

NEWSLETTER ISSUE NUMBER FIFTEEN

CIPFA LOCAL AUTHORITY
HOUSING PANEL

January 2007

Welcome to the fifteenth 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 an update on the government's Self-financing Pilot study initiative, the launch of a new HRA Subsidy Analysis by CIPFA, news of several recent announcements from DCLG, some items on forthcoming events and developments in CIPFA and an update on forthcoming PMPA events.

FORTHCOMING CIPFA SEMINARS

Supporting People – The Finance Challenges Ahead. 2 March 2007

Three years since the full introduction of the Supporting People initiative, this briefing will provide guidance on the evolving face of Supporting People. During the event, you will hear about the ways that you can take forward the new agenda and implement successful partnerships that are financially sustainable. The use of Supporting People funding in Local Area Agreements will also be considered.

Speakers will provide practical guidance on accounting requirements, and the implications for finance practitioners and Supporting People staff. The course will enable you to achieve a better understanding of the scope for development in Supporting People finances, and the implications for authorities' financial arrangements.

It will cover:

This course is ideal for finance managers, Supporting People management, and District Councils looking to develop a greater say in housing-related support. It is suitable for anyone involved in the strategic shaping and implementation of Supporting People programmes, and those who have previously attended CIPFA Supporting People events.

Accounting for Financial Instruments, 8 February 2007

An essential update on the latest developments in accounting standards, this day is about:

The CIPFA/LASAAC Joint Committee is currently consulting on important changes in the way local government will account in future for financial instruments following the adoption of the new accounting standards by the sector. This will affect the way the charge to 'the bottom line' is calculated, through changes in the measurement of the effective rate of interest. The consultation also includes changes to the treatment of premiums, discounts, and service loans. The changes are proposed for the Code of Practice (SORP) that will apply to the 2007/08 accounts. This timely one day conference will examine the proposals and their potential impact. Sessions will include case study presentations from local authority practitioners, plus contributions from a range of accounting standards' and other experts.

It will cover:

- Overview of the changes to accounting for financial instruments
- Legislative issues
- Interest rate calculations
- Treasury management issues
- Case studies: The local authority perspective
- Accounting for service loans

Further details of both courses can be found 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/>

TWO NEW HOUSING PUBLICATIONS

Two new publications can be ordered now: 'A Good Practice Guide to the Financial Management of Housing Benefit in England' and 'An Introductory Guide to Housing Finance in England'.

A Good Practice Guide to the Financial Management of Housing Benefit in England (Fully Revised Fourth Edition) (2006)

The CIPFA Local Authority Housing Panel has fully revised its housing benefit financial management guide. With the seemingly incessant changes to local authority finance and housing benefit, this new guide will prove an invaluable companion.

Written by independent consultant and former City of Westminster Finance Director Paul Cook, it is aimed at benefits and finance managers and councillors, or indeed anybody needing to understand the finances of this important and high profile service.

The new edition is structured around the 2006 Performance Standards and the 2006 Use of Resources KLOE. The emphasis is on integrated financial management of the housing benefits service.

An Introductory Guide to Housing Finance in England (Fully Revised Fourth Edition) (2006)

The CIPFA Local Authority Housing Panel has fully revised its housing finance guide. With the constant changes to local authority housing finance, the guide is essential reading. Written by independent consultant and former City of Westminster Finance Director Paul Cook, it is aimed at finance managers and councillors, or indeed anybody needing to understand the finances of this important service.

The 2006 edition has been broken down into shorter, more easily accessible chapters.

Further details of both publications can be found on the CIPFA website where you will also be able to order online at:

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

NEW HRA SUBSIDY ANALYSIS LAUNCHED

CIPFA have conducted research to help housing authorities fully understand the 2007/08 Housing Subsidy Determination.

Commenting on the analysis, Julian Mund, Associate Director at CIPFA'S commercial services, said: "Our analysis has highlighted some interesting results which are hidden in the mass of information which is the Determination. It appears likely that the Department for Communities and Local Government (DCLG) will no longer make any net payment to Housing Revenue Account authorities. We calculate that a small surplus of about £40m is the likely position. This is of course based on our assessment of charges for capital which will change at outturn but nevertheless we consider it likely that a surplus will result."

Guideline rents are set to increase by 7.4% although the actual rent increases which are likely to be payable will be somewhat lower depending on local circumstances.

For Management and Maintenance Allowances, our regional analysis reveals a swing from London to other areas, supporting the new methodology of the Determination. However, the London average is still 1/3 rd higher than for the rest of the country.

