

CIPFA LOCAL AUTHORITY HOUSING PANEL

NEWSLETTER

ISSUE NUMBER 1

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INTRODUCTION

Welcome to the first newsletter for CIPFA accountants and directors of finance working in local authority housing. The purpose of this newsletter is to keep you informed about the work CIPFA is undertaking in the sector and to invite your views on the types of projects CIPFA might address in the future. It will highlight topical issues and concerns.

This newsletter concentrates on two major issues which will be of interest to practitioners. Firstly, we have summarised key points from CIPFA's responses to the following DETR's consultation document:

- A New Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account
- Best Value in Housing Framework
- Guidance on stock valuation for resource accounting.

Secondly, we have included an update on CIPFA's work on the best value accounting framework.

CIPFA'S HOUSING PANEL

CIPFA's Housing Panel was established to promote the maintenance of high standards of financial management in local authority housing. The Panel does this through co-ordinating CIPFA's responses to consultative documents, advising practitioners on technical issues, producing guidance and holding seminars.

During 1999, the Panel responded to the following consultation documents:

- Best Value in Housing Framework
- Best Value in Housing in Wales
- Proposal to change the Administration of the Housing Transfer Programme

and has contributed to the development of CIPFA's responses to:

- A New Financial Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account
- Housing Transfers in England: Dealing with Overhanging Debt and Altering the LSVT Levy.

The Panel has fifteen volunteers drawn from a range of local authorities. We are very pleased to have Ken Lee, director of finance at West Lancashire District Council as chairman. The other members of the Panel are as follows:

Kerry Ace CIPFA
Bev Angell Nottingham CC
John Apps DETR
Paul Hackett Consultant
John Hawes Sedgefield BC
Sukvinder Kalsi Birmingham CC
John Kettlewell Tower Hamlets LBC
Alan Mellor Ashfield DC
Geoff Petty Powys CC
Ron Potts Gateshead MBC
Ewan Rayner Consultant
Bob Shulver Sevenoaks DC
Jane West Lambeth LBC
Simon Wiles City of York Council.

CIPFA COURSES

**Developments in Housing Finance,
London, 8 September 1999**

98 delegates attended CIPFA's seminar chaired by John Kettlewell, from London Borough of Tower Hamlets and member of the Housing Panel. In the first session Ken Lee, from West Lancashire District Council and Chairman of the Housing Panel gave an overview of the range of issues currently facing housing practitioners. He drew particular attention to the DETR consultation documents, Housing Transfers in England – Dealing with Overhanging Debt and Altering the LSVT Levy and Proposal to Change the Administration of the Housing Transfer Programme. He emphasised the importance of responding to such proposals. Ken went on to highlight research currently being undertaken in housing such as the work on rent rebate fraud.

In the second session, Alan Westwood, director of corporate resources at Salford MDC considered developments in housing capital accounting. He outlined the impact of the single allocation for housing, its aims and the reasons for the changes. Alan went on to describe the effect of re-source accounting in the HRA on capital allocations and concluded his talk by considering issues concerned with regeneration and with PFI.

The third session gave Ken Lee an opportunity to discuss the progress of resource accounting in the HRA in some detail owing to his being a member of the HRA Technical Advisory Group. Ken updated delegates on progress in key areas including valuations, depreciation, accounting changes and business plans. Ken concluded his talk by summarising his views on the likely positive and negative aspects of resource accounting in the HRA.

After lunch, Steve Bailey from CIPFA's Advisory Service on Best Value talked in detail about the best value framework and its impact on both the local authority and the community. Steve emphasised the importance of outcomes as part of the process. He also stressed that it is crucial to involve stakeholders and that local authorities should effectively be 'blowing their own trumpets'. The fifth session saw Ivan McConnell from Arthur Anderson provide an overview of the work of the DETR Advisory Group on Research into Housing Management. Ivan described the background to the project and the links with the Social Exclusion Unit of the Cabinet through the Policy Action Team (PAT5). He noted that a series of influences on costs relating to management of housing had been considered and he indicated that a range of definitions exist for housing management and for the interaction of housing with other services. The difficulty in determining the overall costs of local housing management was emphasised.

In the final session, John Hawes from Sedgefield Borough Council gave a workshop on completing subsidy forms. In particular, John outlined the major components of the claim, resource accounting arrangements and DETR and external audit issues.

Owing to the popularity of this seminar, CIPFA held another event with the same programme and speakers on 21 October.

