

**CIPFA LOCAL AUTHORITY
HOUSING PANEL**

NEWSLETTER

ISSUE NUMBER 2

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INTRODUCTION

Welcome to the second newsletter for CIPFA members working in local authorities in housing finance and any one interested in housing finance issues. This newsletter has been prepared by CIPFA's Housing Panel. This issue contains an article on Housing Capital Receipts, a report on a recent seminar held by the Panel and the Housing panel's response to the DTLR consultation paper 'A new financial framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account HRA subsidy and rent'.

There are also some answers to recent queries received by CIPFA's Helpdesk, some information about the Housing Panel and a short piece about the Public Management and Policy Association (PMPA). Finally, there are some useful weblinks.

HOUSING CAPITAL RECEIPTS – A QUICK LOOK AT THE REGULATIONS

An authority can generate resources for capital expenditure by selling off its existing assets. These capital receipts are only partly available for recycling: a proportion has to be reserved for the repayment of outstanding borrowings. The balance is available for financing new capital expenditure but cannot be used to support revenue expenditure.

In certain circumstances an authority can legally offset expenditure against the receipt generated before the relevant set-aside / usable proportions are calculated, thereby maximising the resources generated by the asset sale.

Section 59 (9) Local Government and Housing Act 1989 allows local authorities to deduct all reasonable administration and incidental costs of selling council houses under the "Right To Buy Scheme" from the GROSS PROCEEDS.

The Local Authorities (Capital Finance) Regulations 1997 [SI 1997 / 319] is the other key piece of legislation which allows reduction in receipts before set-aside and in particular :

- Regulation 98: receipt reduced by any enhancement costs incurred on the asset in the year of disposal and two preceding years.
- Regulation 103: receipt reduced by any costs incurred by the local authority to enable land to be sold [Land includes any buildings situated on it] This includes site preparation costs, any costs of sale e.g. advertising etc.

There are other regulations that can be used to help maximise the usable proportion. The District Audit 'Capital Finance Checklist 2000-2001 [Section B] is a good reference point.

SEMINAR ON CURRENT DEVELOPMENTS IN LOCAL AUTHORITY HOUSING FINANCE

The Housing Panel held a course in London on "Current Developments in Local Authority Housing Finance" on 16 January 2002. Over 100 delegates attended the course. Ken Lee, Chief Executive of Flyde Borough Council and Chairman of CIPFA's Housing Panel, chaired the seminar. Other speakers included John Apps of DTLR; Bev Angell, Nottingham City Council; John Perry, Director of Policy, Chartered Institute of Housing; Sarah Stacey, CIPFA's Technical Manager, Best Value; Paul Field, Head of Business Development and Financial Strategy, Solihull MBC and Patrick McCarthy, Director of Resources, Homezone.

The Way Forward for Housing

Ken Lee's opening session on *The Way Forward for Housing* set the scene for the detailed discussions that followed. He split the main finance issues coming up for finance professionals into two main categories: those presenting straight-forward options, and those presenting other options.

Straight forward

- HRA Subsidy – simplification?
- Housing Revenue Account.
- Business Planning – for real?
- The real cost of the service.

Other Options

- What is an Arms Length Company?
- How do we account for these?
- How do we prepare for an LSVT?
- How do we ensure that it is a win-win game?

Ken stressed the keen pace of constant change in Local Government, with Housing the fastest growing field. Housing resources have increased since 1997 but the emphasis now is on a better use of those resources. He welcomed also the new emphasis on business planning and business ethos. CIPFA's Housing Panel exists to help managers and it can do this not only through courses, but also via its website, via the Help Desk for CIPFA members and by responding on behalf of finance professionals to the various consultation papers issued by central government.

The Housing Revenue Account

John Apps from DTLR gave a comprehensive overview of all the current developments from the Department's perspective. He said there were no real surprises in the 2002/03 subsidy; the main change – that of rent restructuring – had come earlier and the subsidy determination was based on the assumptions of the Spending Review 2000 but adjusted to allow for rent restructuring. The

Management and Maintenance allowance is to increase by a minimum 2% cash, but damping is to continue. 2002-03 will be the first year of the Single Capital Pot. Now 95% of the allocation will be by service-related formulae but 5% will be discretionary. No authority will lose more than 5% on 2001-02 Major Repairs Allowance and Basic Credit Approvals.

