CIPFA

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CIPFA LOCAL AUTHORITY HOUSING PANEL

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AT THE HEART OF PUBLIC SERVICES

Welcome to the twentieth 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 some updates on recent government announcements and consultations and news on CIPFA housing events and publications. The last edition of the newsletter focused on the ongoing and wide-ranging review of the Housing Subsidy system in England and clearly provoked some discussion of the issues. This issue includes a response from a reader, Glynn Robbins, commenting on the earlier article by the Panel's Chairman, Ken Lee. If you would like to add your thoughts for the attention of the Housing Panel – and possibly for publication in the next edition of the newsletter - just email Lesley Lodge at: lesley.lodge@cipfa.org

Ensuring a fair housing market for all

The Government's much-awaited package of measures aimed at meeting current challenges in the housing market was announced on 2 September and comprised three main elements:

- £1 billion to help first-time buyers struggling to get onto the housing ladder, to support vulnerable homeowners at risk of repossession and to support the house-building industry.
- The Chancellor's announcement that stamp duty land tax will not apply to purchases of residential property of £175,000 or less.
- New measures from the Department for Work and Pensions (DWP) to help vulnerable homeowners meet their mortgage interest payments. The DWP announced it would be reforming Income Support for Mortgage Interest by shortening the waiting period before SMI is paid from 39 weeks to 13 weeks for new working age claims from April 2009. The capital limit for new working age claims will also be increased to £175,000 from April 2009.

What it did NOT include, however, was any change in local authorities' powers which could have relaxed ending restrictions and enabled them to offer competitive mortgages. Organisations such as the Local Government Association and London Councils have since reiterated calls for just such changes.

The £1billion for housing measures is understood to be existing funding for affordable housing re-allocated rather than new additional money. The measures are, in detail:

* **£300m:** Offering 10,000 first time buyers currently frozen out of the mortgage market the chance to get onto the property ladder through a new £300m shared equity scheme, HomeBuy Direct, which, it is hoped, will help up to 10 000 first time buyers into affordable homeownership over the next two years. HomeBuy Direct will give eligible first time buyers keen to own a place of their own the chance to buy some newly built properties. Buyers will be offered an equity loan of up to thirty per cent of the value, co-funded by the government and the developer, free of charge for five years. As with other HomeBuy schemes, any first-time buyers whose household income is under £60 000 will be able to apply.

* £**200m**: Supporting up to 6,000 of the most vulnerable homeowners facing repossession to remain in their home through a £200m mortgage rescue scheme; helping up to 6,000 of the most vulnerable families avoid repossession. This will not help those who have acted recklessly or irresponsibly. It is firmly targeted on those families who can no longer afford

their repayments, and who would be eligible for homelessness assistance. Local authorities will have a major role in this scheme assessing applications. Depending on their specific circumstances, eligible home owners will be offered one of three options: Shared ownership, Shared equity, or Sale and Rent Back

* **£100m**: investment to support SMI reform which could help prevent a further 10,000 repossessions;

* **£400 m**: to boost in spending power for social housing providers, including registered social landlords and councils, to deliver 5,500 more social houses over the next 18 months by bringing funding forward; The Government has decided to bring forward £400 million for social housing from existing budgets, delivering up to 5,500 more homes over the next 18 months. For the first time local authorities with existing stock will able to apply for this grant to build social housing, alongside registered social landlords. As well as delivering the social housing so desperately needed in many areas, this will also help to maintain capacity within the house-building industry, and help prepare the ground for the recovery in the market.

* **Working with Regional Development Agencies** to support the most critical regeneration schemes with the most potential to transform their communities. The Government says that market conditions have led to some regeneration schemes slowing down or stalling, which can the limit the potential of these schemes to transform lives in deprived areas. As part of this package, therefore, the Government says it will be working with RDAs and the HCA to look at possible interventions on projects that will deliver the most significant regeneration benefits.

Government consults on Handling of the Housing Revenue Account Subsidy Determination 2009-10 and 2010-11

The Government has issued a new consultation, on Handling of the Housing Revenue Account Subsidy Determination 2009-10 and 2010-11. This document sets out the Government's proposals on how the Housing Revenue Account Subsidy Determinations will be calculated and operate over the next two years, in so far as they impact upon local authority housing rent levels, and those aspects of the formulae which create volatility on an annual basis.

In consulting on the structure of the subsidy determination to be used for the next two years, the aim is to provide more certainty for local authorities in this period until the outcomes of the Review are implemented.

