Maintenance Allowance: a part of the notional expenditure element of the *HRA subsidy* calculation which represents an estimate of each authority's relative need to spend on the maintenance of its *housing stock*. The Maintenance Allowance covers expenditure upon response repairs, planned works, basic works for re-lets and terminations and crime related works to voids (see *paragraph 4.2 of the HRA subsidy determination* and *Chapter 14.2*).

Major Repairs Allowance (MRA): an element of the *HRA subsidy*, introduced for the first time in 2001–2002. The MRA provides each authority with estimated long-term average amount of capital resources required to maintain their stock in its current condition (see *paragraph 4.5 of the HRA subsidy determination* and *Chapter 17*).

Management Allowance: a part of the notional expenditure element of the *HRA subsidy* calculation which represents an estimate of each authority's relative need to spend on the management of its *housing stock* (see *paragraph 4.1 of the subsidy determination* and *Chapter 14.1*).

Medium-rise: a block of flats of three to five storeys. Each *flat* in a medium-rise block is classified as a medium-rise flat.

Minimum Revenue Provision (MRP): the amount which authorities are required to set aside from revenue as provision for credit liabilities. This applies only to the General Fund. The obligation to set aside 2% of the opening HRA credit ceiling (HRA set-aside), as the HRA's contribution to the authority's Minimum Revenue Provision, was abolished by the 2003 Act.

National Maintenance Scaling Factor: a common scaling factor used in the calculation of *Maintenance Allowances*, which relates an authority's maintenance allowance to the national total of maintenance allowances (see *Chapter 14.2*).

National Management Scaling Factor: a common scaling factor used in the calculation of *Management Allowances* which relates an authority's management allowance to the national total of management allowances (see *Chapter 14.1*).

Negative subsidy authority: where the amount calculated under the HRA subsidy determination for an authority is negative. Negative subsidy authorities are required to transfer an equivalent amount to ODPM under Section 80ZA of the Local Government and Housing Act 1989 (as inserted by section 90 of the Local Government Act 2003) (see *paragraph 3.1 of the HRA subsidy determination* and *Chapters 13 and 21*).

Non-permanent dwelling: a *dwelling* which does not have either fixed or permanent foundations, for example prefabs, mobile homes, caravans and houseboats available for all-year occupation. Non-permanent dwellings are currently excluded from the calculation of the MRA (see *paragraph 2.1 of the HRA subsidy determination*).

Non-traditional build dwellings: for the purposes of the *MRA*, non-traditional build dwellings are classified as those whose load-bearing structural members are wholly or predominantly concrete or metal (as opposed to timber or masonry). This includes many 'system' and most *high-rise* dwellings. If a dwelling has two types of structure, the predominant structure should determine its classification.

Notional: estimated or assumed. Determination of an authority's *HRA subsidy* is based upon notional calculations of expenditure, for example management and maintenance, and income, for example rent income. The 'notional HRA', based on these calculations is used to determine an authority's subsidy entitlement.

Pooling of housing capital receipts: capital receipts from the sale of housing land and dwellings will be subject to pooling, as provided for in the 2003 Regulations. 75% of receipts from **Right To Buy Sales** will be pooled, including proceeds from sales to existing tenants or occupiers. Receipts from **large-scale** and **small-scale voluntary transfers** (which are termed "qualifying disposals") – including preserved rights to buy arising as part of the transfer agreement – are excluded, although they will be taken into account in calculating authorities' entitlement to HRA subsidy and HRA CFR. ODPM will assume that 75% of the receipt is used to repay debt, or – if higher – such proportion of the receipt which is necessary to reduce the SCFR to zero or lower. For **all other housing receipts** (i.e. not from RTB sales or transfers), the pooling rate will be 75% from dwelling sales and 50% from the sale of other HRA property (e.g. bare land, shops, garages, surplus vacant dwellings).

Premiums: amounts payable where debts are redeemed earlier than the originally agreed term. This permits the lender to receive compensation for forgone interest receipts which they would have received on the loan or loans (see *paragraph 5.5 of the HRA subsidy determination* and *Chapter 7.3*).

Private Finance Initiative (PFI): a long-term contractual arrangement between a public sector organisation, such as a local authority, and the private sector to deliver local services which involves a transfer of risk from the public to the private sector.

Private Finance Transaction (PFT): a transaction under which relevant assets or services are made available to an authority, or works carried out for it, in exchange for periodic payments commencing after the services have started to be provided, and which depend on performance standards or the use of the asset. See Article 11 of the

Local Authorities (Capital Finance) (Consequential, Transitional and Saving provisions) Order 2004 (S.I 2004/533) for the full definition of PFT.

Qualifying disposals: a disposal of an interest in housing land which is a qualifying disposal for the purposes of section 135 or 136 of the Leasehold Reform, Housing and Urban Development Act 1993.

Rent rebates: housing benefit granted to local authority tenants (see section 134 of the Social Security Administration Act 1992).

