



Handling of the Housing Revenue Account Subsidy Determination 2009–10 and 2010–11: Consultation



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Section 1 Introduction

- 1.1.1** This document sets out the Government's proposals on how the Housing Revenue Account Subsidy Determinations will be calculated and operate over the next two years in so far as they impact upon local authority housing rent levels and those aspects of the formulae which create volatility on an annual basis.
- 1.1.2** Communities and Local Government, in conjunction with HM Treasury, is conducting a Review of Council Housing Finance to develop a system which is sustainable in the long term and that is affordable and fair to all. The Review will report to Ministers in spring 2009, after which there will be a period of consultation.
- 1.1.3** Any outcomes from the Review of Council Housing Finance will necessarily take time to implement if we are to achieve the aim of building a fair, sustainable and affordable system for financing local authority housing in the future. In the meantime, Ministers are aware that there are issues concerning the operation of the current subsidy system, particularly in the way that the Housing Revenue Account Subsidy Determination is calculated, that can be examined and adjusted without prejudging the outcome of the Review.
- 1.1.4** In consulting on the structure of the subsidy determination to be used for the next two years, the aim is to provide more certainty for local authorities in this period until the outcomes of the Review are implemented.

Section 2 Options for 2009-10 and 2010-11

2.1 Proposal

2.1.1 The proposal is to set the parameters of the Determination for the next two years so that local authorities have some degree of certainty whilst the work is completed on the Review of Council Housing Finance. To this end we are consulting on the option of fixing guideline rent increases now for the next two years; not updating some of the indices in the formula; and modifying the use of the BCIS surveys of tender prices.

2.2 Guideline Rents

2.2.1 Discussions are still currently ongoing within central government on the appropriate levels for percentage guideline rent increases for the next determination. Although it is not possible at this stage to say what the assumed increases would be, Communities and Local Government aim to issue the consultation on the draft determination earlier than usual as it will include more than one set of figures to illustrate the different rent setting options. Authorities will be aware that the Government remains committed to the principle of affordability for social housing rents, and it is intended that the guideline increases will be set within the context of this policy. Background on the different types of rent that are used in the determination is contained in Annex A.

2.2.2 Our proposed approach to guideline rents over the next two years is to pre-set guideline rent increases in the housing revenue account subsidy determination for both 2009-10 and 2010-11 at levels that equate to assumed (not forecast) inflation rates. If, in practice, inflation is higher or lower than the assumption, the effective rent convergence date will shift accordingly, though the guideline rent increases remain fixed under this option.

2.2.3 This enables authorities to operate with a degree of certainty in knowing in advance what guideline rent increases will be for the next two years.

2.2.4 For example under this fixed model, if the inflation rates assumed in the calculation were 4.0% and 3.0% in 2009-10 and 2010-11 respectively, the convergence dates would be 2014-15 for the 2009-10 inflation element and 2012-13 using the 2010-11 inflation element. In practice however, the convergence date for rent restructuring purposes will depend on what inflation actually is at the point at which the determinations are made. They could be either higher or lower than those illustrated here.

- 2.2.5** At the local level, authorities use the convergence date to set actual rent rises in accordance with the rent restructuring formula. Allowing the convergence date to “float” may have different implications for individual authorities and may have an effect on how they set their actual rents
- 2.2.6** The alternative model is to accept that guideline rent increases will be determined by the RPI inflation rate prevailing in September 2008 prior to the issue of the Draft Determination and likewise in September 2009. Guideline rent increases could end up either higher or lower than under the fixed model. In this model we will therefore not know what the average guideline rent increase will be until we run the determination this October and again next October.
- 2.2.7** Under this model the convergence date would be fixed at 2011-12.
- 2.2.8** In the annual determinations for 2009-10 and 2010-11, it is intended that the Caps and Limits mechanism will be the main means by which offsetting adjustments are to be made to enable LAs to keep rent increases at affordable levels. Caps and Limits constraints will be calculated as the difference between the average weekly constrained and unconstrained transitional rents for 2008-09. The average unconstrained transitional rent is the average of what the individual actual rents would have been if their restructuring progress had not been constrained by caps or limits in any year since rent restructuring commenced. CLG will only fully apply caps and limits where LAs have applied the affordability safeguards for individual tenants, and kept average rents at the constrained transitional rent level.
- 2.2.9** In addition to the affordability constraints already in place by virtue of the caps and limits mechanism, one option open to us would be to impose a limit on local authorities’ actual rent increases at the higher end. If this option were to be introduced we would aim to use some form of a rental constraint mechanism that would be applicable only over the period 2009-10 to 2010-11 so as to provide further offsetting adjustments. This would enable authorities that would otherwise require significant rent increases in accordance with rent restructuring to keep their rents within affordable levels. It is not envisaged that the majority of authorities would be affected by such a measure.

