

**NEWSLETTER
ISSUE NUMBER SIX**

CIPFA LOCAL AUTHORITY
HOUSING PANEL

December 2003



Welcome to the sixth newsletter for finance practitioners and CIPFA members working in local authority housing. This issue, prepared by CIPFA's Local Authority Housing Panel, includes a report on the Panel's recent seminar event on current developments in Housing Finance, a short news items on the Prudential Code, an invitation to comment on the local authority SORP and the texts of CIPFA responses to recent consultations on the new Capital Finance Regulations. There is also some information about the Housing Panel and a short piece about the Public Management and Policy Association (PMPA).

SEMINAR EVENTS IN 2004

CIPFA is planning at least two one-day seminars devoted to Housing Finance in 2004: **an Introduction to Housing Finance in Spring and a Current Developments course later in the year.** Further details and online booking facilities will be made available in the new year from the CIPFA Shop (at: www.cipfa.org.uk)

CURRENT DEVELOPMENTS IN HOUSING FINANCE 2003

Over 70 delegates attended CIPFA's recent seminar on current developments in Housing Finance in London. The event was chaired by Ken Lee, Chief Executive of Fylde Borough Council and chair of CIPFA's Local Authority Housing Panel. Speakers included: Wendy Jarvis, Divisional Manager, Local Authority Housing, ODPM; Mike Wilkinson, ALMO Branch, Local Authority Housing Division, ODPM; Lorraine Watson, Assistant Director and Company Secretary, Derby Homes Ltd; George Black, Chief Executive, Glasgow City Council; David Selo,

Assistant Director (Finance), Housing Services, Islington London Borough Council; Mary Nankivell, Head of New Initiatives, HACAS Chapman Hendy; Frances Kneller, Housing Corporation (Investment Division); Martin Thomas, ODPM/Community Housing Task Force; Corinne Lyons, Head of Thames Gateway Division, Government Office for London, and Martin Easton, Principal Accountant, Birmingham City Council. Highlights from some of the presentations are set out below.

Wendy Jarvis set the scene with an overall housing strategy update. She saw three main areas of policy on the agenda for housing finance:

- €# Decent Homes Delivery
- €# Option Appraisal
- €# Stock Options.

The challenge for Decent Homes – to ensure all social tenants have decent housing by 2010 – is high on the government's agenda and there are fortnightly meetings between ODPM and the Treasury to test progress against the trajectory. The Sustainable Communities Plan 2003 is focused on delivery. Allocating by formula is not seen by government as working as well as it should, so the Regional Agenda is a *real* change of emphasis, a recognition by government that local solutions are best. Wendy predicted that significant achievement will have been made in the projected reduction in non-decent homes in the social sector by the end of 2004.

Turning to the delivery vehicles, Wendy said that ODPM is making it easier for Local Authorities to refurbish homes through PFI by:

- €# resolving outstanding legal and technical issues

⚡ standardising documentation
⚡ providing more support.
ODPM has been working hard to improve the PFI process and overall, £760m worth of credit approvals for PFI housing projects have been made available by government. A further £685m has been allocated for future PFI schemes.

For Arms Length Management Organisations (ALMOs), the government has made £1994m available in 2003/4-2005/06. And since the launch of the ALMO policy, eight local authorities have been awarded funding of £300m under Round 1 (2002/04); thirteen local authorities provisionally awarded £364m under Round 2 (2003/05) and thirteen bids approved for Round 3.

The government has also removed many barriers to another delivery vehicle: the housing transfer, including:

- ⚡ meeting the cost of early redemption of Public Works Loan Board debt
- ⚡ extending arrangements for repaying overhanging debt to partial transfers
- ⚡ exploring the scope for stimulating innovative funding.

Since the beginning of housing transfer in 1988, there have been 178 transfers by 142 local authorities and transfers have yielded almost £5.5 bn as capital receipts for local authorities.

Wendy saw the real issue about those houses left untransferred is that the transfer hadn't necessarily been applied to the worst stock first. Therefore the process for option appraisals is an important one if ODPM is to have an informed view to take to Ministers.

Lorraine Watson gave a practitioner's view of accounting issues for ALMOs. Denby Homes was set up in 2001, began trading in 2002, and now emerged from its ALMO inspection with three star status with excellent prospects for improving. Lorraine saw the main accounting issues as:

- ⚡ meeting financial targets
- ⚡ new business/funding freedoms
- ⚡ financial reasons for pursuing arms length status.

