CIPFA LOCAL AUTHORITY HOUSING PANEL NEWSLETTER

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INTRODUCTION

Welcome to the this issue of the newsletter for CIPFA members working in local authorities in housing finance and anyone interested in housing finance issues. This newsletter has been prepared by CIPFA's Housing Panel. This issue contains an article on the recent proposals by the Department for Work to pay housing benefits direct to tenants, an article of the Prudential Code for Capital Finance, information about the forthcoming Panel seminars, and the full text of CIPFA's recent response to the ODPM consultation paper '*Giving Local Authorities Financial Freedom to include New Build in HRA PFI Schemes*'.

There is also some information about the Housing Panel and a short piece about the Public Management and Policy Association (PMPA). Finally, there are some useful weblinks.

DWP PROPOSALS TO PAY HOUSING BENEFIT DIRECT TO TENANTS

In a recent publication '*Building choice and responsibility: a radical agenda for housing benefit*', the Department for Work and Pension is proposing some radical changes to the arrangements for housing benefit. Of particular concern to both CIPFA's Local Authority Housing Panel and CIPFA's RSLs Panel is the proposal (in paragraph 6.3 and 6.4 of the document) to empower people to budget for and pay their rent themselves rather than have it paid for them and to introduce standard allowances for social rented housing.

The Housing Panel is concerned that if this proposal is applied to council tenants, it will lead to a significant increase in rent arrears for Local Authorities and result in greater recovery costs and more evictions. The collection of rent arrears is already both difficult and costly for many local authorities, particularly in the inner cities and in other areas of deprivation. Ultimately, of course, the costs of additional arrears are borne by other tenants. Another implication of increasing rent arrears will be the need to increase provisions for bad debts and this in turn will divert resources that will be required to meet the Decent Homes Standard. Increasing levels of rent arrears could also act as a disincentive for other tenants, thus further increasing arrears. When a similar situation arose after the introduction of the Community Charge, local authorities and courts were faced with chasing large numbers of payments of small arrears only to find that these were then to be repaid on the basis of amounts such as 50p per week.

The proposed change would also mean that arrangements between Local Authorities and Registered Social Landlords for the recovery of overpaid Rent Allowances direct from the landlord will lapse with significant problems arising relating to future recovery. The RSLs Panel is also has concerns about increased arrears and higher recovery costs for RSLs. The panel feels that RSLs will experience similar problems as those expressed above in relation to Local Authorities if the proposals are introduced, given the very high proportion of RSLs who currently receive rent direct through the HB system.

CIPFA supports the Department's aims of reducing the bureaucracy and complexity that face many tenants under the current Housing Benefit regime. But extending to council tenant the proposal to empower people to budget for and pay their rent themselves would itself lead to an additional administrative burden not only for local authorities' cashiers and post systems, but also for the tenants themselves: to await clearance of Housing Benefit funds through their bank accounts prior to having to make a separate payment arrangement. Inevitably, some tenants' bank accounts will be overdrawn. A significant number of tenants still do not have bank accounts and many are vulnerable.

CIPFA recognises the aims of this proposal in increasing personal responsibility and bridging the gap for tenants between being

out of work and taking a job. However, rent rebates, as precursors of housing benefits, were originally made the responsibility of local authorities for the reason that a significant proportion of council tenants were simply not using their payments to pay the rent, with serious consequences for themselves and their families.

CIPFA has written to both the DWP and the ODPM to express these concerns.