The analysis which is available to subscribing authorities should provide valuable information not only to housing accountants but also gives strategic analysis for Directors of Housing or Finance, Chairs of Housing and to Arms Length Management Organisations.

SELF-FINANCING – THE PILOT STUDY

The pilot study is an exercise with six pilot authorities and the DCLG to identify:

- The financial and other implications for the organisation and the community of implementing a self financing regime – a regime whereby the local authority operates outside of the HRA subsidy system.
- How self financing would enable the delivery of long-term effective and value for money housing services
- The potential issues for Central government

A key session at the recent CIPFA seminar event *Further Developments in Housing Finance* was an update on the Self-financing Pilot Study by a team of three speakers. David Scott, team leader for Decent Homes and Mixed Communities, DCLG, began the session with a DCLG perspective:

A DCLG Perspective

David stressed that this is a pilot study and not yet Government policy. The issues involved are relatively unresolved and the Government is still working with pilot authorities.

The background is one in which the impact of different housing policies over time on traditional council houses can be seen, in that over 30 years, numbers have roughly halved (policies include, for example, Right to Buy, Whole Stock Transfer, negative value transfers, the creation of ALMOs).

The central-local relationship is important, as are freedoms and flexibilities for successful councils and the Local Government White Paper is part of this ongoing debate on how to deliver better housing services to Council Tax payers. *Decent Homes* has had a positive impact on social housing and the next development has been on to Sustainable Communities. The Housing Act 2004 introduced new requirements related to licensing of houses in multiple occupation and of health and safety matters.

There are also Efficiency and Value for Money initiatives, resulting from Government's need to see the whole picture in the housing sector and to take account of fiscal restraints.

A recent Chartered Institute of Housing publication on ALMOs as a potential new future for council housing is relevant, as it identified an option for self-sufficient HRA controlled by local authorities, which is close to the self-financing pilot scheme being trialled at present.

The Self-financing initiative has moved on from agreeing working assumptions, to current work by pilot authorities developing their plans for self-financing, including both business plans and service plans. The next stages will be DCLG work on the potential impact for Value for Money, and potential additional regulations, to be followed by making any recommendations to be considered for the Comprehensive Spending Review 2007 – in short, is self-financing a practical approach or not? A modelling group and a

contact group are assisting the pilot scheme. CIPFA is represented on the contact group by Ken Lee who chairs its Housing Panel.

Some of the issues in detail

Phil Hall, seconded to the DCLG pilot scheme on self-financing from the Audit Commission, set out some of the more detailed issues which the pilot authorities are looking at in their modelling exercises:

In the pilot exercise, the value of the HRA subsidy which a local authority would receive over a planning period is estimated using an agreed set of assumptions about future income and expenditure (capitalised at Net Present Value), then the housing debt would be restructured accordingly. The assumptions are based on existing policy, such as rent restructuring and RCA, as well as economic assumptions such as the RPI and GDP based on HM Treasury forecasts. Under the current assumptions, most authorities would take on extra debt to move outside of the HRA system.

The current subsidy position for all authorities is roughly in overall balance, and the pilot authorities represent different points on the spectrum of positive and negative subsidy. The assumptions for the pilot exercise run to the year 2035, (ie the end of the current business planning period). Such long term forecasting is open to question as it is difficult to make assumptions that far in advance.

Under the current set of working assumptions, most councils are undergoing real rent increases up to 2012 and thereafter it is assumed that rents will continue to rise at half of one per cent above inflation. This would give rise to a growing overall surplus in the HRA subsidy system, which could be redistributed in future. The other effect of the assumptions is to shift the balance between authorities in positive or negative subsidy.

Advantages of self-financing would include more certain funding over the longer term, local control over investment, more effective use of resources – for example improved asset management, through new build work or refurbishment.

Risks include control of public borrowing, as well as the more conventional project risks that benefits may not be seen in practice. Local authorities may be reluctant to take on significant additional borrowing in order to become self-financing unless there are clear benefits in doing so. The aim of the pilot is to identify whether genuine gains could be made in practice for both local and central government compared to the current system, and therefore whether the self-financing concept is worth pursuing.

Typically, business planning is done locally using relevant assumptions such as the cost of debt servicing, assumed costs of management and rent – a similar exercise to stock transfer planning, but of course with no change in ownership. The initial business plans have shown that self financing produces more benefits in the long term than the short term for local authorities.

Sensitivity analysis is needed to assess what could happen if assumptions turn out to be incorrect. For example, a small change in rent gives rise to a large difference in the amount of time needed to pay off debt.