Meeting financial targets means autonomous accounting, developing mutually successful relationships, eg with external audit, legal, Inland Revenue, and living within your means. Arms' length status is a solution for achieving decent homes' targets on time. It brings opportunities for introducing new income streams and it is a means of turning a 21st Century vision for social housing into a reality.

Islington's David Selo presented Islington's experience of taking the PFI route. The main drivers for Islington have been the condition of stock, a new approach to service delivery and involvement with specialist housing partners. Islington chose to focus on Victorian street properties as these were in need of major, high-cost refurbishment, and had many disrepair claims while the local authority had insufficient BCA/MRA funds. The housing functions included in the PFI contract were:

- ⚡ Refurbishment
- ⚡ Planned maintenance
- ⚡ Responsive maintenance and void work
- ⚡ Property management.

The £350m + contract involved 993 street properties. The authority applied the following PFI tests:

- ⌘ Scheme affordability
- ⌘ HRA affordability
- ⌘ FRS5 – reporting on the substance of the transaction
- ⌘ the accounting treatment of the Private Finance transactions.

Mike Wilkinson began his presentation ‘ALMOs – Turning Policy into Practice’ with an overview of ALMO policy:

- ⌘ one of three options for new investment in decent homes
- ⌘ separate housing management and strategy roles
- ⌘ ALMO operates largely independently of the Council
- ⌘ minimum 2* rating for funding drives up standards
- ⌘ links with regeneration and other initiatives.

The key features of ALMOs are:

- ⌘ company wholly owned by Council
- ⌘ ownership of stock does not transfer from the Council – *but responsibilities and resources do*
- ⌘ tenants remain secure tenants of the Council
- ⌘ Board with roughly equal representation of tenants, the Council and independents, with no group in a majority.

Allocations so far

Round	announced	ALMOs	spending starts
1	November 2001	8	2002/03
2	May 2002	18	2003/04
3	July 2003	13	2004/05
4	19 expressions of interest		2005/06

- ⌘ 1 in 5 council homes (550,000) covered by ALMO proposals
- ⌘ 13 ALMOs already have confirmed funding.

All ALMO funding is through the local authority. Offers of Supplementary Credit Approvals are in two-year tranches. ALMO borrowing requires separate tracking. From Round 3 onwards, ALMO borrowing is treated like other local authority borrowing. The model used to assess costs is the Building Cost Model.

In Mike’s view, the key lessons learnt so far are:

- ⌘ bids need to be realistic
- ⌘ demonstrate consistent involvement of all stakeholders
- ⌘ show adequate separation of functions
- ⌘ concentrate on outputs and benefits
- ⌘ address key issues openly
- ⌘ proposals can be innovative.

Future developments are expected to include the ALMO primary objective : achieving Decent Homes, sustainable communities, emphasis on the strategic role, operational freedoms for ALMOs, monitoring progress and achievements and research to evaluate the ALMO approach. Mike concluded with a couple of quotes:

- ⌘ “A real ‘can do’ attitude is at large”
Housing Today, 25 July 2003
- ⌘ “ALMOs are here to stay”
Gordon Perry, Chairman
National Federation of ALMOs.

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 ON DRAFT REGULATIONS FOR THE NEW PRUDENTIAL SYSTEM OF LOCAL GOVERNMENT CAPITAL FINANCE

- 1 CIPFA is pleased to submit comments to the ODPM's consultation on draft regulations for the new prudential system of local government capital finance.
- 2 Please note that CIPFA has commented separately on the ODPM's related consultation papers on support for local authority capital investment and on future housing capital financing arrangements
- 3 CIPFA has developed the CIPFA Prudential Code for Capital Finance in Local authorities that is referred to in the draft regulations.
- 4 CIPFA was represented on the Capital Programmes Working Party Technical Sub Group that assisted with the development of the draft regulations.

Part 1 – Borrowing

- 5 CIPFA welcomes the requirement in draft regulation 2 that in complying with their duties under section 3(1) and (2) (duty to determine affordable borrowing limit) a local authority and the Mayor shall have regard to the CIPFA Prudential Code. This is a significant new freedom for local government and will facilitate strategic planning for services, asset management and option appraisal in local government. It

will assist the integration of revenue and capital planning and lead to greater choice between revenue intensive and capital intensive schemes.