FORTHCOMING EVENTS: HOUSING FINANCE SEMINARS

CIPFA is planning two one-day seminars devoted to Housing Finance issues in 2003. The first one, on current developments in housing benefit administration, will take place on 8 September in London. The programme will cover Performance Standards implementation, Effective Budgeting, Dealing with fraud and error, Running a Benefits Service: tips, traps and preparing for the future, Recovering subsidy from the DWP and Simplified Benefit Schemes – an update on the new system**.**

The second seminar will cover recent developments across the range of housing finance. For further details and online booking facilities will be available in the CIPFA Shop. [weblink]. Alternatively, you can contact alex.aarons@cipfa.org

GIVING LOCAL AUTHORITIES FINANCIAL FREEDOM TO INCLUDE NEW BUILD IN HRA PFI SCHEMES: CIPFA RESPONSE TO ODPM CONSULTATION

The ODPM's recent consultation paper *Giving Local Authorities financial freedom to include new build in HRA PFI schemes* proposed a number of options. The ODPM issued the paper because the government is concerned that local authorities are effectively prevented from carrying out new build using PFI by virtue of Regulation 16 of the Capital Finance Regulations 1997. This is because this regulation excludes the provision or making available of land, houses or other buildings which would come within the HRA, or the carrying out of works on HRA land consisting of the construction of a house or other dwelling, from the definition of a Private Finance transaction. The effect of this is that authorities wishing to provide new build on HRA land are required by the Local Government & Housing Act 1989 to provide credit cover for the transaction – something that in practical terms they are unable to do.

This problem has been highlighted by difficulties that have occurred in some round 1 PFI schemes where it has been clear that refurbishment of stock is not always the best approach. In some cases it makes sense to demolish and rebuild because certain types of property, often by virtue of design, are problematic, unpopular and have a high turnover.

The consultation paper proposed to change this and allow such schemes to be provided through PFI providing that they also meet the balance sheet requirements of Regulation 40.

The ODPM considered three options:

A Do nothing.
B Wait until at least April 2004 when the Capital finance System is scheduled to change and allow new build to be included in HRAPFI schemes then.

C Amend regulation 16 now and allow new build in HRAPFI schemes from April.

CIPFA's responses to the ODPM consultation questions are set out below:

1 *Which of the above options do you favour (A,B or C)? Your comments on the above options are sought and whether there are other alternatives not identified here. (Paragraphs 10-17)*

CIPFA Comments:

Option C

CIPFA considers that Option C will permit local authorities to consider new build or refurbishment as ways of meeting their strategic housing needs and will give bidders more flexibility in putting together their proposals.

An option not considered in the consultation paper is that of providing additional credit cover under the existing system through SCAs.

2 *Do you think the possible impacts are acceptable? Your views are sought on whether there are other impacts and/or benefits not identified here. (Paragraphs 16 and 17)*

CIPFA Comments:

Yes, in CIPFA's views the possible impacts are acceptable. The risk of adverse impacts can be minimised by ensuring that stakeholders are consulted in a timely and transparent way when proposals are made.

One issue that does not seem to be addressed is that of what happens with a Right To Buy sale. As things stand a RTB sale in the first ten years would have the cost floor applied to it. This could have a disincentive during the period for tenants to purchase, but thereafter only maintenance costs are likely to be taken into account. The long term effect could be to leave authorities having to meet PFI payments on assets they no longer own, with 75 % of the sale proceeds being used to reduce debt. The reduction in debt would bring no financial advantage since at the same time subsidy is reduced by a roughly equivalent amount. Newer properties may be more attractive to the aspiring Right To Buy purchaser.

3 *Do you agree with the proposed solution? (Paragraph 18)*

Comments:

Yes.

CIPFA PUBLISHES SECOND DRAFT OF PRUDENTIAL CODE

CIPFA is playing a key role in the in the new system if controls on local authority capital investment in England, Wales and Scotland. Possibly the most significant and positive change in local authority finance for decades, the new system will be one based largely on self-regulation by local authorities themselves. At its heart will be the Prudential Code for Capital Finance in Local Authorities, developed by CIPFA. CIPFA has now published the second exposure draft of the Prudential Code for consultation together with preliminary guidance.

