

**NEWSLETTER
ISSUE NUMBER FIVE**

CIPFA LOCAL AUTHORITY
HOUSING PANEL

October 2003



Welcome to the fifth newsletter for finance practitioners and CIPFA members working in local authority housing. This newsletter has been prepared by CIPFA's Local Authority Housing Panel. This issue includes a report on an interesting and well attended seminar on the Financial Management of Housing Benefits and the texts of CIPFA responses to recent consultation from the Government on Housing and Capital Finance. There is also some information about the Housing Panel and a short piece about the Public Management and Policy Association (PMPA).

FORTHCOMING SEMINARS

CIPFA is planning a further one-day seminar devoted to Housing Finance on 23 October 2003. The programme will include update sessions on housing strategy, the Government's proposals on housing capital finance, affordable housing, community housing, the new regional housing boards, ALMOs and accounting issues. Further details and online booking facilities are available from the CIPFA Shop (at: www.cipfa.org.uk)

THE FINANCIAL MANAGEMENT OF HOUSING BENEFITS – AN UPDATE

CIPFA recently held a one-day seminar on 'Housing Finance: Current Developments in Housing Benefits' in London. The seminar, chaired by Ken Lee, Chief Executive of Fylde Borough Council and Chairman of the CIPFA Housing Panel, was attended by over 75 delegates. Sessions in the programme included:

Lindsay Fullarton of the Department for Work and Pensions and Lesley Pigott of Camden LBC

on 'Performance Standards Implementation'

Paul Cook on 'Effective Budgeting'

Judith Pharoah, Inspection Manager with the Department for Work and Pensions and Paul Cook 'Dealing with Fraud and Error'

Simon Wiles, Director of Resources with City of York Council, on 'Running a Benefits Service: tips, traps and preparing for the future'

Mark Jenkins of the Department for Work and Pensions on 'Recovering Subsidy from the DWP,

Andrew Eelson, Director of Finance, North East Lincolnshire Council on 'Simplified Benefit Schemes'.

Lindsay Fullarton opened the session on Performance Standards Implementation by setting out the background. This initiative, launched in April 2002, sets out clearly for the first time the standards of service that local authorities should be aiming to deliver and is backed by £200m investment in a Standards Fund. It is an integral part of the BFI inspection process.

Making the best of performance standards will:

provide a benchmark for performance assessment

provide a means of assessing progress over time

focus on enablers as well as outcomes

provide a self-assessment tool for authorities to:

∞ #identify strengths and weaknesses

- ∞ #identify the strategic and operational risk to delivering an effective and secure service
- ∞ #focus improvement activity where most needed
- ⊘ help develop local improvement plans and, where appropriate, associated applications for Standards Funding (see circular S6/2003)
- ⊘ provide a common currency for joint initiatives, peer group support and the development for new products/processes
- ⊘ provide a common basis for BFI and LA's to assess performance
- ⊘ provide a reference point for good practice.

Lesley Pigott's session focused on performance standards from a local authority practitioner viewpoint. She recognised some problem areas caused by the sheer number of standards, the lack of weighting, and a lack of recognition of the autonomous nature of local authorities. Her tips for completing the standards were:

- ⊘ dedicate staff – or split the standards between staff
- ⊘ keep a record of the evidence – including the reasons why the authority is not as standard
- ⊘ review standards regularly and integrate them into service planning.

In his session on 'Effective Budgeting', Paul Cook began by summarising the changes for 2003/04 and 2004/05:

Changes for 2003 – 2004:

- ⊘ transitional housing benefit finished

- ⊘ tax credits implementation (creating special class of local authority error)
- ⊘ pensions credits
- ⊘ pathfinders – local housing allowance.

Changes for 2004 – 2005 HRA:

- ⊘ rebates out
- ⊘ limitation still applies
- ⊘ update on property specific 'RRSL'
- ⊘ bigger element of service charge disregarded in RRSL.

Changes for 2003-2005 – subsidy system:

- ⊘ unified
- ⊘ revised
- ⊘ out to consultation later in the year
- ⊘ for details, Mark in Session Five
- ⊘ local impact of whether money comes as FSS or grant.

Changes for 2004 – 2005 – General:

- ⊘ no benefit review periods
- ⊘ new verification framework and SAFE
- ⊘ for SAFE details – Session 3.