Moving to self-financing would be a major decision for authorities so a key question is how would they decide? Obviously, the more generous the package, the easier the decision is for authorities, but the scope to supply additional resources is limited, since the basic principle of self-financing is a restructuring of existing resources. The challenge for the pilot is to identify whether self-financing would allow authorities to generate additional resources themselves, for example through improved asset management. Any additional funds that authorities borrow in connection with self-financing would have

to be matched by debt repayment elsewhere in the public sector if there was to be no impact on public borrowing. Phil suggested that perhaps additional controls may be needed if self financing gave local authorities scope to increase public borrowing substantially in the longer term.

Pilot authorities' business plans are due to be completed by the end of January 2007, so that implications for the Comprehensive Spending Review 2007 can be considered in March and April. There may also be legal implications and a need for new legislation. If all went well, a self-financing system could possibly be on offer as of April 2008.

A Practitioner Perspective

David Horspool, Director of Finance, Cambridge City Council, gave a practitioner's perspective on self-financing.

There are six local authority pilots, three with ALMOs and three with the in-house housing management: Sheffield City Council, London Borough of Hounslow, Cambridge City Council, Carrick District Council, Warwick District Council and Darlington Borough Council. Between them these authorities provide a wide range of properties managed and large and small ALMOs. The consultancy group HQN is also involved, helping to keep pilots on project as there is much to achieve if the deadline is to be met.

In addition to the modelling group, as above, the process also involves a contact group which comprises:

- CIPFA (the chair and representatives from the CIPFA LA Housing Panel)
- The Chartered Institute for Housing
- National Federation of ALMOs
- TPAS
- HM Treasury
- Audit Commission
- Local Government Association
- London Councils

Their role is to provide expert advice and practical help on the issues that are raised in the modelling exercise.

After discussing the business modelling process in some detail and the specific issues for Cambridge, David set out some of the possible pros and cons of self financing:

On the plus side:

- The removal of uncertainty caused by the current HRA subsidy system, with control of the underlying income stream (subject to rent restructuring)
- Facilitation of effective long-term planning, and hence more optimal use of resources and investment decisions
- Real incentivisation of continuous improvement and sustainability
- Improved accountability/relationship with tenants and councillors (and staff)

On the other hand:

- It would be a "once and for ever" change
- How would/could the government resource new services or initiatives?
- Effective risk assessment will be key to making a final decision
- Risk needs to be placed with the most appropriate party, through effective risk transfer

- Can the modelling deliver sufficient resources in the early years to deliver the tangible benefits all parties will wish to see?
- It is not just about a financial calculation, there are issues of perception as well

SORP 2007: INVITATION TO COMMENT

You can download the 2007 SORP Exposure Draft and Invitation to Comment for public consultation from the CIPFA website at: www.cipfa.org.uk

RECENT ANNOUNCEMENTS FROM DCLG

The Government has made a number of announcements which will impact significantly on Housing:

Subsidy Determinations 2006-2007 and 2007-2008

The draft Housing Revenue Account Subsidy Determination 2006-2007 Amending Determination 2006 went out to consultation on 18 August 2006. Responses to that exercise have now been considered and the Department has now decided to confirm the proposal in that consultation.

Consequently, the Amending Determination inserts the new Rental Constraint Allowance into The Housing Revenue Account Subsidy Determination 2006-2007, providing the legal basis to calculate for payment the new allowance during the current financial year. The methodology behind the calculation of the Rental Constraint Allowance was consulted upon separately earlier in the summer and subsequently approved by Ministers. The Amending Determination reflects and confirms that decision.

The Housing Revenue Account Subsidy Determination 2007-2008, and the Item 8 Credit and Item 8 Debit (General) Determination 2007-2008, together with supporting papers and explanatory notes are now available.

The full texts can be found on the DCLG website at:
<http://www.communities.gov.uk/>

Housing Minister calls for houses to be greener

Yvette Cooper has called for radical changes to be considered to ensure that homes of the future reduce their carbon emissions and help combat climate change. Later this year, every new home will need to have an energy performance certificate which will set out its energy efficiency rating and include practical advice on how to cut carbon emissions.

The text of the Minister's speech can be found on the DCLG website at:
<http://www.communities.gov.uk/>

Fire Safety – changes to Building Regs

Key improvements to fire safety lie at the heart of a package of measures, including greater recognition of the role of sprinklers and more help for fire fighters to deal with fires in tall buildings, have been announced by the Government in December.

The revisions to Part B (Fire safety) of the Building Regulations and supporting guidance in Approved Document B reflect recent experiences of actual fires, developments in construction, research findings and comprehensive stakeholder engagement, including a four-month public consultation exercise.