The guidance, which can be downloaded from the CIPFA website, aims to explain the underlying principles of the Code and its implications for all those with a stake in local government. It is preliminary guidance because the Code, whilst at an advanced stage of development, will not be ratified by CIPFA until, at the earliest, the autumn of 2003. Its introduction is dependent upon legislation. The earliest date for implementation anywhere in Great Britain is for the financial year starting April 2004. In practice, though, this will mean that the requirements of the Code will have to be taken into account in the process for setting the 2004/05 budgets, ie, during 2003.

In a presentation to the Local Authority Accounting Conference 2003, CIPFA's Maureen Wellen explained the objectives of the Prudential Code:

- To demonstrate whether
  - (i) Capital Expenditure plans are affordable
  - (ii) External borrowing is within prudent and sustainable levels

(iii) Treasury management decisions are taken in accordance with professional good practice.

- To demonstrate that in taking these decisions the local authority is accountable, by providing a clear and transparent framework.
- The framework established by the Code should support Local strategic planning, local asset management planning and proper option appraisal.

Decisions on forward plans and prudential indicators will need to be taken by full Council. The Chief Financial Officer will ensure that all matters required to be taken into account are reported to the decision making body and will also establish the monitoring arrangements. Actuals will need to be taken from the statement of accounts.

Matters that need to be taken into account will be:

- Affordability, eg the implications for the Council Tax and for housing rents
- Prudence and sustainability, eg the implications for external borrowing
- Value for money, eg option appraisal
- Stewardship of assets, eg asset management planning
- Service objectives, eg strategic planning
- Practicality, eg the achievability of the forward plan.

Prudential indicators for capital expenditure will include:

- Forward estimates for capital expenditure for three years
- Actual capital expenditure after the year end
- The capital financing requirement – the underlying need to borrow for a capital purpose
- General fund and the Housing Revenue Account separately.

The Prudential Code will have considerable impact. It will allow choices between revenue intensive and capital intensive methods of procuring services. It will allow "spend to save". It will allow capital investment to proceed where an authority can fund it within prudent limits. It will not, however, of itself remove all distortions from capital investment decisions in local government.

For further information on the Prudential Code, see www.cipfa.org.uk/pt/prudential_framework.html

CIPFA SPECTRUM

CIPFA has launched a new publication providing policy and technical perspectives for on public services and technical issues. The publication, named 'CIPFA Spectrum', is available to all through the CIPFA website. The first edition includes a two page article by the Treasury's Head of the Whole of Government Accounts programme, Ian Carruthers, entitled *Accounting for UK plc* on the Whole of Government Accounts. There is also an in-depth round-up by Vernon Soare, CIPFA's Policy and Technical Director, of the latest developments on regulatory issues affecting the UK accountancy profession articles. The article brings home how corporate collapses in the USA have a growing relevance to the UK accountancy profession through the increasing international convergence of the regulation of the global accountancy profession. Other articles cover government and the charity and voluntary sector, NHS foundation trust hospitals, and financial reporting developments.

NEW PROFESSIONAL CONDUCT WEBSITE

As a professional accountancy body operating under a Royal Charter, CIPFA has an obligation to regulate the professional conduct of its members (including students) in the public interest. It is responsible for defining the professional, ie ethical and technical, standards with which Chartered Public Finance Accountants are expected to comply and to take action where an individual member's

conduct falls below the standards to be expected of a professional accountant.

The principles governing CIPFA members' professional conduct are set out in a series of documents known as the Standards of Professional Practice or SoPPs.

CIPFA investigates all complaints by employers and members of the public about the professional conduct of CIPFA members and will take disciplinary action where conduct has fallen short of the standards to be expected of a professional accountant. This new website sets out the procedures and includes the full texts of the SoPPs and details of the role of the Accountancy Foundation. See www.cipfa.org.uk/conduct/index

PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

The PMPA offers managers and policy makers a range of opportunities to keep in touch with and understand the wider cross-cutting developments in public policy making that affect the governance, general and financial management of public services.

Opportunities coming up include:

DEBATE

PMPA Annual Conference—Delivery: Time to Judge?