The full consultation document can be downloaded from the CLG website at: http://www.communities.gov.uk/publications/housing/handlingdeterminations but the main proposal options are, in summary:

There are two practical options for the immediate future of rent policy over the next two financial years. Comments from stakeholders are welcome particularly on the following possibilities (which are discussed in detail in the document):

- Fixing and pre-setting guideline rent increases with reference to assumed inflation rates for 2009-10 and 2010-11 respectively; or

- Allowing guideline rent increases to follow their course to convergence in 2011-12 in line with the rent restructuring formula, using the forecasts of inflation in September 2008 and September 2009 for the respective financial year.

Comments are also said to be welcome on a possible option for limiting higher end actual rent increases.

There are a number of practical options for reducing volatility in allowances for 2009-10 and 2010-11:

- Retaining transitional protection for both 2009-10 and 2010-11 by maintaining cash protection so no authority received less on a per dwelling basis than a year earlier
- Not changing the base allowances for the MRA to avoid introducing further volatility
- Using the three-year smoothed average for the Regional Crime Adjustment Factors
- Application of "smoothed three-year averages" to both the Crime Indices and to the BCIS to reduce volatility inherent in the annual regional data sets; and
- Retain the 2004 Index of Deprivation to remove the possibility of additional volatility in the calculation of allowances that would be generated by the introduction of a revised data set.

The CLG's deadline for comments is 10 October 2008 but the Department says it would be helpful if responses were sent in as soon as they are ready, rather than waiting until the closing date.

The Housing Panel will be considering the consultation in the next few weeks. If you have any views on the proposals in the document that you might like to share with the panel, these can be emailed to Lesley Lodge, CIPFA's Finance & Policy Manager at: lesley.lodge@cipfa.org

Choice Based Lettings Code of Guidance

The CLG has also published its summary of responses to the Consultation on the Choice Based Lettings Code of Guidance. This response to the consultative guidance is designed to provide information about those factors which local housing authorities should take into account in framing their allocation scheme to offer a choice of accommodation to housing applicants.

The responses can be downloaded from the CLG website at:
http://www.communities.gov.uk/publications/housing/cblresponseguidance

The full document runs to 42 pages, but the Department has summarised the more general comments received as follows:

A number of respondents felt that the draft guidance was too prescriptive and did not allow for the local flexibility needed to ensure that local needs and issues are properly addressed. Some felt that it should focus more on principles than details; alternatively that it should include examples of good practice, or model schemes.

One respondent suggested that it could include appendices giving more detailed advice on practicalities such as Information and Communication Technology (ICT) and sharing costs.

A few respondents suggested that the Code should include guidance specifically aimed at different types of authority or landlords: guidance for rural authorities, including how CBL fits with rural exception sites; guidance designed for high and low demand authorities (including a definition of high and low demand); guidance for Arms Length Management Organisations (ALMOs) and stock transfer landlords.

Other respondents suggested specific issues should be included which were not currently covered by the guidance, e.g., balancing clearance/regeneration priorities with the wider community needs, and meeting the needs of transferring applicants. Other issues suggested were: self-directed support packages, e-gov, housing market area assessments, efficiency, local performance issues; Key Performance Indicators (KPIs). One respondent suggested that the Code should provide guidance on how CBL links to Key Lines of Enquiry (KLOE) 7 when considering the design of a scheme, particularly in relation to access to services, value for money and equality and diversity issues.

A number of the legal practitioner respondents considered that it should take into account or refer to recent court cases and the Ombudsman's reports.

One Day Seminar Event: Current Developments in Housing Finance, December 2008, London

This event promises to bring you right up to date with the vital new current and emerging issues in social housing finance and its regulation: the big picture: the future direction and shape of Social Housing and the new opportunities that are emerging as the government strives to ensure that there is adequate housing for all. It will cover issues arising from the current review of the housing finance, including the impact on the housing subsidy system in both the short and long term. Also there will be a key note address from the new regulator, Tenants Services Authority.

This event will take place on 10th or 11th December, please check in the Online Shop at www.cipfa.org.uk/shop to reserve a place or for confirmed date (when announced).

New Guide - Out Now: An Introductory Guide to Housing Finance in England (Fully Revised Fifth Edition 2008)

The CIPFA Local Authority Housing Panel has comprehensively updated its housing finance guide. As the end of the decent homes programme approaches and legislation is likely to allow an opt-out from the subsidy system, a whole new set of finance issues present themselves. With the constant changes to local authority housing finance, the guide is essential reading for finance managers and councillors, or indeed anybody needing to understand the finances of this important service.