In 2000, the Panel is planning to hold the following events:

- Developments in Housing Finance (1)
May
- Developments in Housing Finance (2)
October

For further details please contact CIPFA on 0171 543 5600 and ask for Alex Aarons in the Courses Unit.

BEST VALUE ACCOUNTING FRAMEWORK – UPDATE

CIPFA's consultative document 'The Modernised Framework for Local Authority Accounting – Accounting for Best Value' was issued in February 1999 to over 1000 organisations. Over 200 responses to the consultative document were received and these were analysed for the Accounting for Best Value Project Advisory Group meeting held in June 1999.

Based on the consultation responses, a statement of principles was developed to guide the detailed work on the accounting framework. They are:

1. The 'Best Value Accounting Code of Practice' should be recognised as "proper accounting practice".
2. The REPORTING REQUIREMENTS for financial, statistical and performance purposes should be harmonised wherever possible.
3. The definition of TOTAL COST will be consistent with the financial accounting framework established by the SORP.

The definition of Total Cost will include all support service costs and capital charges. The non-allowable costs will include a redefined Corporate and Democratic Core and clearly defined unapportionable overheads.
4. There will be SEGMENTAL REPORTING of Total Costs.

5. TRADING ACCOUNTS should be maintained for all services subjected to external competition or offering a service at a quoted price. [England and Wales only – in Scotland existing arrangements apply.]

5A. The guidance on the reporting of TRADING ACCOUNTS will be dealt with in the Code of Practice on Local Authority Accounting in Great Britain (the SORP).

6. PARTNERSHIPS AND JOINT WORKING ARRANGEMENTS will be accurately and consistently accounted for.

7. The Best Value Accounting Code of Practice should be reviewed on a regular basis.

CIPFA's statement of principles on accounting for best value provided the underlying philosophy for the review of the 'Objective Analysis' of income and expenditure contained in CIPFA's guidance 'Accounting for Housing in Great Britain' which took place at the end of the year.

The Best Value Accounting Code of Practice will be available to local authorities shortly. The code includes service expenditure analyses for local government services, including housing.

For further details, please see our website (<http://www.cipfa.org.uk>)

DETR'S CONSULTATION PAPER 'A NEW FINANCIAL FRAMEWORK FOR LOCAL AUTHORITY HOUSING: RESOURCE ACCOUNTING IN THE HOUSING REVENUE ACCOUNT'

Introduction

In March 1999, CIPFA submitted comments to the DETR on its consultation paper 'A new financial framework for local authority housing: resource accounting in the housing revenue account (HRA)'. The main issues raised in CIPFA's response are summarised below.

Overview

CIPFA welcomes the proposal to introduce resource accounting in the HRA in principle and supports the objectives of the new financial framework.

The consultation paper envisages that requirements for revised HRA accounts will be incorporated, after due process, within the Statement of Recommended Practice (SORP) for local authority accounting, probably for the year commencing April 2001. Again, CIPFA welcomes this. Whilst, if there is any conflict, the requirements of statute will take precedence over those of generally accepted accounting practice (GAAP), it is recognised and welcomed that all parties wish to move towards a system which follows GAAP.

Comments on Particular Questions Raised in the Consultation Paper

What valuation method would be most appropriate for the purposes of the balance sheet/cost of capital element

It is CIPFA's strongly held view that, for operational assets of a local authority, the valuation basis within the local authority's accounts should be the lower of the net current replacement cost or net realisable value in existing use, and that for social housing this is existing use as social housing.

It is a basic tenet of accounting practice that where operational properties are valued this should be on the basis of their existing use value. Also, adoption of an open market valuation within the accounts of local authorities would lead to differences in the valuation of local authority housing and Registered Social Landlords' (RSLs') housing assets, the latter being valued at either their historic cost or on the basis of their existing use value as social housing (EUV-SH). CIPFA notes that one of the objectives identified for the changes proposed is to bring council housing onto a more directly comparable basis with RSLs.

In relation to valuation methods, CIPFA recommends that the detail of the valuation methods should be the subject of discussion with RICS and the Valuation Office. However, this must be done with a clear expression of the client side's (those re-requesting the valuations) requirements.

What method of assessment would be most appropriate for the depreciation/major repairs element

A major thrust of the policy initiative by the DETR is to introduce a major repairs allowance (MRA) into the housing revenue account of local authorities as a resource for major repairs. This is coupled within the consultation document with depreciation, eg (paragraph 1.8(b):

"An annual allowance for depreciation/major repairs would be paid as part of the subsidy calculation."

