

CIPFA

**NEWSLETTER
ISSUE NUMBER
NINE**

**CIPFA LOCAL AUTHORITY
HOUSING PANEL**

January 2005

AT THE HEART OF
PUBLIC SERVICES 

INTRODUCTION

Welcome to the ninth edition for finance practitioners and CIPFA members working in local authority housing. This newsletter has been prepared by CIPFA's Local Authority Housing Panel. This month's issue contains updates on *Housing Stock: the Fourth Option?* and *Financial Management and Supporting People*, an item on *Rent Restructuring - Is it a disaster? Is it Working?* and some information on the forthcoming events in the PMPA

CIPFA SEMINAR EVENTS

CIPFA's recent seminar event on *Current Developments in Housing Finance* was attended by some 70 delegates. Speakers included: Gregory Robert, Westminster City Council; Adrian Waite, Adrian Waite (Independent Consultancy Services) Limited; Ian Morris, Sunderland City Council; Andrew Murray, Head of Housing Services; Bev Angell, Nottingham City Council; and Stephen Hughes, Director of Resources, Birmingham City Council. Ken Lee, Chief Executive of Fylde Borough Council and Chair of CIPFA's Local Authority Housing Panel, chaired the event.

Housing Stock: the Fourth Option?

Stephen Hughes, Strategic Director of Resources, Birmingham City Council, spoke on *Housing Stock: the Fourth Option?*

Before he began his talk, Stephen put forward some caveats about the numbers. He stressed that while the general magnitude of the numbers would be in the right area some of the detail may have changed and they

should be taken as indicative rather than exact.

Stephen set the scene with the context for Birmingham: some 73,000 properties, 50,000 of which do not meet the Decent Homes standard, provide a rental stream of £200 million. The estimated gap in Birmingham is £165 million, as the table below shows:

Birmingham: Overall Resources 2004/05 – 2009/10

	£m
Projected rent income (after void/arrears)	1,054
Projected resources from RHB, RTB, MRA	422
Total projected resources	1,476
Less: operational costs	(242)
Less: debt and subsidy costs	(383)
Net resources for investment	851
Urgent/responsive/normal voids	(428)
Essential Repairs - structural repairs, painting, lifts	(118)
Decent Homes work (including clearance/long-term voids)	(470)
SHORTFALL IN RESOURCES	165

The national context of local authority housing is one where outgoings, comprising subsidy deficit and receipts from right to buy to government, amount to some £81 million, whereas contributions coming into local government, (Housing Revenue Account and regional housing) amounted to only around £50 million. There is thus a net outflow from local authorities to government of over £30 million per annum.

Birmingham City Council's option appraisal considered stock transfer, ALMOs, and PFIs. Tenants voted against stock transfer in a ballot. Instead 39 community based housing organisations were established with local determination of management. The funding for decent homes remained citywide.

In considering ALMOs, the main problem arose from the council being a no star authority in special measures. The repairs service was seen as key, but the Authority faced repairs problems including backlogs and unresponsive contractors. New partnership arrangements would require a common database and a more joined up approach. The council is currently looking at possibilities for local ALMOs.

PFIs were considered to be largely untested in Birmingham. There was suspicion from both tenants and politicians, and the processes were seen as hideously complicated.

For these reasons, Birmingham is looking closely at possibilities for a fourth way, for the council to undertake the work itself. The options appeared to be:

- €# Prudential borrowing – identifying revenue streams to support the debt charges, (more difficult in the HRA than in the general fund).
- €# Rebuild – with the use of capital assets and links with RSLs.
- €# Mini ALMOs.
- €# Other external funding (eg Housing Market Renewal Areas, growth areas).
- €# Links with social services in respect of sheltered housing – a factor in securing General Fund money.

Under Prudential borrowing, local authorities can borrow as much as they like – provided they can afford the debt charges. There are however significant problems with the Housing Revenue Account, mainly involving identifying revenue streams. Under rent restructuring, Central government controls events and with investment, it claims the assets.

Stephen gave an example of the impact of pooling:

- €# A local authority invests £1 million in stock.
- €# Properties are sold via Right to Buy.
- €# The government receives £750,000, the local authority receives £250,000.
- €# The local authority then has £750,000 debt charges.
- €# The local authority loses its rent stream.