Fire and Building Regulations Minister Angela Smith, said protecting people from fire in their homes and workplace remains a key element of Government policy on fire safety.

"This package represents better, more focussed regulation that will deliver real benefits for both occupants and fire fighters alike. Indeed the review that led to the changes looked at fire safety in all types of premises including dwellings, residential care homes, public buildings and warehouses. It also considered the important role sprinklers and other types of fire protection measures may have, particularly in buildings where the occupants are most at risk from fire."

The changes, which come into force on 6 April 2007, will affect future building work in England and Wales, such as the erection, extension or material alteration of a building, and how fire safety is designed into a building. They also include amendments to the guidance on domestic loft conversions, the use of door-closing devices in dwellings and the provision of sprinklers in tall blocks of flats.

Further details can be found on the DCLG website at:
<http://www.communities.gov.uk/>

LOCAL GOVERNMENT FINANCE SETTLEMENT

The settlement was announced in Parliament on 28 November. The main points for authorities overall are set out in the following excerpts from the speech by Phil Woolas, Minister for Local Government:

"Total revenue grants to English local authorities will be £65.7 billion in 2007–08, an increase over 2006–07 of £3.1 billion, or 4.9 per cent. Part of that increase is in specific grants, and it includes dedicated funding for schools and a further £525 million in neighbourhood renewal fund, allocating extra help to the 86 most deprived local authority areas in England. Within that total, formula grant will total £25.6 billion in 2007–08, an increase of 3.7 per cent. That means that by 2007–08, the increase in Government grant for local services since taking office will be 39 per cent in real terms. The provisional standard multiplier for national non-domestic rates in 2007–08 will be 44.4p in the pound, and the small business non-domestic rating multiplier will be 44.1p. That means that, once again, businesses and other non-domestic users can look forward to predictable and stable rates.

Grant floors—minimum guaranteed increases from one year to the next—are a permanent part of the system. I need to strike a balance between funding stability and the cost of the floor. This year, I am able to improve floor protection for fire and rescue authorities, while easing the impact of floors on upper-tier and shire district authorities. I can thus today confirm my proposal that, for 2007–08, the floors will be: for authorities with education and social services responsibilities, 2.7 per cent.; for police authorities, 3.6 per cent.; for fire and rescue authorities, 2.7 per cent.; and for shire district authorities, 2.7 per cent. Within each group of authorities, those above the floor will have their grant increase scaled back to pay for that floor.

THE PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA)

The PMPA has announced its 2007 series of lectures. They include Sir Gus O'Donnell on 6 February and a lecture on financial inclusion on 28 March. The April lecture, by Martin Narey, Chief Executive of Barnados, will pick up on the current debate about young people in society under the title "*In defence of children – the demonized minority*" If you are working in education, housing or community safety, or in the Youth or Connexions Service, this will be of particular interest to you and your colleagues. The date is 18 April, venue CIPFA offices in Robert Street and booking for this **free** lecture programme is at www.pmpa.co.uk.

Dates are also being finalized for a number of other events and lectures – including ones in Cardiff, Belfast and Glasgow, linked to the CIPFA Scotland conference. Membership of the PMPA only costs £75 for CIPFA members and brings with it priority access to the free lecture programme, information about other events such as roundtable discussions, as well as 3 short Reports a year and a subscription to Public Money and Management, CIPFA’s respected journal. The PMPA is looking to expand its activities and, in particular, hold more events outside London. It’s a good year to join us.

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.

CONTACTS AND USEFUL LINKS

CIPFA HOUSING ADVISORY NETWORK WEBSITE

The CIPFA Housing Advisory Network (HAN) website gives 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

DCLG WEBSITE

The Housing section of the DCLG website is packed with useful reference material, including the following topics:

- HRA Subsidy.
- Major Repairs Allowance: Guidance summarising the final agreed methodology and presenting MRAs for each archetype based on that methodology.
- Determinations: HRA Subsidy and Item 8 Determinations 2006-2007, and previous years Determinations, together with supporting papers and explanatory notes.

- Capital Finance: Capital allocations and finance pooling, a mechanism for redistributing resources according to housing needs, and the Housing Investment Programme are in this section.
- The Housing Revenue Account Manual: This manual describes the statutory rules governing both the keeping of the Housing Revenue Account (HRA) and the payment of subsidy to support it. This section contains the current edition and previous manuals.
- HRA business plan model: a HRA Business Plan spreadsheet model to help local authorities in the preparation of their HRA Business Plans.

<http://www.communities.gov.uk/>

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.

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.