- 6 CIPFA welcomes the fact that this key regulation for the implementation of the prudential borrowing system is being brought into force earlier than other regulations. This should ensure that authorities give the Code due regard as part of their budget setting processes prior to April 2004.

Part 2 – Credit arrangements

- 7 CIPFA welcomes the reliance that is placed within the draft regulations on proper accounting practice for the identification and measurement of credit arrangements. This replaces a large number of detailed and complex regulations within the current legislative framework. CIPFA's view is that reliance can be placed on accounting standards for the recognition of assets and liabilities on local authority balance sheets. Indeed, this is one of the primary purposes of the balance sheets of local authorities.

- 8 The clarifications in draft regulations 3 and 4 about liabilities that do not arise from capital expenditure and retirement benefits are helpful.

Part 3 – Capital receipts

- 9 The Government's aims on the pooling of capital receipts have been consistent for some time now and CIPFA's views on the proposals were set out in our response in the 2002 consultation

paper The Way forward for Housing Capital Finance. In CIPFA's view it is important that the criteria on which housing capital receipts are pooled should reflect the principles of equality and fairness. Also in CIPFA's view, there remains some tension between the Government introduction of the "single capital pot" for credit approvals and the pooling proposals.

- 10 CIPFA welcomes the Government's agreement, mentioned in the ODPM's informal commentary on the draft regulations, paragraph 2.28, to transitional arrangements for authorities which are debt-free when the existing system comes to an end. As CIPFA has suggested before, transitional arrangements will give such authorities some protection, although ultimately there will be resourcing implications for them.
- 11 On the detail of Regulation 11(2), which sets out the requirement to pay pooled receipts monies to the Secretary of State within 3 working days after the end of each quarter, in CIPFA's view a longer period would be more appropriate for authorities to undertake the various reconciliations and accounting processes involved in the end of period financial statements.
- 12 CIPFA also welcomes the clarification through regulation 18 of the position for right to buy receipts.

Part 4 – Supplementary

- 13 CIPFA welcomes the requirement in draft regulation 17 that in carrying out its functions under

Chapter 1 of Part 1, a local authority shall have regard to the CIPFA Treasury Management in the Public Services : Code of Practice and Cross-Sectoral Guidance Notes.

Part 5 – Minimum revenue provision

- 14 It is CIPFA's view that the appropriate charge to the revenue account for the consumption of fixed assets is depreciation. This view accords with UK generally accepted accounting practice and would be consistent with the government's fiscal strategy.
- 15 In our response in September 2003 to the ODPM's consultation paper on support for local authority capital investment, CIPFA welcomed the consideration given in that 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.
- 16 CIPFA supports the proposals for minimum revenue provision within the draft regulations in the short term as a means of avoiding dislocation whilst a fundamental review with respect to full

depreciation accounting is undertaken.

Part 6 – Accounts

- 17 CIPFA supports draft regulation 25 with respect to retirement benefits.
- 18 CIPFA welcomes draft regulation 26, which states that the CIPFA/LASAAC Code of Practice on Local authority Accounting in the United Kingdom (the SORP) and CIPFA's Best Value Accounting Code of Practice are proper practices for the purposes of section 21(2) (accounting practices).

Investments

- 19 Paragraph 1.15 of the informal commentary that was included on the draft regulations with the consultation indicates that the Secretary of State expects to publish a code of guidance on the investment of surplus funds that will replace the current Approved Investment Regulations, and that a separate consultation on this will be undertaken later this year. Early publication of this consultation is urged.

Conclusion

- 20 In conclusion, CIPFA supports the framework which will be established by the draft Local Authorities (Capital Financing and Accounting) Regulations 2003. 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.

COMMENTS ON THE DRAFT LOCAL AUTHORITIES (CAPITAL FINANCE AND ACCOUNTING) (WALES) REGULATIONS 2003

1 General

- 1.1 CIPFA is pleased to comment on the Welsh Assembly Government's consultation paper and draft Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003.
- 1.2 CIPFA welcomes the 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.
- 1.3 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.
- 1.4 CIPFA was represented on the Local Government Capital Finance System – Task and Finish Group that assisted with the development of the draft regulations.
- 1.5 CIPFA has some detailed comments and these are set out below.