2.3 Allowances

- 2.3.1** Local Housing Authorities face further uncertainty in their annual settlements through the HRA Subsidy Determination process through the incorporation in formulae of variable indices such as the BCIS Survey

of Tender Prices, which act to vary aspects of the formulae in ways that cannot be predicted by authorities in advance, further impacting upon their ability to budget effectively.

2.3.2 Allowances in the whole HRA subsidy system are uplifted from year to year by the GDP deflator. There are, however, four factors we use in the HRA subsidy determination which impact on the distribution of the allowances. These factors influence the level of allowances that an LA receives each year, which in turn affect the amount of subsidy received or the contributions they make to Communities and Local Government. These factors have a significant impact on a local authority's annual spending power and a further side effect is that movements in them cause volatility in the settlements from year to year.

2.3.3 The 4 factors are:

- Stock numbers
- Re-lets/Voids
- Interest rates
- Compensating indicators we use to reflect the fact that some localities have higher costs for the provision of services and maintenance of homes than others.

2.3.4 The first three of these are based on data provided by local authorities, local authorities are in a good position to forecast these factors and therefore plan accordingly.

2.3.5 The last factor represents external inputs used to ensure that available resources are distributed fairly; they do not change the overall level of resources but change the distribution of these resources. It is volatility caused by these inputs that authorities find it difficult to plan for.

2.3.6 These external inputs are:

- The base allowance allocated to each dwelling type for the Management, Maintenance and MRA allowances
- Regional Crime Adjustment Factors (RCAF); based on the local rate of violence against the person for the Management allowance and criminal damage and burglary for the Maintenance allowance
- BCIS; Building Cost Adjustment based on a survey of tender prices
- The (IMD) Index of Multiple Deprivation used in the Management Allowance

- ACA (Area Cost Adjustment) for personal social services for older people used in the Management Allowance.

2.4 Use of data sets in the determination

- 2.4.1** As noted in paragraph 2.3.2 above, a major source of volatility in annual subsidy entitlements for individual authorities arises from the various data sets underpinning the formulae used to calculate allowances in the annual determination.
- 2.4.2** Set out below are the proposals for a number of the external factors influencing the calculation of allowances.

Management and Maintenance

- 2.4.3** Management and Maintenance are a set of allowances which reflect the different costs of managing and maintaining different types of property in different places. They were radically overhauled in 2004-05 to bring them up to date and reflect greater emphasis on anti-social behaviour. The management allowance includes deprivation indicators, compensation for voids and compensation for fixed costs. The base allowances for the maintenance allowance were changed and crime figures introduced to the formulae.
- 2.4.4** To prevent some authorities seeing substantial reductions in their allowances following introduction of the revised formulae it was decided not to implement the changes in one go. Instead, the changes were introduced at a time when significant increases in management and maintenance allowances were introduced. It was possible to effect part of the change by limiting the increase in allowances for these authorities to inflation only, thus they experienced a smaller increase than the authorities who gained from the change. In 2006-07 Communities and Local Government moved to cash protection meaning no authority received less on a per dwelling basis than a year earlier. Originally intended to remain in place for a limited period of time, cash protection was extended for a further year to include 2008-09.
- 2.4.5** For the next two years of the determination our options are to keep or remove this remaining transitional protection. Removing this transitional protection would result in small increases in allowances for a majority of authorities, but a small number would lose over 20% of their management and maintenance allowances on a per dwelling basis. Given that we have started a Review we are proposing to maintain the status quo and retain transitional protection for the next two years.

MRA Base Allowance

- 2.4.6** New base allowances were produced last year for the MRA Allowance because it was felt existing figures were out of date. The net effect of the changes would have sharply reduced the resources available to authorities with a high proportion of flats.
- 2.4.7** Because last year the move away from rental constraint allowance created significant issues for many authorities we did not want to compound this by adding a further change in the resources available to authorities. We could have mitigated the impact of this by introducing transitional protection for the MRA but this would have added a further complication to the determination. To avoid further changes we propose not to introduce these revised figures in the 2009-10 and 2010-11 Determinations.

