

NEWSLETTER ISSUE NUMBER FOURTEEN

CIPFA LOCAL AUTHORITY
HOUSING PANEL

September 2006

AT THE HEART OF
PUBLIC SERVICES 

Welcome to the fourteenth 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 edition includes items on the Audit Commission review of Council Housing Finance and on the recent IPPR Report, the full text of CIPFA's comments on the DCLG consultation on *Housing Revenue Account Subsidy: payments to local authorities to offset rental income foregone*, some items on developments in CIPFA and an update on forthcoming PMPA events.

FORTHCOMING CIPFA SEMINARS: DEVELOPMENTS IN HOUSING FINANCE, 16 OCTOBER AND FURTHER DEVELOPMENTS IN HOUSING FINANCE, DECEMBER 2006

Sessions in the October event will include:

- Housing Policy – recent developments overview
- Modernising the Delivery of Affordable Homes and Strong Communities, and
- Clinic sessions on ALMO issues and the Government's review of ALMOs; Pooling housing capital receipts; the efficiency agenda; Supporting People

Further details of both courses will be posted on the CIPFA website where you will also be able to book a place online at:

<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/>

SEMINAR EVENT: 29 JUNE, INTRODUCTION TO HOUSING FINANCE

This course, an entry-level jargon free event to introduce the key issues impacting on the finance function in Local Authority Housing Departments – attracted some 50 delegates.

Speakers included: Stephen Edwards from DCLG on Innovation & Efficiency in Housing Services; Chloe Fletcher, Head of Affordable Housing & Investment, ALG; John Kettlewell on the Housing Finance Framework; and the event was chaired by the CIPFA Local Authority Housing Panel Chairman, Ken Lee. There were also breakout sessions on Homelessness, Supporting People, ALMOs and Financing Council Housing.

Plenary and workshop sessions included:

- Strategy and Finance
- Regional Housing Boards and Capital Allocations
- Methods of Managing Housing Stock
- Housing Finance Framework
- Supporting People
- ALMOs
- Homelessness
- Financing Council Housing
- The Financial Management of Housing Benefit.

Details of future events will be placed on the panel website at:

<http://www.cipfa.org.uk/panels/housing/index.cfm> as soon as they become available.

FINANCING COUNCIL HOUSING – THE AUDIT COMMISSION REVIEW

At a recent CIPFA seminar, Ben Taylor, from the Audit Commission's Housing Inspectorate, gave an overview of the Commission's recent review of the system for

financing council housing. The review, Financing council housing, is available from the Audit Commission website at: www.audit-commission.gov.uk

After a brief summary of how the HRA subsidy system works, Ben pointed to the following consequences identified in the review:

- the link between rent and charges paid and services received is not transparent
- council housing tenants in one part of the country subsidise others with little relation to local priorities and needs
- historic housing debts are a key driver in the system yet beyond local control
- ongoing Right to Buy and stock transfers will reduce the amount of subsidy for redistribution
- the system was not designed to meet current government housing priorities

The audit commission report tested the National system against six principles:

- accountability
- rewarding high-performance
- customer-focused approach
- charges v standards/investment
- self-sufficiency, flexibility and instability
- government objectives

Accountability

This principle suggests that the system should provide local accountability for council housing management, investment and stock condition. The commission's findings however suggest that the system does not in practice enable local accountability for how resources are used locally. All key resource decisions are made by government (apart from whether to be part of the system or not).

Rewarding high-performance

This principle is about encouraging rewarding high-performance and minimising perverse incentives. What the report found was that while the system recognises cost efficiency there is no specific reward for high-performance. The ongoing support for outstanding debt could be regarded as perverse.

Customer-focused approach

A customer-focused approach to the provision of housing and housing services in the local market setting should be provided by the system. The report finds that there is a positive impact of business planning and Best Value principles but that the system does not recognise the different market situations faced by local authorities. There is an absence of actual stock condition information.

Charges v standards/investment

In principle an equitable relationship should be established in each locality between charges, service standards and investment in council housing. However in practice the system does not produce a clear relationship between rent charged and services received. There is no provision for other tenant priorities.