For more details or to order, visit the CIPFA Shop at:

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

Housing Subsidy Review – the wider context

While the Government's Review of the Housing Subsidy system continues, so too does debate and comment in the professional journals. In an article in his regular slot in Local Government Chronicle, went so far as to say “"If only local authorities were outside the Treasury's Stalinist public expenditure control system.... many of them would now be in the position to intervene in the housing market..."

And a letter from Ken Lee to the editor of Public Finance (August) is reproduced in full below:

Revisit the fiscal rules on housing: a letter from Ken Lee

The news item ‘Pressure grows on chancellor to revise fiscal rules’, (July 25—31) strikes at the heart of one of the blockages that public sector housing has faced over many years. The question has to be asked why, during this review, the opportunity is not taken to remove social housing from the Public Sector Net Cash Requirement, as some of our European colleagues have done?

The government is urging more to be done about providing housing at a time when builders are shutting up shop and mortgage money has all but disappeared. Freeing local authorities to use the value of their housing assets — whether their own or those run by arm's-length management organisations — surely fits in with the government's wish that council- owned assets are better used?

Allowing re-investment in the current stock has to be a priority in answering the call from government and, more importantly, from local residents, for more housing.

The use of prudential borrowing has shown that councils can and do act responsibly when given freedom over capital expenditure. Use of ratios around borrowing and income would give added comfort to those at the Treasury who worry about a free-for-all.

For too long now, as far as the government is concerned, the only way to bring investment into the social housing market is for councils to sell off the stock that they have painstakingly built up. The jury is still out on whether this is the wisest course of action.

Many tenants do not want it and many councils do not like it. There are even rumours that the Treasury believes some of the sale values are not realistic and Audit Commission inspectors have mixed views on the quality of service that is provided thereafter.

So is it not time to look again at ensuring that those in the most need are able to achieve the very basic of needs — a home of their own? After all, waiting lists were increasing before the credit crisis — so councils are aware of the local demand,

We are looking at bringing accounting into line with international financial regimes, so how about catching up with, say, the French, and excluding social housing from public expenditure?

Come on, Alistair Darling, the solution lies within your grasp. You know the demand is for more social housing. Encourage the removal of the shackle of the PSNCR in respect of social housing.

You can then tackle a growing problem without breaching an artificial ceiling.

KEN LEE, Chair, CIPFA Housing Panel

This letter was first published in Public Finance. To visit to the Public Finance website, which has many articles, both current and archived click on: http://www.cipfa.org.uk/publicfinance/

Housing Finance: Time for Real Change…continued

Ken's earlier article, in previous edition of the Housing Panel newsletter has also prompted a response from a reader as follows: ***A contribution sent in by Glyn Robbins, housing worker and DCH supporter (in a personal capacity).***

I read Ken Lee's article with interest. Over 15 years, I've worked in many fields of housing – local authority, RSL and ALMO – and am now working for a private sector house builder, with special responsibility for 'sustainability'. I also have a long association with Defend Council Housing. I broadly agree with Ken's conclusions, but would like to add a few points.

Any review of housing finance needs to also address the critical role of the UK construction industry. Whatever 'solution' to housing finance is arrived at, we will be looking to the construction industry to build and refurbish affordable homes. As currently operated, I would say that industry is not fit for purpose, for three main reasons. First, the amount of waste, both physical and financial, is enormous. Secondly, there are significant problems of probity, as highlighted by the recent revelations of price fixing and cartels by private builders working on behalf of public agencies. Thirdly, there is the capacity of the industry to consume a significant proportion of project costs in fees.

When I moved to the private sector, it was with the expectation of entering a leaner, fitter environment, where the profit-motive drives efficiency and innovation. This is the ideological assumption behind so much current government policy. From my experience, it's a myth. It's true that there are sometimes (not always) fewer bureaucratic procedures, but this should be weighed against the potential for abuse of power and loss of accountability. But from what I've seen, the construction industry is never going to be able to deliver for the public good. Its 100 million tones of waste a year, a disgraceful amount of which comprises materials that are never used, is a graphic illustration of this. Despite much rhetoric about 'modern methods of construction', inefficiency is hot-wired into the industry. We probably all know this through experiences of trying to book a plumber! But in this case, personal anecdotes are not irrelevant. The nature of the industry, with its multiple, unconnected trades and complex networks of sub-contracting make good co-operation and co-ordination very difficult. Similarly, the legacy of 'the lump' has never really gone away and where casualised, exploitative working conditions remain common, it's no surprise that apathy and corner-cutting become the norm. Despite some PR gloss, my feeling is that such cynicism is still prevalent in the industry as a whole and it starts at the top. Until or unless there is a real cultural shift in the construction industry, public investment on housing will always be vulnerable to the short-term profit incentive of the huge private companies that dominate the sector.