Paul's general tips for avoiding pit falls in the budgeting process are:

- ⊘ look at payments and administration in the round
- ⊘ not to simply take last year's budget plus inflation
- ⊘ cross-check to the Best Value Performance Plan
- ⊘ getting benefits management sign-up
- ⊘ making comparisons with other councils.

He saw specific pitfalls as:

- €# expenditure that is not housing benefit
- €# homelessness assumptions
- €# cost per claim fraught with difficulties
- €# overpayment recovery BVPI is fraught with difficulties.

Judith Pharoah, speaking on 'Dealing with Fraud and Error', emphasised the importance of prevention.

Good organisation-wide prevention systems can save the authority money, and should comprise:

- €# counter fraud policies and strategies
- €# prosecutions and sanctions policy
- €# publicity and referral mechanisms
- €# culture
- €# secure processes
- €# effective checks, especially at the gateway
- €# comprehensive risk assessment.

Data marketing can be a key tool. The two current systems (generalised marketing and housing benefit matching) already cover the Inland Revenue's P46, the Inland Revenue's Construction Industry Scheme, Council Tax benefit, Prison data (for England and Wales) and Royal Mail Redirect. New data matching sources for 2003/04 will include the new tax credits, Inland Revenue Savings, Inland Revenue P45, Pension Credit and the Child Support Agency.

The Housing Benefit Matching Service contribution to the replacement of benefits comprises:

- €# new rules using new and existing data sources
- €# modifications to existing rules

- €# increasing the frequency of matching
- €# the provision of targeted reviews
- €# improving data capacity.

On a similar tone, Paul Cook spoke on budgeting for fraud. He stressed that the budget for incentives must be based on performance targets agreed with the team – and not subject to 'last minute swings'. The team budget should have a separate cost centre, the cost of presentations should be realistic, benefit payments and benefit administration should be budgeted for in 'in the round' and it is helpful to make comparisons with other authorities' teams' budgets.

Paul's tips for monitoring the budget were to:

- €# adhere to corporate monitoring requirements
- €# work at the monitor
- €# seek early warnings rather than wait for bad news
- €# do not assume too much income from 'work in hand'.

Fraud should **not** be seen as a profit centre, and fraud managers need to make the wider case for the budget.

Simon Wiles set the scene for his session on tips and traps by pointing out that the financial risks associated with housing benefits could amount to as much as 10-15% of a council's entire spend. Subsidy can be a major area prone to keystroke and other human errors. Classifications need to be checked for misclassification and a comparison of subsidy loss with other authorities can be illuminating. Reality checks on the figures entered are key. Sample tests can reveal wrong claims and should be used. Performance Indicators taken direct from systems are almost always

wrong. Backlogs will worsen processing-based PIs and this in turn can affect CPA scores and may damage the PSA.

Simon suggested some simple things to consider:

- €# agree and publicise Standard Times for common tasks. Set clear expectations
- €# measure performance of individuals against this
- €# set up front (customer orientated) and back (processing) office. Don't always let the front office suck resources from the back!
- €# develop flexible working

and some actions to take:

- €# insist assessors have subsidy training
- €# obtain subsidy loss comparisons for LA error/claimant error/fraud/local schemes/WIBS et – all as a % of total local benefits paid out
- €# ensure there is a reclassification exercise
- €# ensure that all LA errors and backdated awards are rechecked before subsidy claim submitted
- €# finally – be very clear about who is responsible for what between HB staff and accountancy.

Mark Jenkins' talk dealt with how best to recover subsidy from DWP. He saw management checking and feedback to staff on the results as the key to maximising the subsidy claim for maximum subsidy. Backdating should have a good cause. Overpayments should be correctly classified, the final claim should be both accurate and complete and there should be reconciliations back to the General Ledger.

Current and future subsidy developments include:

- €# The transfer of Rent Rebate subsidy to DWP from April 2004 (subject to the Local Government Bill)
- €# the DWP subsidy review
- €# simplification and rationalisation
- €# reduced burdens on authorities
- €# fairer incentives for performance
- €# ensuring a cost-neutral revised system.

Andy Ecelson's session looked at simplified benefit schemes from an LA viewpoint. To this end, he worked through a local housing allowance example. The main objections and concerns here are:

- €# principally private landlords
- €# abolition of direct payments the main issue
- €# the effect of tax credits
- €# the threat of evictions
- €# selling of property.