Turning to Arms Length Companies (ALMOs), John suggested that the following lessons must be learnt from the experiences of the round one pre-allocations:

- Proposals must be realistic about what has to be done, when and how.
- Adequate separation of functions and proper delegation is essential.
- Proposals should identify projected outputs and benefits, eg decent homes, as well as processes.
- The Department should consider further guidance.
- Needs specific subsidy and Item 8 arrangements need addressing.

On Rent Restructuring, John confirmed that the Department is to continue with the April 2002 start as planned. Caps have been introduced, to a maximum of £100 per week. Local Authorities are advised to apply an average restructured rent increase for 2002-03 if they cannot implement rent restructuring on a property by property basis. "Re-basing" changes to bring both guideline rents and management and maintenance allowance back to reality should be resource neutral. The Department will be consulting on management and maintenance allowances for future years.

The Local Government White Paper *Strong Local Leadership Quality Public Services* includes a number of proposals on housing:

- There will be a freedom to borrow as per the General Fund.

- Housing Revenue Account (HRA) revenues are only to be used to fund borrowing for HRA investment.
- A separate prudential limit will apply to the HRA.
- Major Repairs Allowance is to be excluded from the HRA.

The impact of the new borrowing freedoms in the White Paper will vary for different local authorities. The amount an authority can borrow will depend on how much new debt it can afford to service and the impact will also depend on the degree to which the authority has “spare” resources in the HRA.

The White Paper also heralds a change in the set aside rules. “Set aside” is currently a re-distributive mechanism which aims to put spending power where the need is greatest. The new mechanism, which will apply to all local authorities, will mean that:

- those with HRA debt will have support for debt reduced by the “set aside” amount
- those who are debt free will pay a specified proportion into a re-distributive pool.

John said that the Department hopes the required primary legislation will be implemented by April 2004.

Business Planning

Clearly, given the range of current developments in housing finance, local authorities will need to plan carefully. Bev Angell’s talk summarised the implications for the business planning process of the main current developments: Rent Restructuring and the White Paper, as discussed by John Apps, and the Decent Homes Standard and the Stock Condition Survey.

Decent Homes Standard

Some 1.7 million social rented homes were defined as non-decent as at April 2001 and 1.1 million of those are owned by the most deprived local authorities. By 2010, all social housing is to meet a set standard of decency, and by March 2004, one third of those homes not currently meeting the decent homes standard must do so. Local authorities need to address the delivery of the decent homes in their Business Plans for 2002-03.

Stock Condition Survey

The stock condition survey should:

- Involve tenant consultation.
- Be robust in order to provide sound data for the Business Plan.
- Identify not only those properties which currently fail the Decent Homes Standard but also those which are likely to fail in the next ten years.
- Be consistent with the information requirements for Business Plan returns.

Arms Length Companies: the National Picture

John Perry set his discussion of Arms Length Companies in the national context. The value of the fourteen bids in the First Round totalled £945 million. For the 2002-03 allocation, the key features are:

- The strongest applications approved.
- All applicants appear capable of achieving the two star minimum requirement.
- Five out of the eight applicants have already received two stars.
- Westminster, Ashfield, Hounslow and Wigan are not in favour of a tenant ballot.

The main issues for Housing Finance are:

- The Arms Length Company remains a local authority responsibility.
- How does the authority control over-expenditure or underspend?
- Should there be book entries – or bank accounts?
- Probity standards – and what role is there for Internal Audit?
- Rent collection not retention.
- A fee for services provided.
- VAT.
- Use of surpluses.
- Interest on balances.
- Will existing Works Programme contracts be transferred?
- For new contracts, will the company be the agent or the client?
- Who writes the cheques?
- What arrangements will there be for sanctions for non-performance, variations, changes to the Delivery Plan, termination of contract?
- What will be role of the DTLR Housing Inspectorate?

The announcement on Round 2 bids is to be made in mid-May.

Best Value and Accounting for Housing Services

Sarah Stacey's talk focused on the Best Value Accounting Code of Practice (BVACOP): its impact, its principles, developments to the 2002 BVACOP and likely future developments. She summarised the proposed changes to the 2002 BVACOP as follows:

- Structural change, distinguishing what in the Code is guidance and what is mandatory.
- More guidance to address frequently asked questions.
- Clarification of capital areas.
- More guidance on the relationship with the statement of accounts.
- More guidance on partnerships in the Code.

Future developments for the BVACOP are likely to stem from:

- The impact of FRS 17 (on retirement benefits) and the impact on total cost in the 2003 BVACOP.
- Group Accounts.
- Prior Year Comparisons.
- Activity Based Costing.