Regional crime adjustment factors

- 2.4.8** The Management Allowance has increased by around 4% per dwelling for an average authority in the last two years, but there is volatility around this average (excluding those authorities that get a 0% increase as they are in transitional protection). Around three quarters of the volatility is still present even when the crime input is frozen.
- 2.4.9** That part of volatility caused by Regional Crime Adjustment Factors depends on how the Crime Data are used. In the past a three year average has helped to smooth changes, but in 2008-09 due to delays in receiving data Communities and Local Government merely used an average of the previous two years which had the effect of a further slight reduction in volatility.
- 2.4.10** Options for the 2009-10 and 2010-11 determinations are to continue with using a three-year smoothed average, which will be possible as the data is expected sufficiently early to be incorporated into the draft determination in October, or to continue with the figures that were used for the current (2008-09) determination as a means of reducing volatility.
- 2.4.11** Statistical analysis shows that using smoothed crime figures only results in a small increase in variation around the mean, as compared with using crime figures frozen at the prior year level. Given that any decision to freeze crime figures would be entirely arbitrary, changes are already smoothed by using a three-year average, and crime figures will be available to go into the draft determination, Communities and Local Government's preferred option is to continue to use a three-year average for crime inputs to the management and maintenance allowances.

BCIS, Building Cost Adjusters

2.4.12 Analysis of the data sets used to calculate the housing revenue account subsidy determinations for 2007-08 and 2008-09 show significant volatility in both the Major Repairs Allowance (MRA) and Maintenance Allowances. For example one authority had increases in M&M of 4% in 2007-08 and 10.7% in 2008-09 and there were comparable variations in increases in MRA. Overall 90% of the volatility in the MRA and 60% in the Maintenance allowance is caused by Building Cost Adjustments. For both Maintenance and MRA allowances volatility increased significantly in 2008-09, due to a tenfold increase in the magnitude of change in building prices differentials across the country in the BCIS.

2.4.13 To reduce these variations, Communities and Local Government proposes to use a three-year average of the Building Cost Adjustment in HRA Subsidy calculations (as we do with Crime Adjustment Figures).

The Index of Multiple Deprivation

2.4.14 The Index of Multiple Deprivation (IMD) is used to adjust both management and maintenance allowances to reflect the extra cost of managing council stock in deprived areas. Communities and Local Government has recently produced a new IMD which would mean large changes for some authorities.

2.4.15 We propose to continue to use the pre-existing 2004 IMD for the next two determinations to avoid introducing further shifts in resources and therefore greater uncertainty ahead of the report of the Review.

Section 3 Issues for Consultation

3.1 Scope of consultation

3.1.1 Comments would be welcome on any and all aspects of the proposals in this consultation paper. It would, however, be helpful if those responding to this consultation paper could structure their responses around these proposals.

3.1.2 Comments are invited on the options for reducing volatility in guideline rents, and in (primarily) management and maintenance allowances in the 2009-10 and 2010-11 HRA subsidy determinations. In particular local authorities are asked to consider the effect not just upon their HRA subsidy entitlement and the effect it will have on actual rent increases, but on the amount of resource that will be available to the authority within its HRA.

3.1.3 No decisions have yet been taken on what changes, if any, should be made to the short term application of subsidy policy from 1 April 2009. Communities and Local Government is interested in stakeholders' views on all aspects of the options outlined in this consultation paper and a final decision will be taken in time for the draft HRA Subsidy Determination exercise in October 2008, which will itself be subject to the usual consultation.

3.2 Summary of options

3.2.1 There are two practical options for the immediate future of rent policy over the next two financial years.

3.2.2 Comments from stakeholders are welcome particularly on the following possibilities which have been discussed in detail above:

- Fixing and pre-setting guideline rent increases with reference to assumed inflation rates for 2009-10 and 2010-11 respectively; or
- Allowing guideline rent increases to follow their course to convergence in 2011-12 in line with the rent restructuring formula, using the forecasts of inflation in September 2008 and September 2009 for the respective financial year.

3.2.3 Comments from stakeholders are also welcome on a possible option for limiting higher end actual rent increases.

3.2.4 There are a number of practical options for reducing volatility in allowances for 2009-10 and 2010-11:

- Retaining transitional protection for both 2009-10 and 2010-11 by maintaining cash protection so no authority received less on a per dwelling basis than a year earlier
- Not changing the base allowances for the MRA to avoid introducing further volatility
- Using the three-year smoothed average for the Regional Crime Adjustment Factors
- Application of “smoothed three-year averages” to both the Crime Indices and to the BCIS to reduce volatility inherent in the annual regional data sets; and
- Retain the 2004 Index of Deprivation to remove the possibility of additional volatility in the calculation of allowances that would be generated by the introduction of a revised data set.