Implementation should include a project management approach, risk assessment, a communication strategy, identified and arranged meetings with stakeholders, practical advice, support and help, and the development of a performance management framework.

CIPFA RESPONSES TO CONSULTATIONS

CIPFA has recently responded to two consultation papers from the ODPM. The full texts of both responses are set out below:

CIPFA'S COMMENTS ON THE ODPM'S CONSULTATION PAPER ON FUTURE HOUSING CAPITAL FINANCING ARRANGEMENTS.

1 General

1.1 CIPFA is pleased to comment on the ODPM's consultation paper Future Housing Capital Financing Arrangements.

1.2 Please note that CIPFA has commented separately on the ODPM's consultation paper on support for local authority capital investment and intends to comment separately on the ODPM's draft Local Authority (Capital Finance and Accounting) Regulations 2003.

1.3 CIPFA welcomes the Government's radical review of the current capital financing regime of which this consultation process forms a part. The current system is so complex and so based on notional figures that few fully understand it, is cumbersome to operate and builds in perverse incentives in the context of treasury management.

1.4 CIPFA especially welcomes the new prudential system for borrowing and the enhanced flexibility and local accountability this will bring. CIPFA has developed the CIPFA Prudential Code for Capital Finance in Local Authorities that will underpin the new system, and which is referred to in the consultation paper.

1.5 CIPFA's response is set out below under the relevant key area headings suggested in the paper.

2 **The way it is proposed that the capital financing requirement (CFR) for the HRA and for HRA subsidy should be derived, by rolling forward the respective credit ceilings (paragraphs 19, 26, 39, 47)**

2.1 CIPFA supports the proposals in the consultation document to roll forward the existing 2003-04 credit ceilings into 2004-05. In CIPFA's view, the rolling forward mechanism would be more readily understandable than the alternative option of apportioning the 2004-05 CFR to HRA and non-HRA elements. CIPFA also considers the rolling forward option to be a more stable one than that of apportioning CFR.

3 **The calculation of the Subsidy Capital Financing Requirement (SCFR), year on year (paragraphs 37-49)**

3.1 The consultation paper refers (paragraph 45) to "a transitional period of two years when reserved receipts arising before the new system is in place will need to be reflected in the calculation of subsequent years' SCFR."

3.2 For debt authorities, this will involve a net cost to the HRA since CFR is not reduced but the Subsidy CFR is. In CIPFA's view, it would be preferable if the ODPM could, through further consultation, explore the possibility of alternative transitional solutions which would impact more consistently across authorities.

4 **The impact, if any, on authorities' revenue accounts of the abolition of the MRP requirement in the HRA (paragraphs 51-59)**

4.1 The consultation paper states (paragraph 59) "there may well be revenue consequences for local authorities following this change."

4.2 In CIPFA's view, the abolition of the MRP requirement in the HRA *will* lead to revenue effects, the impacts of which are not yet clear, but which are likely to be significant for some authorities. CIPFA therefore welcomes the invitation in the consultation paper to local authorities to comment on the impact of these changes on their revenue accounts. CIPFA recommends that the full financial implications be consulted upon before implementation of this proposal.

4.3 In order to comply with UK generally accepted accounting practice, provide good management information and to ensure the sustainability of capital investment, CIPFA has recommended that depreciation is charged within the accounts of local authorities. It is accepted, however, that this would have affordability issues at a local level. CIPFA urges the ODPM to initiate, with local government in England, an active programme to investigate and further consider these affordability issues, and to make positive steps over time for the introduction of such a system and its resourcing. Therefore while CIPFA supports the proposals in paragraph 56 that authorities are required to calculate depreciation in accordance with proper practices, in CIPFA's view this needs to be done with full consideration for all costings.

5 Conclusion

5.1 In conclusion, CIPFA supports the framework and broad principles proposed for future housing capital financing arrangements. CIPFA

welcomes the increased local accountability and flexibility which the introduction of further financing options will bring. CIPFA sees these developments as positive steps towards a framework which will enable investment and financing decisions to be taken in the longer-term context.