Sarah also reported on the recent review of the Housing Service Expenditure Analysis (SEA). The two main areas of change to the Housing SEA will be:

- changes due to the introduction of Resource Accounting and
- added guidance on the issue of trading operations balances for services to the HRA.

The Single Capital Pot

Paul Field's session on the Single Capital Pot drew out the practical implications for Local Authority Housing Teams. Previously, resources were largely earmarked to service departments; there will now be a movement towards a scoring system for allocation. Initially this may be for a small proportion of the resources but this is likely to grow. The scoring system will be used to determine which projects will be included within the Asset Management and Capital Programmes. The system aims to provide an objective appraisal basis to prioritise schemes that contribute to Corporate and Service objectives.

Paul's conclusions were:

- The Single Capital Pot is to start on 1 April 2002 but with allocation still largely service-based.
- The principles of the Single Capital Pot are difficult to argue against and a more joined up/cross cutting approach will benefit the community.

- Project appraisals, project management and performance measurement will all increase.
- If well implemented, the Single Capital Pot will lead to clear links between performance plans, service delivery, assets and funding.
- The consequences of the White Paper are not obvious.

Transfers: Issues for Local Authority Staff

Patrick McCarthy had an upbeat message for Local Authority Housing Finance staff: the huge scale of stock transfers, both past and imminent, mean that opportunities for finance staff are greater than ever, with generous salaries now offered by RSLs.

Patrick identified five key areas of skill and/or experience required by any potential Director of Finance at an RSL:

- Business planning.
- Treasury management.
- Technical knowledge.
- Multi-skilling.
- Emotional intelligence.

CIPFA can assist finance staff in acquiring the necessary skills and knowledge, through its courses, its publications and its websites. CIPFA has a separate RSLs Panel – for further information, visit the website at:

www.cipfa.org.uk/panels/RSL

OTHER PANEL EVENTS

The Housing Panel's most recent course was a seminar *on Housing Finance: Housing Stock Transfer Issues* on 11 March. The seminar covered:

- the broad strategic and financial issues facing authorities
- the Community Housing Task Force

- financial management and accounting issues
- issues facing Registered Social Landlords (both pre- and post-transfer)
- the process in practice – a number of case studies from different viewpoints.

Other events planned for 2002 include a course on the Financial Management of Housing Benefit Course and a seminar on an Introduction to Housing Finance.

The timing of these events is subject to further planning and speaker availability. Further details will be available at a later date from Alex Aarons at alex.aarons@cipfa.org and will be published on the Housing Panel webpages at: www.cipfa.org.uk/technical/panels/housing

CIPFA HOUSING PANEL RESPONSE TO A DTLR CONSULTATION PAPER ON RENT RESTRUCTURING

- 1 CIPFA is pleased to comment on the consultation paper *A New Financial Framework for Local Authority Housing: Resource Accounting in the Housing Revenue Account HRA Subsidy and Rent Restructuring*.

General

- 2 CIPFA welcomes the Government's policy to make social rents fair, affordable and less confusing for tenants and an adjustment of the HRA subsidy system in England to reflect rent restructuring is clearly a necessary consequence of the policy.

Moving guideline and average limit rents to the formula rent

- 3 In CIPFA's view, rent restructuring and consequent reform of the subsidy system could present an opportunity for local authorities to

become less dependent on subsidy and more able to exercise choice over improving services. Under the proposals in the consultation paper, any increases in income for individual authorities would be offset by a reduction in the subsidy received. If instead authorities were allowed to keep at least some part of the extra rent to be derived from rent increases, there would be greater incentives for authorities to improve housing services.

Making the changes as far as practical in ten equal steps starting from 2002-2003

- 4 CIPFA's welcomes a ten-step process would provide an opportunity for authorities to plan for and adjust to the changes. Introducing progressively a system of property-specific rent-rebate subsidy limitation from 2004-2005 using 'Option B' as described in paragraph 4.2.2. This adjusts the current formula for calculating the rent rebate subsidy so that it no longer allows authorities to offset rents that are above the formula against those that are below. Until March 2012 property-specific limitation and the current system based on average limit rents would apply in parallel, the subsidy payable being the lower of the figures calculated under the two systems
- 5 CIPFA has two concerns over possible cost implications. First, there could be cost implications for some authorities whose current IT systems are unlikely to be able to support this. Secondly, it is likely that due to policies of increasing rents following Tenants' Choice improvements, even though average rents may be similar to the guideline rents, there could be a significant number of tenants whose rent will be higher than the guideline.