Self-sufficiency, flexibility and stability

This principle is about promoting self-sufficiency for each council, while allowing councils to respond flexibly to the circumstances of the local market, providing stability and predictability in the relationship with their tenants. The report finds some £630 million of negative housing subsidy and no link (within the subsidy system) between capital allocations and housing stock condition. Negative subsidy contribution will need to be met by other means.

Government objectives

The national system should support the government objectives for council housing. The revised subsidy allowances for management and maintenance aim to be fairer but there is no reflection of historic investment decisions and the current state of housing stock. Substantial capital investment is required to deal with the repairs and maintenance backlog in some areas. The system does not support self-determination and is a barrier to tenant involvement due to its complexity.

Recommendations

The Audit Commission's findings led the report authors to make a number of recommendations. The government should review the subsidy system, considering:

- releasing from the system those authorities that can be self-financing, linked with high performance – now being piloted by the DCLG;
- specific solutions for those authorities that rely heavily on the system
- incorporating the six principles identified by the Audit Commission in any redesign of the system
- the production of a national HRA report to improve accountability

The Audit Commission also recommended that the government should consider how the local HRA could reflect broader landlord costs. This would produce a better match between national priorities and local choice and greater equity between local authority and housing association tenants.

CIPFA'S COMMENTS ON THE DCLG CONSULTATION ON HOUSING REVENUE ACCOUNT SUBSIDY: PAYMENTS TO LOCAL AUTHORITIES TO OFFSET RENTAL INCOME FOREGONE

The full text of CIPFA's response to the consultation is as follows:

1 GENERAL

- 1.1 CIPFA is pleased to submit comments to the DCLG consultation on Housing Revenue Account subsidy: payments to local authorities to offset rental income foregone.
- 1.2 CIPFA welcomes the Consultation Paper's proposals for a mechanism whereby from 2006-07 DCLG can pay HRA subsidy to local authorities to offset rental income foregone because of caps on individual formula rents, limits on the annual change of individual accrual rents or the 5% limit on the increase in average actual rent between 2005-06 and 2006-07 and again between 2006-07 and 2007-08.

- 1.3 CIPFA further welcomes the fact that the mechanism for making offsetting payments of HRA subsidy will facilitate such payments in year.
- 1.4 It is not, however, clear to CIPFA whether these payments will be funded from additional resources so that funds are not reduced elsewhere but rather the level of the overall subsidy pot is increased. CIPFA would welcome clarification on this point.
- 1.5 In CIPFA's view, there are a number of specific issues in the proposals as currently set out on which CIPFA would welcome further consideration and/or clarification. These are discussed below.

2 SPECIFIC ISSUES

- 2.1 CIPFA would welcome clarification on whether the whole of the advance payment of the allowance for 2006-7 will be payable at the mid point of the financial year, thus avoiding the cash flow losses to authorities which would follow from payments on an instalment basis.
- 2.2 Similarly, with regard to the arrangements for 2007-8, will advance payments of the rent constraint allowance be made from the beginning of the year, or a full year's payment made at the mid point, thus avoiding cash flow losses for authorities?
- 2.3 Will calculations for compensation in the years following 2006-07 include the cumulative compensation from earlier years?
- 2.4 For some authorities it may take many more years until most rents are at target. For such authorities it will be important that any compensation scheme continues even after 2011-12, until rents have reached target levels, to match the period of rental income foregone.
- 2.5 CIPFA has some concerns about the implications of the proposals in terms of the timing of the audit process. If payments of compensation in 2006-07 are not audited until December 2007 as part of the audit of the 2006-07 final subsidy claim, by then, authorities will also have claimed compensation as part of their 2007-08 claim and there would be adverse financial effects on the HRA in the event of the amounts being qualified by the auditor.