5.2 CIPFA is however concerned that the positive impact of the ODPM's proposals could be undermined, at least for some authorities, by adverse revenue impacts on the HRA and we urge the ODPM to consult further on the full financial implications before implementing the relevant proposals.

CIPFA'S COMMENTS ON THE ODPM'S CONSULTATION PAPER ON SUPPORT FOR LOCAL AUTHORITY CAPITAL INVESTMENT

1 CIPFA is pleased to submit comments to the ODPM's consultation paper on support for local authority capital investment. Please would you note that these comments relate to non-housing capital and that CIPFA's comments with respect to capital financing arrangements for housing will be made in response to the ODPM's specific consultation on that subject.

2 CIPFA has developed the CIPFA Prudential Code for Capital Finance in Local Authorities that will underpin the new system, and which is referred to in the consultation paper.

3 The requirements of the Prudential Code can be applied independently of the means of support chosen by Central Government and devolved

administrations for capital investment by local authorities. It is important that the Code is operable whatever the means of the support for capital investment, which may vary between administrations and over time. However, clearly, both the means of providing central support and the amount of support provided will fundamentally impact on how the prudential framework operates in practice.

- 4 In order to maximise the effectiveness of the new system, CIPFA recommends that Central Government support for local authority capital investment be focused on support to the revenue account to support future depreciation and interest costs.
- 5 In particular, CIPFA's view is that depreciation is the appropriate basis for charging for and financing the cost of the consumption of fixed assets.
- 6 In order to comply with UK generally accepted accounting practice, provide good management information and to ensure the sustainability of capital investment, CIPFA has recommended that depreciation is charged within the accounts of local authorities and is resourced. The full application of depreciation would also be consistent with the UK Government's fiscal strategy, which treats depreciation as part of current expenditure.
- 7 CIPFA therefore welcomes the consideration given in the ODPM's consultation paper to linking the form of Central Government support for capital investment in the longer term to the introduction of full depreciation accounting. It is accepted, however, that this would have affordability issues at a local level. The future of Central Government support for capital and the balance of funding review will both be important in this context. CIPFA urges the ODPM to initiate, with local government in England, an active programme to investigate and further consider these affordability issues, and to make positive steps over time for the introduction of such a system.
- 8 The consultation paper asks for views on whether, in the interim, support for capital investment should be through revenue support or capital grants. CIPFA recommends that the prime method of providing such interim support for capital investment should be through revenue support. Capital grant makes capital investment free to the local authority at the point of delivery. This has adverse effects in skewing management decisions, which are widely recognised. Further, at a time when Central Government has moved to resource accounting and away from the previous system where capital is treated as a 'free good' at the point of delivery, it would be at variance to introduce such a system for local government.
- 9 Capital grants can have a valuable role in, for example, pump priming. However, if they are used as a major source of finance they may result in poorer management decisions, unsustainable capital investment, increased central control and rationing.
- 10 CIPFA recommends that whatever method of Central Government support applies in the future, it should be based on accruals

accounting for capital expenditure incurred rather than cash accounting. Currently, local authorities are required to maintain both cash and accruals accounting for capital expenditure, since proper accounting practice requires an accruals method but current legislative controls and central support operate on a cash basis.

- 11 CIPFA is pleased to be a member of the current Capital Programmes Working Party – Technical Sub Group and would be happy to work further with the ODPM and Local Government Association on future developments for the framework for capital investment and capital support in England.

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:
2003

November 27th: Delivery: the role of the voluntary sector. A talk by Stuart Etherington, Seamus McAleavey. To be held jointly with CEF (NI) in Belfast.

2004

January 28th: Public Sector Governance. Sue Goss, OPM

February 10th: Understanding public interest companies. Paul Maltby, IPPR

March (date to be determined): Devolution Fault lines. Robert Hazell. The Constitution Unit, UCL

May (date to be determined): Developing leaders and organisations to deliver joined up services. Keith Ruddle, Templeton College, Oxford

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

THE HOUSING PANEL

CIPFA's Local Authority Housing Panel meets three times a year and is responsible for all financial management and policy issues that affect housing finance. The 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 education

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☞ establishes positive and productive professional relationships with Government, 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:

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

*Further information about the Panel's activities, publications and seminar events is available on the panel website at:
<http://www.cipfa.org.uk/panels/housing/> or from the Secretary, Lesley*