One of my reasons for leaving the public sector was disgust with the fees jamboree for consultants, but it's no better in the private sector. The only difference is that tenants and tax payers aren't directly picking up the tab. If we were ever to achieve the level of public investment in housing we need, I would be very worried that more money would be wasted this way. I've already seen it happening. When I worked for an ALMO that did have money to spend on housing improvements, it was literally impossible to work out who was doing what because so many different parties had joined the table – all property industry consultants wanting their share of the fees cake.

How we address these issues is a complicated question, but assuming the status quo will lead to another generation of squandered opportunities, whatever finance system is in place. I would advocate revisiting some old ideas – the benefits of direct labour, local repair services and planned maintenance – all of which would be compatible with Ken's vision of local control.

Ken rightly raises the question of retro-fitting for sustainability. There's no doubt that this is a very important issue. The benefits of energy efficient homes need to be added to any proper life-cycle assessment of housing costs. Lower energy bills will not only have direct and increasing benefits for tenants, but will also have wider social benefits. Local authority controlled housing provides the perfect opportunity for doing this, achieving both comprehensive improvements and economies of scale. There are numerous, but isolated, examples where technologies such as Combined Heat and Power have been successfully introduced on housing estates, but we are only scratching the surface and therefore, only yielding a fraction of the potential savings. Equipment like photovoltaic cells are prohibitively expensive if procured and deployed on a small scale, but I once worked out that the public money spent on 'saving' Northern Rock could have provided free solar energy for the whole country.

Again, we have to examine the ability – and incentives - of the private sector to deliver sustainable homes for the benefit of us all. The government's current ambition of all new homes being 'zero carbon' by 2016 has met with a resounding groan from the property industry. At a House Builders Federation conference, only 4% thought this achievable – that was before the market downturn. The technology needed to make existing housing energy efficient is well known and available, but held back by conflicts of interest. Neither government, nor private sector wants to make the necessary financial commitment; we all lose as a result.

Echoing Ken's argument, I believe that all roads lead to the need for local, democratic control with tenants at the centre. In my opinion, this means a new generation of – and approach to - council housing. We urgently need fair and adequate investment in housing and I hope CIPFA can join forces with others – including tenant groups – to seek government action. I'm not certain exactly what system will work, but I do know that the current one is institutionalized false economy. As Ken again rightly says, the human and social consequences of inadequate housing investment are all around us. But we need to learn the lessons of the past in order to avoid repeating them.

By Glyn Robbins, housing worker and DCH supporter (writing in a personal capacity). *For a link to Newsletter 19 and* ***Thinking Outside The Box?, the "thinkpiece" article by Ken Lee, which initiated this debate, click on: http://www.cipfa.org.uk/panels/housing/newsletter.cfm***

If, after reading the above articles, you would like to add your thoughts for the attention of the Housing Panel – and possibly for publication in the next edition of the newsletter, just email Lesley Lodge at: lesley.lodge@cipfa.org

CIPFA Financial Advisory Network (FAN) autumn 2008 programme

The CIPFA FAN has an active autumn programme ahead.

A series entitled 'Helping Finance Managers prepare for the future' is scheduled for September. This series is aimed at strategic finance managers and will address the hot topics you need to know about, including:

- The Comprehensive Area Assessment
- Operational efficiency
- IFRS
- Participatory budgeting
- Audit Commission perspectives on efficiency research.

These events will be held in York, Manchester, Bristol and London and you can book online now.

In October CIPFA FAN will deliver a series on ‘Balance Sheet Management’, particularly topical given the greater emphasis HM Treasury will place on faster financial reporting and quarterly balance sheets.

‘The Definitive Introduction to IFRS for local authorities’ series of workshops will run from mid November to early December 2008.

To find out more about our programme for the autumn and beyond, have a look at their website www.cipfanetworks.net/fan/. Alternatively, Roman.Haluszczak@ipf.co.uk, Emma.Stabler@cipfa.org or FAN advisor Mark.Kenyon@ipf.co.uk will be very happy to talk to you.

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

Further information about the Panel’s activities, publications, seminar events and any vacancies 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 7543 5795.