Birmingham City Council was working on a number of ways for generating income streams. Stephen gave some examples of how this might work. For example, getting the repairs service right might save about £4 million per annum (say £1.5 million on section 82/section 11 claims, a reduction of 2% in the cost of repairs would amount to £1.4million, and cutting voids might save a further £1 million). Bringing management costs down, particularly as stock falls, might be another route, as might turning Revenue Contributions to Capital Outlay (RCCO) of £51 million (over five years) to borrowing. The council calculated it had the potential to raise a net £190 million through Prudential Borrowing – but acknowledged the risks attached.

In conclusion, the council saw no prospect of the three conventional

routes (stock transfer, ALMOs and PFI) being able to deliver for Birmingham, under the current rules. Effectively, Birmingham housing is subsidising other parts of the country. Overall therefore it was imperative that the council should make some attempt to achieve its housing targets under its own steam by:

- €# Improving the efficiency of service.
- €# Some transfers and some stock reduction.
- €# Attempting to secure government support local schemes.
- €# Being opportunistic, going for whatever other funding could be found.

Clearly this is not so much a whole solution as a series of partial solutions.

Financial Management and Supporting People

Gregory Roberts, Supporting People and Homelessness Strategy Manager, City of Westminster spoke on *Financial Management and Supporting People*.

Supporting People is a positive programme that provides housing related support to 1.2 million vulnerable individuals.

Financing in the implementation phase was intended to be cost neutral under the proviso that all previous housing benefit should provide resources for the SP budget. However, considerable financial flexibility in the programme has led to social service provision being added to housing support and paid for using the SP budget. The Supporting People programme is also required to finance an inherited pattern of services that it has not necessarily commissioned. ODPM figures suggest

that the cost of the programme rose from £700m at the start of the programme to £1.4bn by December 2002 to £1.8bn by March 2003.

The huge increase in the cost of the service led to the government commissioning the Robson Rhodes Review. The results of this review highlighted that social service care services were being paid for out of the SP fund and suggested that greater efficiency savings could be made. However, the Report also stated that the programme was meeting its strategic goals and delivering the SP agenda. The report further recommended that any reduction in the SP grant should be minimised in impact.

The 2005/06-grant allocation announcement was expected to be made in the autumn. With the 5% cut this year, there has already been a cut in the grant of 7% over the first two years. However, a floor exists and no LA will face a cut exceeding 7.5%. Currently ODPM is trying to move to a needs based formula.

Because LAs are required to meet the contractual obligations that were made before the start of the SP programme, this reduction in grant is problematic. ODPM has however, stated that reduced financing must not be accommodated through 'across the board reductions' as this is too blunt a measure. However, LAs could carry out reviews of the services provided and take appropriate action on individual findings.

Gregory went onto talk about the structure of the market, explaining that in Westminster there are 54 providers, but 50% of provision is provided by only 6 of those. It is these organisations that have been able to

cope with reductions in service costs. As LAs have sought to reduce costs, the Audit Commission has become concerned that internal providers have been faced with tougher treatment – for example internal providers of sheltered housing stock. The Commission has stated that both internal and external providers should be treated alike. Organisational accreditation was recommended given that LAs were not responsible for commissioning many of the services they provide. Many of these services predate the SP programme and some providers have found themselves unable to cope with the new targets and financial requirements. Accordingly, all should be assessed to determine their appropriateness for receiving SP finance.

Westminster employed an acknowledged ‘crude’ methodology of assessing the cost of service provision that involved benchmarking. This allowed the Authority to compare every single service with another. Any service with a higher than average unit cost was subject to further investigation and the organisation in question invited to explain the reasons behind the higher costs. This resulted in some cases with the renegotiation of contract terms. However, the review process has to take place before the service is changed.

Every LA is required to develop a 5-year Supporting People Strategy by March 2005 and the Strategy must have a financial management section. The annual spending plans needs to be signed off, meaning that SP teams need to supply information regarding commissioned services and their costs.

A Commissioning Body comprised of representative from LA Housing, Social Services, the Primary Care Trust

and the Probation Service must govern the implementation of the SP programme. Gregory noted that for this to be achieved effectively, it was extremely useful to have a Director of Finance on the Body. A Core Strategy Development Group comprised of the SP team and members of the Accounts, and Strategy departments should work under the Body and deal with SP programme development, savings and management. The Strategy team must also account for cross authority provision, for example, dealing with homeless people from other areas.

Other financial issues that must be considered relate to charging, which can be extremely problematic. This is because part of the SP grant is made up from housing benefit and this is not universally received. This means that some people should pay for the services that they receive. However, the vast majority of such people are those living in sheltered housing, meaning that they are usually pensioners and a charge for supporting people could not be based on age. ODPM has stated that long-term users should be charged unless they are in receipt of housing benefit. However, this charge would take many users below the minimum income guarantee and everyone that the charge would be applicable to, could ask for a review. This would involve an extremely involved process for relatively small sums of money. Another extremely important financial issue is the future of the SP grant, Gregory suggested that the grant funds so many things that its sheer complexity might mean that it would be unlikely to exist in 5-10 years.