3 POSSIBLE UNINTENTIONAL CONSEQUENCES OF THE PROPOSALS

- 3.1 CIPFA appreciates the Department's aim of simplifying the evidence that authorities will have to supply in order to claim this compensation. However, in the relatively short time available for responses, CIPFA has not been able to work through the likely impacts on different categories of local authority but we are aware of some individual authorities' concerns that the unintentional consequence of this simplification may be to understate the compensation required by some authorities with above average local wages and high property values where there are many properties affected by the caps and limits. While any such unintentional effects could readily be dealt with by individual special determinations, in the longer run, CIPFA would support the development of a consistent formula that can be applied equitably to all authorities. CIPFA therefore suggests that the Department might want to carry out further modelling to try and produce a formula that can be consistently applied across all authorities.

THE OUTLOOK FOR PUBLIC SPENDING

The Chancellor of the Exchequer gave some insight into the future for public spending in a recent answer to a Parliamentary Question on the Fundamental Savings Review:

The Chancellor of the Exchequer (Mr. Gordon Brown): To ensure that, in the coming spending round, even more resources will go direct to front-line services, I am requiring asset sales in excess of £30 billion by 2010; and as we complete a zero-based and fundamental review of each Department's baseline spending, with further announcements in the pre-Budget report, I can also confirm that all Departments will have to achieve efficiency savings of at least 2.5 per cent, annually, on top of the £21 billion administrative savings being implemented from the Gershon review. Administrative budgets which have already been frozen will now be cut not only in real terms but in cash terms, releasing extra resources for front-line services. These administrative savings make possible improvements in service within a Home Office budget which, as agreed, will have a flat real settlement, and settlements for the Treasury, Department for Work and Pensions, Her Majesty's Revenue and Customs and the Cabinet Office, which have agreed a 20 per cent real-terms decrease over five years.

Source: Hansard [84775] as quoted by *Parliament Today*

IPPR REPORT URGES GOVERNMENT TO RE-THINK PLANS FOR HOUSING IN SOUTH EAST

The IPPR report, published 21 August, recommends that Deputy Prime Minister John Prescott's plans for 200,000 homes by 2016 should be supplemented by new Communities and Local Government minister Ruth Kelly to the tune of 217,000 more. IPPR's research shows that across the wider South East, there are currently over 720,000 households whose housing needs have not been met. It also shows that current house building plans across the region will fail to keep pace with the growth in new households by 217,000 by 2016.

The report also warns the Government not to try and cut costs when it comes to providing local public services and transport infrastructure. It says that to overcome potential community relations problems, there needs to be:

- social rented and affordable housing properly integrated with market housing and built to the same standards
- public spaces (like football pitches, parks and playgrounds) and communal facilities (like community centres and youth clubs)
- public services delivered alongside residential developments (like schools, health centres and Sure Start childcare centres).

Would you live here? Making the Growth Areas communities of choice, by Jim Bennett, with David Hetherington, Max Nathan and Chris Urwin is available to order from www.ippr.org/publicationsandreports.

THE PMPA

The Public Management and Policy Association (PMPA) is a national membership organisation which seeks to provide a forum for public sector managers, academics and those with an interest in public services to meet and discuss the public policy and management issues of the day. Members are drawn from across the public sector

(central and local government, NHS, police etc) and from public policy departments in universities across the country.

The PMPA provides a forum for its members to:

- network and learn within and across sectors
- keep abreast of and explore a broad range of cross-cutting issues
- learn from the experience of others and avoid "re-inventing the wheel".

The PMPA is managed by CIPFA and members receive:

- the journal Public Money & Management and the quarterly newsletter Review
- priority booking for PMPA's free evening lectures and a discount at the annual conference
- PMPA Reports, providing analysis or view points on cross-cutting themes.

Annual individual membership rates are £80 for full members; £75 for members of associated organisations and £37.50 for CIPFA students, full-time students, unwaged or retired members.

Corporate membership gives PMPA benefits to five or more employees and starts at £350, and corporate "e-membership" allows organisations to provide the benefits electronically through their intranet or e-bulletin. Sponsorship and partnership opportunities are also available.