Authorities would not receive subsidy on any amounts over the guideline rent where tenants received rent rebates.

Ending 'mitigation'

- 6 CIPFA would agree that mitigation would not be compatible with the Government's proposals for property specific rent rebate subsidy limitation.

Asking authorities to identify service charges separately on the basis with the possibility of a separate subsidy limitation subsidy system applying in the future

- 7 In CIPFA's view, this would improve transparency and is already practice in many authorities.

WHAT'S TOPICAL IN HOUSING FINANCE? RECENT HELPDESK QUERIES

Many CIPFA members in housing finance face the same or similar problems. Some of the queries most frequently asked of the CIPFA Helpdesk in recent months are set out below, together with the replies given.

- Q** What should Local Authorities be doing in relation to rent restructuring? Should they be recalculating rents on an individual basis, or using a percentage uplift, and if the latter, do they need the Secretary of State's consent?
- A** Recent advice from the DTLR, given when the subsidy determinations were issued for consultation, was that authorities could adopt an across-the-board increase (ie the average increase required for them by the restructuring formula) rather than the property specific increases. This should not require Secretary of State consent.

Q A local authority client is transferring their housing stock to a new housing association. The Council will then be closing the HRA account but they will be retaining **some** development land, which is currently on the HRA account. They want to transfer the development land to the General Fund, as there will no longer be an HRA account. Can you confirm that this is just an accounting entry and that there will be no "cost" to the Council.

A There is not enough information for a definitive answer here. However, if the development land does not have any houses or parts of houses on it, then the authority should be able to go ahead with the appropriation (see S 19 of the 1985 Housing Act). On the question of the stock transfer, if it involves fewer than 500 properties, then the Authority needs to contact the DTLR to seek Secretary of State approval and details such as those raised in the query are usually sorted out then. Detailed guidance on stock transfers has been published by the DTLR on their website (<http://www.housing.dtlr.gov.uk/transfers/guidance2002/index.htm>)

Q My Authority has undertaken a stock condition survey costing approximately £200,000 over five years. Can this be capitalised? Can we use the MRA to finance the Survey?

A No and No.

Q My Authority has disposed of virtually all of its **housing** stock and will be seeking approval from the DTLR to close the HRA. My question is about any HRA provisions or reserves which are no longer required. We have a bad debts provision and reserves which we would like to use for the General

Fund. Can these be transferred directly to the General Fund or do we have to move them to the HRA working balance and then distribute them to the General Fund?

A The Secretary of State should issue a direction (when you seek the approval to **close** the HRA). If the direction does not cover this in detail, the balances should be moved to the General Fund through the HRA.

The CIPFA Members' Helpdesk offers members and registered students a service providing information, guidance and advice on professional issues. Please note that the advice offered by the Members' Helpdesk should not be taken as an authoritative interpretation of the law, and should not be considered as constituting a definition of proper accounting practice. Answers offered are based solely on the information provided to the Helpdesk. All reasonable care is exercised in preparing responses to questions. However enquirers should always refer to the primary sources before relying on this advice, and check any interpretation of published guidance with their own professional advisors.

PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

The PMPA is a national membership organisation managed and supported by CIPFA which is designed to bring together managers and policy makers from across the public services. The PMPA provides a forum in which members can discuss public policy and management issues that straddle programmes and sectors. PMPA members receive copies of CIPFA's quarterly journal (Public Money and Management), the PMPA Review and PMPA Reports. It runs 10 lectures a year and has an annual conference – the 2001 conference was on 'Can 19th Century Institutions Deliver 21st

Century Needs?' and 2002 will look at the delivery agenda. The PMPA also runs sounding boards and workshops. The PMPA is supported by over 20 associated bodies, including CIPFA, ACCA and CIMA.

The PMPA runs an extremely popular evening lecture programme (priority for places goes to PMPA members). Forthcoming speakers Jay Walder of Transport for London on 7 May and Wendy Thomson of the Office of Public Services Reform on 9 April.

JOINING IN

Further information on joining the PMPA is available from Sandra Harper at CIPFA, 3 Robert Street, London WC2N 6RL. Tel: 020 7543 5679; fax 020 7543 5695; email: sandra.harper@cipfa.org

CIPFA'S HOUSING PANEL

The Housing Panel reports to the Institute's Local Government Committee. It 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 Housing Panel is currently working on *A Councillor's Guide to Housing Finance*, a companion publication to *A Councillor's Guide to Local Authority Finance*. *A Councillor's Guide to Housing Finance* is expected to be published in the first half of 2002 and will be available from the CIPFA Shop.