2 Regulation 2 – Code Of Practice

2.1 CIPFA welcomes the fact that this key regulation for the implementation of the prudential borrowing system is being brought into force earlier than other regulations. This should ensure that authorities give the Code due regard as part of their budget setting processes prior to April 2004.

2.2 CIPFA welcomes the requirement in draft regulation 2 that in complying with their duties under section 3(1) and (2) (duty to determine affordable borrowing limit) a local authority shall have regard to the CIPFA Prudential Code. This is a significant new freedom for local government and will facilitate strategic planning for services, asset management and option appraisal in local government. It will assist the integration of revenue and capital planning and lead to greater choice between revenue intensive and capital intensive schemes.

3 Regulations 3 and 4 – Liabilities

The clarifications in draft regulations 3 and 4 about liabilities that do not arise from capital expenditure and retirement benefits are helpful.

4 Regulation 5 – Credit Arrangements

CIPFA welcomes the reliance that is placed within the draft regulations on proper accounting practice for the identification and measurement of credit arrangements. This replaces a large number of detailed and complex regulations within the

current legislative framework. CIPFA's view is that reliance can be placed on accounting standards for the recognition of assets and liabilities on local authority balance sheets. Indeed, this is one of the primary purposes of the balance sheets of local authorities.

5 Regulations 11-18 – Pooling Of HRA Capital Receipts

5.1 A key concern of CIPFA's over the pooling of HRA capital receipts is that the criteria on which pooled housing capital receipts are to be redistributed are precise and transparent, so that the principles of equality and fairness are not compromised. In particular, it should be clarified whether any capital receipts generated by local authorities and 'pooled' will be redistributed in their entirety within the local government sector or, for example, redistributed to registered social landlords in areas considered to be in greater need.

5.2 A provision of the Local Government and Housing Act 1989 (s59(9)), which allows authorities to treat capital receipts from the sale of certain categories of housing assets as being reduced by an amount equivalent to the administrative costs of the sale (i.e. the capital receipt can be applied to meet the administrative costs) is replicated in the draft regulations in respect of the pooling of capital receipts. However, CIPFA understands that in Wales it is not anticipated that any authorities will in the first instance be eligible for pooling and therefore the relevant regulation is draft regulation 19. In order that the present situation is preserved and subject to legal advice and ministerial approval

CIPFA supports the insertion at a suitable point in draft regulation 19 that in respect of capital receipts relating to:

- (a) a disposal of land held for the purposes of Part II of the Housing Act 1985
- or
- (b) any other disposal of land made by virtue of Part V (the right to buy) of that Act,

the capital receipt will be treated as reduced by so much of the receipt as is applied by the authority in defraying the administrative costs of and incidental to any such disposal.

6 Regulation 20 – Guidance

CIPFA welcomes the requirement in draft regulation 20 that in carrying out its functions under Chapter 1 of Part 1, a local authority shall have regard to the CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes.

7 Regulations 22 – 24 Minimum Revenue Provision

7.1 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. CIPFA therefore supports the long term aim of the Welsh Assembly Government that local authorities should eventually be able to move to UK GAAP and charge a depreciation amount to their revenue accounts in

recognition of the cost of using up capital assets in the provision of local authority services.

7.2 However, CIPFA accepts that it is not possible to achieve this in the short-term in Wales and that if such a move were made without further measure, there would be affordability issues at a local level. The future of Welsh Assembly Government support for capital and a balance of funding review will both be important in this context. CIPFA urges the Welsh Assembly Government to initiate, with local government in Wales, 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.

7.3 CIPFA supports the proposals for minimum revenue provision within the draft regulations in the short term as a means of avoiding dislocation whilst a fundamental review with respect to full depreciation accounting is undertaken.

8 Regulation 25 – Retirement Benefits

CIPFA supports draft regulation 25 with respect to retirement benefits.

9 Regulation 26 – Proper Practices

CIPFA welcomes draft regulation 26, which states that the CIPFA/LASAAC Code of Practice on Local authority Accounting in the United Kingdom (the SORP) and CIPFA's Best Value Accounting Code of Practice are proper practices for the purposes of section 21(2) (accounting practices).