For information on partnerships, corporate or individual membership, contact Janet Grauberg, Development Director. Tel: 020 7543 5683; email janet.grauberg@cipfa.org or visit www.pmpa.co.uk

Forthcoming events

3 October 2006

Effective Inspection and Regulation in Education, Training and Children's Services

David Bell, Permanent Secretary, Department for Education and Skills

Chair: Sir Brian Bender, Permanent Secretary, Department of Trade and Industry

Venue: Queen Anne's Gate, London.

David Bell will talk about the role of an effective inspection and regulation system in modern education, training and children's services. He will examine developments in inspection and regulation practice in recent years, and will look ahead to the creation of a new, enlarged Ofsted, comprising education and children's services.

7 November 2006

Delivering Respect: Why Strengthening Communities and Making Public Services More Accountable is at the Heart of Success

Louise Casey, The Government's Co-ordinator for Respect

Venue: Robert Street, London.

Louise Casey will explain how increasing the accountability and responsiveness of public services to local communities is central to the Government's Respect programme. She will set out the measures being implemented to achieve this, and show how communicating with both practitioners and local communities is vital to securing real change to tackle and prevent anti-social behaviour on the ground.

6 December 2006

Leading and Measuring Improvement in Local Government

Colin Moore, Chief Executive of Redcar & Cleveland Council and John Wilson, Dean, Teesside Business School, University of Teesside
Chair: Barbara Roche, Former Labour MP for Hornsey & Wood Green
Venue: University of Teesside, Middlesborough.

Since 1997 the Labour Government has emphasised the need to improve public services, not least those provided by local government. Considerable efforts have been made to put in place external assessment arrangements which encourage and measure improvements, particularly Comprehensive Performance Assessment. This seminar considers the success of these efforts by focusing on the experiences of one local authority and placing them into the wider context of leadership and service improvement in local government.

**Unless otherwise indicated all PMPA lectures start at 5.45pm and will be held at CIPFA, 3 Robert Street, London WC2N 6RL. PMPA events are free to attend, book online at www.pmpa.co.uk or email info.pmpa@cipfa.org for further details.*

Public Management and Policy Association Annual Conference 2006, Tuesday 5th December, Central London - When will we ever learn: can public sector organisations learn from their mistakes?

The conventional wisdom is that we learn from our mistakes. But does this apply to the public sector? Does the political environment mean we must make the same mistakes again and again? Do public scrutiny, performance management, and the media spotlight help or hinder?

This conference will allow us to reflect on how public sector organisations can learn from failures of policy and implementation and the role that public managers can play. We will hear from senior public sector leaders who are trying to develop learning organisations, from those who challenge and scrutinise when things go wrong, and from practitioners with experience of managing in difficult circumstances.

If you are leading an organisation delivering public services in a political environment, or you study, comment on or offer solutions to such organisations, then this one-day conference is for you.

To register your interest in attending and for further information, contact Rikki Ellsmore, CIPFA Courses Unit. Tel 020 7543 5746; email rikki.ellsmore@cipfa.org

CONTACTS AND USEFUL LINKS

NEW CIPFA HOUSING ADVISORY NETWORK WEBSITE

The CIPFA Housing Advisory Network (HAN) has launched a new website, giving subscribers and housing practitioners access to a wealth of information from the social housing sector. The website houses details of all upcoming CIPFA HAN workshops and events, as well as materials and presentations from past events. Members will also have access to all archive CIPFA HAN documentation including:

- Practical tool-kits
- Practice guides
- Policy papers/speeches
- Bulletins
- Useful links and resources

For further information, visit www.cipfanetworks.net/housing

FREQUENTLY ASKED QUESTIONS

CIPFA's Technical Enquiry Service has published online some of the most frequent questions it receives, together with model responses. These questions cover accounting issues relating to local government in England and Wales and are divided into five categories: accounting issues relating to BVACOP/SORP; capital accounting; the Prudential Code; accounting issues specifically relating to housing; professional requirements for CIPFA members working in private practice. More frequently asked questions will be added to the website as they are identified.
http://www.cipfa.org.uk/pt/technical_faq.cfm

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 on 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.

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 Julian Smith by emailing julian.smith@cipfa.org Tel: 020 75435795.