There are currently a number of vacancies on the Housing Panel, and the Panel hopes to fill these soon. Interested finance practitioners, especially (but not exclusively) CIPFA members, working in Housing Finance are invited to contact the Secretary, Lesley Lodge (email lesley.lodge@cipfa.org).

The Panel held two meetings in 2001 and three meetings are scheduled for 2002: **28 February, 18 July, 7 November.**

The current Panel members are:

Ken Lee <i>(Chairman)</i>	Fylde Borough Council
Bev Angell	City of Nottingham
John Hawes	Sedgefield Borough Council
Howard James	National Assembly for Wales
Sukvinder Kalsi	Birmingham City Council
John Kettlewell	LB Tower Hamlets
Patrick McCarthy	Homezone
Geoff Petty	Powys County Council
Bob Shulver	Sevenoaks DC
Jane West	LB Lambeth
Simon Wiles	City of York
Lesley Lodge <i>(Secretary)</i>	CIPFA

By invitation

Ewan Rayner	Consultant
John Apps	DTLR

FINANCIAL MANAGEMENT

CIPFA publishes a range of Financial Management publications on topics that are written for practitioners across the public services. Publications include:

- **Throwing Down the Gauntlet: A Practitioners guide to Challenging Effectively (2001)**
- **What you can learn from ABC (2001)**
- **Achieving an Information Strategy in Practice (2001)**
- **Risk Management in the Public Services (2001)**
- **Developing the Financial Manager (1999)**
- **Building Effective Partnerships: Practical Guidance for Public Services on Working in Partnership (1998)**
- **Achieving Excellence in Financial Management (1998)**
- **Measuring up: Performance Management in the public services (1998)**
- **Competing Demands – Competition in the Public Services (1997)**
- **Valuations for Accounting Purposes (1997)**
- **Management Information: Can you manage without it? (1997)**
- **Appointing and Managing Advisors and Providers of Professional Services (1996)**
- **Benchmarking to Improve Performance (1996)**
- **Making the right choices – A practical guide to Project Appraisal (1996)**
- **Managing Cash – a practical approach (1996)**

A full listing of publications can be found in the CIPFA Shop where you can also purchase copies online.

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. The CIPFA student website has been re-launched. With distinct sections, the site now provides information for prospective students and support for current students. The site also provides new facilities for students including online registration, ask the tutor, frequently asked questions and a salary guide.

DTLR – Local Regions

www.local-regions.dtlr.gov.uk/index.htm

This site provides the first, online, one-stop gateway for local authorities to get quick and easy access to local government-related information that is published on the web sites of central government departments and agencies. There are links to the Best Value website and to all the current consultation papers issued by the Department regarding local government and regional topics. Copies of past consultation papers may also be found here for reference purposes.

DTLR – Housing

www.housing.dtlr.gov.uk/index.htm contains a mine of information on Housing, ranging from housing policy documents and research papers to guidance on tenants' rights or easier homebuying.

Supporting People

The DTLR has set up a Supporting People website at www.spkweb.org.uk. The site contains a lot of useful information, including consultation documents, a suggested Action Plan for local authorities implementing

Supporting People and a communications tool-kit for Supporting People teams.

Housing Statistics Postcard

The Housing Statistics Postcard collects together headline statistics for housing onto one webpage. The Postcard also has hyperlinks to more detailed statistics. <http://www.housing.dtlr.gov.uk/information/keyfigures/index.htm>

RSLs

CIPFA's RSLs Panel website: www.cipfa.org.uk/panels/RSL/index.html

The Panel's areas of interest and activity are: finance and policy issues relating to registered social landlords; the production and dissemination of relevant advice and material on best practice for members and employers on social housing issues; responding to government, professional bodies' and other bodies' consultation and discussion papers.

Housing Corporation

The Housing Corporation's website (www.housingcorp.gov.uk) contains a lot of useful information including documents, announcements, press releases, and information about housing associations.

Local Government Association

www.lga.gov.uk A useful source of briefings on, for example, RSG or the latest White Paper.

Ukonline

For a portal to other Central and Local Government organisations, try www.ukonline.gov.uk/

White Paper

The text of the December White Paper **Strong Local Leadership, Quality Public Services** can be found online: www.local-regions.dtlr.gov.uk/sll/index.htm **CIPFA's analysis** of the key financial issues in the White Paper, in particular the prudential approach to capital investment and the proposals to categorise local authorities into four performance tiers is set out on CIPFA's website www.cipfa.org.uk.

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