10 Investments

The informal commentary that was included on the draft regulations with the consultation indicates that the Welsh Assembly Government expects to publish a code of guidance on investments that will effectively replace the current Approved Investment Regulations, and that a separate consultation on this will be undertaken later this year. Early publication of this consultation is urged.

11 Conclusion

In conclusion, CIPFA supports the framework which will be established by the draft Local Authorities (Capital Financing and Accounting) (Wales) Regulations 2003. 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.

CIPFA'S PRUDENTIAL CODE PAVES THE WAY FOR IMPROVED LOCAL AUTHORITY ASSET MANAGEMENT

CIPFA welcomes the announcement that the prudential framework will commence in England from 1 April 2004.

Under the new arrangements local authorities will determine their own programmes for capital investment in fixed assets that are central to the delivery of quality local public services.

Steve Freer, CIPFA's Chief Executive, said:

"The current legislation that controls capital investment by local government has long been recognised as getting in the way of good asset management. The new framework will have a real and beneficial impact on service delivery by supporting strategic planning for capital investment at the local level. We are proud that CIPFA has been able to play an important part in the introduction of the new framework through the development of the Prudential Code."

CIPFA has developed the Prudential Code for Capital Finance in Local Authorities as a professional code of practice to support local authorities in taking these decisions. Key objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable; that treasury management decisions are taken in accordance with good professional practice; and that local strategic planning, asset management planning and proper option appraisal are supported.

Provided that the Government does not use its long stop powers to control future capital investment, local government will in future be able to choose between revenue intensive and capital intensive options for service delivery, undertake 'spend to save' capital schemes and undertake additional self-funded capital investment where they can afford to do so.

The full potential of the new system for service delivery will however only be realised if, in addition to the

changes now announced, other key elements of the system move forward. For example if government support for capital investment continues to be linked to particular forms of investment it will skew decision-making. CIPFA looks forward to working further with the central and local government community to take forward these issues.

CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING IN THE UNITED KINGDOM - SORP 2004 – INVITATION TO COMMENT

The CIPFA/LASAAC Joint Committee invites comments on proposed changes to the local authority SORP. The Invitation to Comment and Exposure Draft on the SORP sets out significant changes to local authority accounts. The proposals in the Invitation to Comment will require detailed preparations and consideration at a senior level within finance departments. Comments are invited by 6 February 2004.

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 include:

- ⌘ Annual conference (this year's took the form of a debate on whether the Government's delivery agenda is working).
- ⌘ A programme of early evening lectures and other events.
- ⌘ Free personal subscription to a range of respected publications

including the journal *Public Money & Management* and the association's quarterly newsletter, *Review*.

Forthcoming lectures include:

28 January 2004	Sue Goss OPM	Public Sector Governance
10 February 2004	Paul Maltby Research Fellow, Public Private Partnerships, Institute for Public Policy Research	Understanding public interest companies
March (date tbc)	Robert Hazell The Constitution Unit, UCL	Devolution Fault lines
18 May 2004	Keith Ruddle Templeton College, Oxford	Developing leaders and organisations to deliver joined up services

To find out more

The PMPA is a national membership organisation managed and supported by CIPFA. Members of CIPFA, ACCA and CIMA are entitled to join at a discounted annual rate of £65 (2002-03).

Further information on joining the PMPA is available from the PMPA website – www.pmpa.co.uk (which includes a downloadable application form) or from Sandra Harper at CIPFA, 3 Robert Street, London WC2N 6RL. Tel: 020 7543 5679; fax 020 7543 5695; email 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
 - ☞ 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.

By invitation:

John Apps	ODPM
S Nisbet	Perth & Kinross Council
David Thomas	Independent
A Waite	Independent

Further information about the Panel's activities, publications and seminar events is available on the panel website at: [/www.cipfa.org.uk/panels/housing/](http://www.cipfa.org.uk/panels/housing/) or from the Secretary, Lesley Lodge by emailing lesley.lodge@cipfa.org tel: 01582 882193.

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
R Makinson	LB Hackney
Patrick McCarthy	Forest of Dean Housing
Anne Phillips	Powys County Council
Simon Wiles	City of York
Lindsey Wishart	Kingston Upon Thames
Lesley Lodge (Secretary)	CIPFA