Rent Rebate Subsidy Limitation: limits the amount of subsidy entitlement on rent rebates when rents have increased above limit levels determined by the Secretary of State (see *Chapter 15*).

The Secretary of State: The Secretary of State for Office of the Deputy Prime Minister; previously the Secretary of State for Transport, Local Government and the Regions.

Shared-ownership dwelling: a *dwelling* subject to a shared-ownership lease. A shared-ownership lease is a lease granted on a payment of a premium calculated by reference to a percentage of the value of the dwelling or of the cost of providing the dwelling, and under which the tenant will or may be entitled to a sum calculated by reference to the value of the dwelling. In effect the tenant owns part of the value of the dwelling, and pays rent to the authority in respect of the rest. The tenant's share of the property is omitted from all HRA subsidy calculations. The authority's share of the property is omitted in the *HRA subsidy* calculations of *Maintenance Allowances* and *MRA*.

Subsidy Capital Financing Requirement (SCFR): a version of the HRA CFR which is used to calculate subsidy entitlement in the light of debt financing costs or investment income. It is in effect a measure of HRA debt for subsidy purposes, taken at the mid-year point. The SCFR replaces the Mid Year Subsidy Credit Ceiling (MYSCC).

Supported borrowing: mainstream funding for housing investment by local authorities is provided in the form of revenue support to cover borrowing costs (e.g. interest payments). In the years up to 2003–2004 the allocations made (credit approvals) also acted as limits on the amount of borrowing authorities could undertake. The allocations for 2004–2005 (Supported Capital Expenditure (revenue)) reflect the level of borrowing for which central government will meet the costs; it is now open to authorities to borrow more than this where they have the revenue funds to cover the costs. The revenue funding is provided through HRA subsidy and Revenue Support Grant on the basis of the split of past spend between HRA and non-HRA housing.

Threshold: the circumstances where an authority's total housing stock changes by more than 10% or 3,000 dwellings (whichever is less) over a two-year period, beginning with the date on which relevant stock data are based for subsidy purposes. Where an authority experiences an above threshold stock change, it shall recalculate

certain aspects of its HRA subsidy entitlement which were pre-set in the determination (see *paragraphs 4.4, 6.2 and 8.2 of the HRA subsidy determination* and *Chapters 11, 14 and 16.1*).

Traditional build dwellings: for the purpose of the *MRA*, traditional build dwellings are classified as those whose load-bearing structural members (walls, floors and roofs) are wholly or predominantly masonry or timber. This includes all timber-framed buildings (irrespective of cladding type), block and brick cavity-wall construction and solid brick/block/stone construction. If a *dwelling* has two types of structure, the predominant structure should determine its classification.

Transitional arrangements: refers to the variety of methods used in the calculation of the *HRA subsidy* to ensure that authorities do not have to cope with excessive changes in *Management Allowances and Maintenance Allowances* in any one year (see *Chapters 14.1 and 14.2*).

Uninhabitable dwelling: a dwelling which would require major works in order to make it fit for habitation. It may be omitted in the calculation of the number of dwellings for *HRA subsidy* purposes.

Unsupported borrowing: where authorities' revenue expenditure is less than their income they can, from 1 April 2004, use the excess income to meet the costs of borrowing to finance capital expenditure. Authorities are required to determine an affordable borrowing limit (section 3 of the *2003 Act*), having regard to the CIPFA Code, which requires authorities to take into account certain factors, including in particular the level of revenue resources available to support long-term borrowing, over and above that provided through central government support.

Usable capital receipts: this includes all receipts from the sale of non-HRA assets and the proportion from the sale of HRA assets which is not subject to pooling under regulation 12 of the *2003 Regulations*.

Abbreviations and acronyms

ALMO: Arms Length Management Organisation

AMRA: Asset Management Revenue Account

ASB: Accounting Standards Board

BACS: Bankers Automated Clearing Services

BVACOP: the CIPFA 'Best Value Accounting Code of Practice 2001'

CFO: Chief Finance Officer

CRI: Consolidated Rate of Interest

DFG: Disabled Facilities Grant

DLOs: Direct Labour Organisations

DPAs: Deferred Purchase Arrangements

DSO: Direct Service Organisations

DWP: Department for Work and Pensions

HMO: House in Multiple Occupation

HRA: Housing Revenue Account

ITO: Internal Trading Organisation

LAAP: Local Authority Accounting Panel

LIBID: London Interbank Bid Interest Rate

LSVTs: Large-Scale Voluntary Transfers

M&M: Management and Maintenance

MRA: Major Repairs Allowance

MRP: Minimum Revenue Provision

MRR: Major Repairs Reserve

PFI: Private Finance Initiative

PFTs: Private Finance Transactions

PWLB: Public Works Loan Board

PYA: Prior Year Adjustments

RCA: Rental Constraint Allowance

RCCOs: Revenue Contributions to Capital Outlay

RSLs: Registered Social Landlords

RTB: Right to Buy

SORP: Statement of Recommended Practice recognised by the accounting standards board

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