The question of whether MRA can be associated with depreciation for accounting purposes will require further consideration, particularly within the context of both FRS15, the new Financial Reporting Standard on Tangible Fixed Assets which was

published by the ASB this February, and the RSLs' accounting SORP. FRS 15 argues that the regular maintenance or refurbishment of an asset does not negate the need to charge depreciation. Immateriality is the only ground permitted by the FRS for not charging depreciation. The question therefore appears to be whether local authority housing stock falls into the category of an asset with a usable economic life which is so long, or the residual value of which is so high, that the depreciation charge and the accumulated depreciation balance are immaterial. An alternative argument might be that renewals accounting could apply for the HRA. In other words, the question is whether MRA is an acceptable substitute for depreciation of local authority housing stock. Alternatively, the MRA and depreciation would need to be identified separately.

What methods would be most suitable for updating the initial valuations and major repairs cost as assessments

and

the frequency at which valuations should be updated

The local authority accounting SORP requires that council houses be revalued formally at intervals of not more than 5 years and the revised amount included in the balance sheet, and it is recommended that this practice continues.

The proposed revised arrangements for rent rebates

The proposed transfer of rent rebate costs from the HRA to the general fund of local authorities would have significant distributional effects on the general funds of individual local authorities. It is recognised that the

DETR intends to consult further in respect of rent rebates.

For local authorities who are receiving housing subsidy currently (ie they are in positive housing subsidy overall), there will be a disproportional impact where there are large concentrations of council housing with a high proportion of claimants.

However, the impact will be greatest for those local authorities who are currently in negative housing subsidy. A local authority which, notionally, is in receipt overall of negative housing subsidy is required under section 80(2) of the Local Government and Housing Act 1989 to carry the equivalent positive amount from their HRA into their general fund. The implication of the proposed system is that in future such transfers will be back to a national 'pool' rather than within the local authority. Over time, for those local authorities concerned, the annual transfers to the general fund have become very substantial and so this would impact significantly on services and/or local tax levels.

The sort of new incentives that should be incorporated in the proposed resource accounting system

In general, CIPFA supports the principles of using needs indicators and corporate strategic assessment within an allocation system. CIPFA would also stress the importance of:

- a basic needs element to meet core requirements
- a system which allows for additionality for locally generated resources, to promote the better use of assets

- simplicity and ease of understanding.

Whether there are other long term issues which should be taken into account in considering the proposals in the paper.

First, the consultation paper relates solely to England. CIPFA would ask whether similar changes are proposed for Wales and Scotland. In this respect, it is worth noting that the local authority accounting SORP covers the whole of Great Britain.

Secondly, CIPFA is concerned that the interrelationships between the proposed major repairs allowance and capital funding are considered fully, particularly the consequences for the proposal for a single 'capital pot' which is included in the Government's Modernising Local Government initiative.

DETR'S CONSULTATION PAPER 'BEST VALUE ACCOUNTING FRAMEWORK'

Introduction

CIPFA has submitted comments to the DETR on its proposals for a best value in housing framework. The main issues raised in CIPFA's response are summarised below.

Overview

CIPFA welcomes the DETR's aim to develop a best value framework which will deliver high quality services in a cost effective manner. CIPFA is particularly pleased to see the emphasis placed on quality and the recognition that it should be defined in terms of the aspirations of local authority housing residents. In CIPFA's view, best value has the potential to change for the better the

way services are planned and delivered.

Specific Comments

Part 1

Introduction

CIPFA welcomes the acknowledgement in paragraph 1.2 that local authorities will have discretion to determine how the framework is applied. In CIPFA's opinion, a permissive framework that allows local authorities to experiment in the pursuit of continuous improvement is essential.

About the consultation

Although CIPFA agrees with the emphasis in 1.3 on local authority consultation with stakeholders with reference to defining best value, CIPFA believes that to avoid confusion, it is important that all parties are able to understand what is meant by best value. Unless this is the case it will be difficult to promote a consistent approach to implementing best value and comparability between authorities.

Part 2

Overview

In CIPFA's opinion, there is still confusion over the definition of a 'service' in terms of best value – although an authority may regard the housing service as a range of discrete services the users may not. Fundamental performance reviews are to take place in respect of services, however, to many users, such services will be components of the whole housing service.