3.3 How long do I have to comment?

- 3.3.1** The deadline for comments is **10 October 2008**. It would be helpful if responses were sent to us as soon as they are ready, rather than waiting until the closing date. Responses should be sent before the due date to:

Victoria Akeredolu
 Department for Communities and Local Government,
 Eland House,
 Bressenden Place,
 London SW1E 5DU

Telephone number: 020 7944 3602

Email: victoria.akeredolu@communities.gsi.gov.uk

Further copies of the paper can be obtained from the above address. This Consultation Paper is also on the Department’s web site at www.communities.gov.uk

3.4 Will my comments be made public?

- 3.4.1** Unless you indicate that you wish your comments to be treated as confidential, we will assume that you are content for a copy to be made publicly available in the Department’s Libraries and the House of Commons Library. All responses will be included in statistical summaries of comments received and views expressed.

3.5 Organisations to which this consultation has been sent

3.5.1 This consultation paper has been sent to all housing authorities in England and to the major bodies with an interest in housing matters. Copies will also have been downloaded from the Department’s web site.

3.5.2 Complaints about the consultation process should be sent to:

Albert Joyce,
Communities and Local Government Consultation Coordinator
Zone 6/H10 Eland House,
Bressenden Place,
London
SW1E 5DU;

or by email to: albert.joyce@communities.gsi.gov.uk

3.5.3 For those who wish to submit evidence to the Review of Council Housing Finance or take part in e-discussions on the review they can use the Communities and Local Government website for submitting evidence and the CIH website for entering into a discussion. Both websites contain information on the progress of the Review.

www.communities.gov.uk/housing/decenthomes/councilhousingfinance/housingfinancereview/ includes a Q&A on the subsidy system, and opportunities to send evidence to the Review.

Links to the CIH e-forum and narratives will be updated at key stages during the review process. The CIH e-forum is now live and can be accessed via www.cih.org or directly on www.moodle20.cih.co.uk

Annex A

What do we mean by 'rent'?

Three measures of rent are discussed in this document

Actual rent – *this is the rent charged by the landlord – the local housing authority – to the tenant. It is the rent the tenant pays.*

Guideline rent – *a notional rent and a feature of the HRA subsidy system. The guideline rent is the rent the HRA subsidy system assumes an authority is receiving for the purpose of calculating its HRA subsidy entitlement. It is generated by a formula, one of the determinants of which is the date at which all rents are expected to converge.*

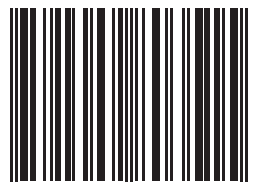
Limit rent – *this is the maximum rent which the Department of Work and Pensions is willing to pay in terms of Housing Benefit for a dwelling.*

1. Local housing authorities are free to set their actual rents at whatever level they choose.
2. In practice, they will have regard to two factors:
 - Limit rents, which are set by the Department for Works and Pensions and which provide a ceiling beyond which rent rebate subsidy is not payable. If the limit rent is exceeded, local authorities have to find the additional costs of any housing benefit payment over and above the level of the limit rent from their own resources
 - The relationship between guideline and actual rents. Guideline rents are a feature of the HRA subsidy system and form the basis of assumed income for the authority. Where a local authority sets its actual rents in relation to guideline rents will have an effect upon its actual spending power. If actual rent is greater than guideline rent, the authority generates extra spending power, if actual rent is below guideline rent, the HRA subsidy system is assuming that the authority is getting more rental income than it actually is.
3. Current rents policy assumes that through the process of 'rent restructuring' there will be eventual convergence between the rents in the local authority and registered social landlord (RSL) sectors. At this point limit, actual and guideline rents for a single authority should all have the same value.

4. Rent restructuring continues as the basis of rent policy but its impact has been modified over the past few years as a combination of the implementation of the rent restructuring review and increases in inflation led Ministers to become concerned with the affordability of rent increases for tenants.
5. This concern was addressed initially through the temporary introduction of the rental constraint allowance for two years and more recently, for 2008-09, the extension of the convergence date for rents in the social sector, to reduce the upward pressure on rents.

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