Overall however, the programme has been extremely positive, but in Gregory’s view it was a shame that LAs did not use 2003/04 to develop the

programme rather than “cost shunting”.

Rent Restructuring – a Roundtable Is it a disaster? Is it Working?

In the light of the postponement of the announcement on rent restructuring, the seminar held a roundtable discussion on the issues involved. It was suggested that practitioners generally believe that the central problem with restructuring is that convergence is unachievable in the timeframe set and this is causing problems, especially in London. In fact, for a formula that is so crude and so widely applied it is a surprise that more problems have not been experienced. Rent restructuring also raised other issues, such as the perceived way in which it inhibits the use of Prudential Borrowing.

Young households are the most vulnerable to rent restructuring as they are the most sensitive to changes, and in some areas the change will be substantial. Some London Boroughs, for example face a rent increase of between 15-20% to reach the targets sets. Whilst it was acknowledged that the idea is to reduce the impact through housing benefit, a great deal of this rent increase will come with no appreciable change in service provision. In addition, the valuation process for income is unfair in application as county earning indicators are used and they do not allow for consideration of the low paid. The rent restructuring review did not cover this.

Concern was raised regarding the proposed charging based upon room rate – RSLs would get the full benefit of this, but LA housing would have to plough this back through the subsidy

system meaning that there would be no local benefits.

Concern was also raised regarding government’s general move to separate rent from expenditure. If central government collects rent and from the money received only provides the authority with the funding that they calculate as necessary, effectively the government becomes the landlord and the authority a housing manager. Concern was raised that it will soon come to the point when all major decisions are made centrally.

There was some discussion around the news that the government is deferring for one year, changes to rent restructuring to allow for consideration of issues raised during the three year review of the policy. The HRA Determination had also been delayed. It was noted that these moves would prolong uncertainty and reduce the implementation time of the process. Delegates were advised to make use of the time to submit their views to ODPM and noted that from a political perspective, it was unlikely that the rent increase would be set to take effect before the general election. ODPM’s response to the consultation could mean substantial changes but it looks like rent restructuring has, like the issue of Council Tax, been sidelined until after the Election.

DELIVERING EFFICIENCY IN LOCAL SERVICES (ENGLAND)

CIPFA has recently responded to the information from Government on delivering efficiency in local services. The text of the response is set out below in full:

- 1 This paper constitutes CIPFA’s initial response to the information from HM Government concerning

- delivering efficiency in local services that was published in November.
- 2 CIPFA welcomes the comment by Nick Raynsford that there is already a great deal of experience in local government of successfully looking for and achieving efficiencies. Much of CIPFA's work with, and guidance for, local government plays a part in this.
 - 3 The efficiency technical note (ETN) for local government indicates that in future the primary source of information on efficiency gains by each Council will be an annual efficiency statement. Two different approaches for this annual efficiency statement are being considered: approach 1, self assessment; and approach 2, framework assessment. (Further details of both approaches are given in the ETN.)
 - 4 CIPFA has suggested and would strongly recommend the self assessment approach. We believe that this approach would serve to support and incentivise local ownership of the efficiency challenge, in addition to 'keeping the score'. In contrast, the framework assessment approach runs the risk of creating an industry of detailed standard form filling. It would give the impression that action requires local compliance rather than local ownership, and would run counter to each individual authority's ability to plan and prioritise. Furthermore, whilst it would collect a lot of detail, the framework approach would not necessarily capture the substance of an authority's efficiency strategies.
 - 5 The efficiency statement should explain the authority's strategy for securing and measuring efficiency savings, its plan of action for doing so, and its results.
 - 6 We agree with the proposal within the ETN that the efficiency statement should be signed by the Leader of the Council and Chief Executive. However, as the efficiency statement will be subject to audit and, moreover, will be a key part of a local authority's medium term strategic and financial planning, we recommend that the Chief Financial Officer should have a key assurance role within the development of the statement. One option would be to use the approach (suitably modified) within the recent CIPFA *Statement on Internal Control in Local Government*: "In considering whether to approve the SIC, the relevant body should seek to satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made, and should in particular (although not exclusively) consider the reviews of the Chief Financial Officer and the Monitoring Officer on issues covered by the statutory responsibilities."
 - 7 We further recommend that whenever the cost of services is used within the measurement of efficiency, that the definition of cost used for that measurement should be that required in accordance with proper accounting practice for local government.
 - 8 We note that the technical details within the local government ETN specify that the default rate of inflation is to be the GDP deflator. This would have the effect of