Part 4

Best Value in Housing: Process

Establishing corporate objectives

CIPFA agrees with paragraph 4.1 which notes that “the starting point for delivering services to a consistently high standard and at an acceptable cost begins with an authority's vision of a local community ...” and that “an authority needs to be clear about, and establish priorities in relation to, the services which local people expect” CIPFA believes that the success of the best value regime will depend primarily on authorities' own plans for improving services which they actively consult on, publish and are held accountable for.

Undertaking fundamental performance reviews

In CIPFA's view, decisions on which services should be reviewed first (paragraph 4.2) should be based on the actual needs and aspirations of service users, since their perception of 'worst' may differ to that of the local authority. It is also important that the process does not become too mechanistic, otherwise the benefits to be gained from implementing best value may be frustrated.

Delivering the 'Four Cs'

CIPFA welcomes the comments made in paragraph 4.10 which explicitly recognise the value and relevance of making comparisons with all types of organisations with similar processes.

In CIPFA's view, service planning will need to take account of service user requirements. CIPFA welcomes references in the consultation paper, therefore, to the need to consult widely. In CIPFA's view, however, it would be helpful for paragraph 4.11 to define key stakeholders, rather than referring to 'other local people'. CIPFA believes that it is also important to recognise that different stakeholders

may have different priorities and that these will need to be reconciled.

Preparing local performance plans (LPPs)

CIPFA believes that local performance plans will play a central role in demonstrating the achievement of best value and accountability for local authorities' performance. These published plans should combine forward looking information setting standards and targets, and backward-looking information, reporting on performance against previous standards and targets. The plans should also produce an analysis of and commentary on performance and the factors that affected performance during the year. In addition to the points identified in 4.29, therefore, CIPFA believes that a housing local performance plan should refer to:

- the constraints faced by the authority in relation to the objectives identified
- the specific problems that the local community has asked the local authority to address in relation to housing
- an analysis of the major risks faced by the authority and other known events and trends that might affect performance on housing in the period.

In CIPFA's opinion, local authorities should be permitted to present and publish key performance information in a manner best suited to their own particular communities. It is important, therefore, that the forthcoming DET guidance referred to in paragraph 4.30 is sufficiently flexible to ensure that innovation is not stifled.

Reports to tenants

CIPFA agrees that it is sensible to consider the scope for replacing Reports to Tenants with LPPs in order to avoid duplication. CIPFA believes that in any case, as a matter of principle local authorities should assess the benefits and costs when developing information for tenants.

Performance Indicators

CIPFA notes that national performance indicators (PIs), including those for housing, will be the subject of a separate consultation exercise, but has the following comments to make at this stage.

CIPFA recognises that PIs, on their own, provide only indirect evidence about performance. A local authority's performance management systems need also to include:

- 'performance measures' which look at the relationship between activities and the results associated with them;
- 'performance targets' which state what an authority is required or aims to achieve in a future period;
- 'performance standards' which set out the minimum level of performance.

It is also important that the information sources from which performance management systems draw their raw material are robust. Authorities will need to have an information strategy and management information systems, accordingly. It is essential that PIs do not give a misleading view of performance and

are un-ambiguous. Standard definitions must be used when reporting on performance to ensure that comparisons are made on a consistent basis.

The range of PIs used should be reviewed regularly so that it remains relevant.

CIPFA believes that PIs should reflect the spirit of best value which encourages local authorities to seek continuous improvement. In CIPFA's view PIs should measure positive health and encourage local authorities to build on their successes and to improve their performance year on year. CIPFA is therefore concerned that the performance targets to be imposed on local authorities (paragraph 4.35) are inconsistent with this aim and may, in reality, prove unrealistic and impractical.

Best value and HIP

CIPFA welcomes the DETR's commitment to ensuring that the HIP and best value regimes reinforce each other and that the HIP assessment will incorporate the best value national performance indicators for housing.

CIPFA welcomes the avoidance of unnecessary duplication and bureaucracy as a key principle.

Part 5 Audit and Best Value

In CIPFA's view, the 'audit' of best value and, indeed, 'public audit' is an essential component of public accountability. However, what is being proposed is a form of independent and external 'performance review' rather than audit in the technical sense.

CIPFA has concerns that the consultation paper betrays something

of an 'expectations gap' about the role of auditors. The proposal that auditors 'will provide a check' that 'the performance and resource information within plans is accurate' or that 'plans are realistic' could increase substantially the amount of audit activity and the responsibility of auditors. However, CIPFA welcomes and is reassured that the Audit Commission is to provide a code of practice on the form such certification might take and on the work that might be needed to underpin it.