A debate, to be chaired by Sir Michael Bichard, on the extent to which the Government's delivery agenda is succeeding

12 June 2003 at the Harrogate International Conference Centre

Are the Government's plans to improve public services working and what can we learn from the evidence? PMPA's 2003 conference will take the form of a debate where two teams of leading practitioners, researchers and commentators from across the public services will present their arguments for or against the claims that the Government's delivery agenda is motivating people, achieving success and driving further improvement.

Speakers taking part in the debate include Mark Britnell (University Hospital Birmingham NHS Trust); Clive Grace (Audit Commission in Wales); Ita O'Donovan (Stoke-on-Trent City Council); Colin Talbot (University of Glamorgan); and Anne Weinstock (Connexions Service National Unit).

The conference runs alongside CIPFA's annual conference and delegates have the option of attending the first two sessions of the CIPFA conference in order to hear **Charles Kennedy** (Leader, Liberal Democrats) and **Neil Kinnock** (European Commission) address key delivery issues or of coming straight to the PMPA debate at 11.15 am.

TAKING PART

PMPA members may attend the PMPA conference **without further charge**. New members, whose subscription is paid in full before the conference, are also entitled to a free place.

Non-PMPA members may attend at the following rates: bookings received by 23 May—first two places: £125 plus VAT each; third and subsequent places: £75 plus VAT each. Bookings received after 23 May—first two places: £225 plus VAT each; third and subsequent places: £125 plus VAT each.

A booking form can be downloaded via the association's website (www.pmpa.uk) or requested from sandra.harper@cipfa.org

CIPFA'S HOUSING PANEL

The Housing Panel meets three times a year and is responsible for all financial management and policy issues that affect local authority housing. CIPFA has a separate Panel, the RSLs Panel, for the financial management and policy issues

affecting Registered Social Landlords. The Housing Panel:

- develops Institute responses to Government, professional bodies' and other bodies' consultation /discussion papers and exposure drafts
- develops, promotes and maintains best practice, standards and guidelines
- produces and disseminates relevant advice and material for members and employers in local authority housing
- establishes positive and productive professional relationships with Government departments and agencies, the national audit bodies, professional regulators and other bodies falling within the Panel's defined areas of responsibility.

The current Panel members are:

Ken Lee *(Chairman)*	Fylde Borough Council
Bev Angell	Nottingham City Council
Paul Cook	Independent
John Hawes	Sedgefield Borough Council
Howard James	National Assembly for Wales
Sukvinder Kalsi	Birmingham City Council
John Kettlewell	LB Tower Hamlets
Patrick McCarthy	Forest of Dean Housing
Geoff Petty	Powys County Council
Simon Wiles	City of York
Sally Williams	South Gloucestershire
Lindsey Wishart	Kingston Upon Thames
Lesley Lodge *(Secretary)*	CIPFA

By invitation

Ewan Rayner	Consultant
John Apps	ODPM

USEFUL LINKS

CIPFA

Click onto CIPFA's website at www.cipfa.org.uk for a wealth of information on the different aspects of CIPFA's activities. There is a separate section for the work of the Housing Panel and for each of CIPFA's other Panels and you can purchase CIPFA publications online.

ODPM

http://www.housing.odpm.gov.uk/index.htm

Papers from the ODPM, such as the guide to the new arrangements and the capital allocations can be found on the ODPM website. Those which are currently out for consultation can be found at: http://www.housing.odpm.gov.uk/information/consult/index.htm

LOCAL GOVERNMENT ASSOCIATION

www.lga. gov.uk

A useful source of briefings on, for example, the Local Government Bill.

CONTACT

If you have any comments or suggestions regarding this Newsletter or the work of the Housing Panel, please contact Lesley Lodge, Finance and Policy Manager, 3 Robert Street, London WC2N 6RL or email on lesley.lodge@cipfa.org

For further information on CIPFA and its activities, visit the CIPFA website at www.cipfa.org.uk