undervaluing efficiency gains much of the time, given that local authority inflation, being heavily influenced by employment costs, tends in general to run at a somewhat higher level. We note that within the ETNs for Government departments, an alternative deflator is sometimes used. For example, within the Department of Health ETN, the deflator 'NHS Construction Cost price index and NHS pay index' is specified with respect to procurement within NHS Property and Facilities Management, and there is reference to using teachers' pay increases within the Department for Education and Skills (DfES) ETN. We urge the Government to allow local authorities to use the most appropriate deflator for each of the measures that they adopt, and also to consider a separate default index for local government inflation.

9 We support the approach within the document *Delivering Efficiency in Local Services* that: "Each council is free to choose how best to achieve that expectation¹. No targets have been set for individual local services ...". We view this as being particularly important.

10 In order to be consistent with the passporting that the DfES requires with respect to schools budgets, we acknowledge that the efficiency gains for schools will need to be separately identified by the DfES for each local education authority. We note from within the DfES ETN that the efficiency gains in schools will in any event be subject to separate and very detailed

monitoring arrangements by the DfES. We would however be concerned if in practice this leads to separate processes that would run counter to the joined up thinking that is at the heart of the Children Act 2004 and/or would make it more difficult overall to achieve efficiency gains.

[NB We have separately commented to the DfES of our concerns about issues that we recommend should be resolved generally with respect to dedicated schools budgets.]

11 CIPFA is preparing a paper, as a contribution to both the efficiency and new localism agendas, that will highlight the basic but fundamental issues with respect to

- €# subsidiarity
- €# efficiency and
- €# appropriate governance arrangements.

that CIPFA recommends be taken into consideration with respect to new initiatives in local government areas.

CIPFA SEMINARS

Transforming Financial Management in Local Government – 23 February 2005 – London

The perspectives of different stakeholders, who all have an interest in local authorities achieving best practice within their financial management strategies and processes, will form the basis for this event. It will be of benefit to all senior and mid-level local government finance and service delivery staff and private sector organisations working in partnership with local authorities. For further

¹ ie, efficiency gains of at least 2.5% per annum for each local authority.

details or to book online, see the CIPFA Shop at: <http://www.cipfa.org.uk/>

CIPFA plans to hold three housing focused seminar events in 2005 to include an Introduction to Housing Finance and an update on Current Developments in Housing Finance. Details will be published in the next Newsletter and on the Housing Panel website at <http://www.cipfa.org.uk/panels/housing/>

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.

The PMPA has a lively programme of forthcoming events lined up for 2005:

22 February 2005: Well placed to deliver? Sir Michael Bichard.

Inquiries into public service failures are increasingly common. But there has been little attempt to reflect on what makes for an effective Inquiry. Michael Bichard recently chaired the Soham Inquiry and will talk about setting up and managing the process; using technology; working with the media and ensuring that recommendations are implemented. He will also offer advice to those who find themselves being interested parties or witnesses to the Inquiry-as well as describing some of the pressures which any Inquiry will face in reaching its conclusions

17 March 2005: Why are we so badly governed? Sir Christopher Foster

7 April 2005: From White Paper to Policy in Action: Reflections on recent experience in transport. Francis Terry

18 October 2005: Are we being served appropriately? Citizens, Clients and Customers as Service Beneficiaries. Andrew Gray

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 rate of £75.00.

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 housing
- 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:

Ken Lee *Flyde Borough Council*
(Chairman)
Bev Angell *Nottingham City Council*
Paul Cook *Consultant*
Subroto Duttaroy *ODPM*
Mike Groom *LGA*
John Hawes *Sedgefield Borough Council*
Sukvinder Kalsi *Birmingham City Council*
John Kettlewell *LB Tower Hamlets*
Rhys Makinson *LB Camden*
Anne Phillips *Powys County Council*

Adrian Waite *Consultant*
Tony Wardrobe *National Assembly for Wales*
Simon Wiles *City of York Council*
Lindsey Wishart *Kingston upon Thames*

Members by Invitation:

Stephen Nisbet *Perth and Kinross Council*
Ron Potts *Consultant*
David Thomas *Consultant*

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, Suzanne Dowse by emailing suzanne.dowse@cipfa.org Tel: 020 7543 5795.