The essential point is that there needs to be a clearly defined framework of criteria against which the 'best value' judgement will be made, whoever is making it (whilst recognising that ultimately this judgement must be made by the local community). CIPFA envisages that this framework will need to be defined nationally by the Housing Inspectorate. The framework will also serve to identify the mix of skills and competencies that best value 'auditors/inspectors' will need to carry out their role.

CIPFA is concerned that the total cost of auditing and inspection of local government will increase substantially as a result of the introduction of best value as the scope and detail of audit and inspection is to be extended.

Part 6 Inspection

In CIPFA's view, part 6 of the consultation paper does not clarify how an authority will be judged as having fallen short of reasonable expectations by the Housing Inspectorate.

CIPFA is concerned about the potential for duplication of effort that may occur through the establishment

of the Housing Inspectorate. In particular, consultation with residents through meetings, surveys and other means. CIPFA is also concerned about the cost relative to the benefits that will be derived.

CIPFA recommends that the Inspectorate promotes a 'managed inspection' approach where the emphasis would be on validating an organisation's own self-governance and assessment arrangements which, if they prove to be sound, would reduce the 'depth' of the inspection subsequently needed. For example reliance could be placed on an organisation's management services reviews and professional self-assessments such as peer reviews. This approach will not only serve to avoid over-auditing but also help foster a partnership approach between inspector and inspected.

There also needs to be a recognition that inspections themselves can have a negative impact on an organisation. In particular inspections can encourage a culture of dependency – instead of getting on with things managers may decide to 'wait and see' what the inspector says. In extreme cases this could result in stifled innovation. To avoid such an outcome, the inspection process needs to be designed so that it is seen as a positive, learning opportunity for all parties rather than something to be 'got through'.

Part 7 Intervention

CIPFA recognises that the Government will wish to retain reserve powers but believes that intervention should take place only in exceptional circumstances. In CIPFA's view, the primary influence over spending levels should be the framework for

accountability at the local level including the election process.

DETR'S CONSULTATION PAPER
GUIDANCE ON STOCK VALUATION
FOR RESOURCE ACCOUNTING

OVERVIEW

The detail of the methodology to be applied when determining the value of properties to required bases is fundamentally the concern of the Valuation profession. The CIPFA/LASAAC Code of Practice on Local Authority Accounting (the SORP) requires that the valuations for a local authority's balance sheet be undertaken by a professionally qualified valuer. Therefore, provided that the professional bodies concerned support the methodology proposed to measure the EUV-SH basis, then this supports the accounting requirements of CIPFA.

Chapter 10, depreciation of land and buildings, states that the Department is continuing to discuss with the CIPFA/LASAAC Joint Committee whether the Major Repairs Allowance (MRA) can be regarded as a reliable measure of depreciation for accounting purposes; and that guidance on depreciation, if it is necessary in the light of those discussions will be included in the final version of the guidance. These discussions are ongoing and CIPFA wishes to defer comment on this issue until these discussions are complete.

Similarly, chapter 11 on impairment states that the Department is continuing to discuss with the CIPFA/LASAAC Joint Committee whether the MRA can be regarded as a reliable measure of depreciation for accounting purposes; and that guidance on provision for impairment (which will be necessary whatever the

outcome) will be included in the final version of the guidance. It is CIPFA's view that the requirements of the SORP in relation to impairment ought to be applied and that they are not contingent on whether or not MRA is accepted as a method of calculating depreciation. However, CIPFA accepts the wish of the Department to issue guidance on both depreciation and impairment coterminously.

FRS 15, Tangible fixed assets, requires that valuations are undertaken by either a qualified external valuer or a qualified internal valuer provided that the valuation has been subject to review by a qualified external valuer. However, in paragraph 44 of FRS 15 the ASB specifically highlighted that for cost/benefit reasons the details specified in paragraphs 45-52 of the FRS (which include this requirement) may not be appropriate for charities and other not-for-profit and public sector organisations adopting a revaluation policy, in which case alternative approaches may be acceptable and will generally be addressed in the relevant sector-specific guidance and SORPs. In the exposure draft of the SORP which is currently out for consultation, the CIPFA/LASAAC Joint Committee has recommended that for local authority assets, valuations by either a professionally qualified internal or external valuer be allowed, with no necessity for review by an external valuer if an internal valuer is used, on grounds of cost/benefit. The definition of qualified (internal or external) valuer as used within the FRS has been included within the SORP.

CIPFA recommends that these requirements are also included within the final DETR guidance.