

NEWSLETTER ISSUE NUMBER TWENTY-ONE

**CIPFA LOCAL AUTHORITY
HOUSING PANEL**

March 2009

AT THE HEART OF
PUBLIC SERVICES 

Welcome to the twenty first 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 issue includes the Government's recent announcement on Council Rent increases, a short update on the HRA Subsidy Review with some suggestions on what authorities could be doing now to prepare for the Review consultation and a short item on the current CLG Consultation on Excluding New Council Housing from HRA Subsidy and Pooling. There is also some information about forthcoming CIPFA events and about the Housing Panel.

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

GOVERNMENT ANNOUNCES COUNCIL RENT INCREASES TO BE HALVED

Housing Minister Margaret Beckett announced on 6 March that the guideline council rents increase for 2009/10, originally set in September 2008 at 6.2%, is to be halved to only 3.1%. The Government is to make funding available to support local authorities to make the change. The Minister had already indicated that she will look again at the guideline rents for 2010-11.

The 6.2% increase had been set when inflation was running at some 5% and at that time the Government also proposed an upper limit on actual rent rises above 7%. CIPFA's Local Authority Housing Panel has urged CLG to reduce these increase figures and in a response last year to the Government consultation, CIPFA pointed out that *"An upper limit of 7% on average rent increases seems rather high in the current financial climate, is likely to hit those tenants who receive no benefits support for their rent particularly hard and should surely be seen in the context of average rises in wages and pensions if they are not to result in disincentives to work. This is likely to be especially the case where (as in September 2008) the inflation rate is high but may fall significantly later (as many predict for 2009)."*

Inflation rates did indeed fall and the Government's announcement is welcome though its timing is likely cause difficulties for many authorities which have already set their HRA rents and budgets. It will also cause especial difficulties for any authority in the midst of a Large-scale Voluntary Transfer (LSVT). It remains unclear, moreover, where this leaves the policy of rent convergence.

In her Press Release, the Minister said that "Ultimately, it is for each council to take up this offer of support, but I would expect them to ensure their tenants receive the full benefits." A little more detail was given in her statement to the House of Commons:

"I am therefore quite exceptionally prepared to offer authorities the opportunity to bid for additional subsidy, if, and only if they are preparing to revisit the level of rents set and reduce them by that amount." And

“We will be inviting authorities to let us know whether they will take this up by around the end of April. They will be able to introduce the new rent increases as soon as is practicable for them.”

HRA SUBSIDY REVIEW – LATEST AND WHAT LAs SHOULD DO NOW

The Review's findings are expected to be published in the spring of this year, with a 12 week consultation period to follow. Disappointingly, there have been reports that options may include envisaging that only a small number of housing authorities would become self-financing. It appears likely now that the options put to consultation will include:

- a reformed national system with improved allowances for the next quarter of a century or so;
- a hybrid system involving some devolution of financing – such as the use local Right to Buy receipts - but still within a national system;
- and a fully local self-financing system to be launched with a one-off settlement to authorities.

CIPFA's Housing Panel's preferred solution would be offered by a national, self-financing one and the Panel suggests that to boost long-term sustainability - if the government are not going to take on responsibility for housing debt - a share of debt approach should be used, with some form of debt redistribution, as a one-off adjustment. The need for public investment in local authority housing will remain, whichever route is selected to deliver the investment.

What steps should local authorities be taking now in preparation for the Review's report and consultation? Clearly, in considering best how to respond to the consultation, local authorities will want to look at the facts around how their own position is likely to change under the different options. Authorities might therefore want to suggest to CLG that indicative funding figures for their areas be included in the consultation documents. And for their own part, local authorities would be well advised to consider seriously undertaking a stock condition survey as soon as possible. Up to date hard data on stock condition could prove invaluable when it comes to considering the need for real investment and the options before them in the Review consultation documents.

IFRS AND HRA STATEMENTS

The adoption of International Financial Reporting Standards (IFRS) is the most significant change in financial reporting in the UK public sector since the adoption of resource accounting. Understanding the timetable and the new standards and their implications represents a key challenge for public sector organisations. CIPFA can help you get to grips with IFRS: training is available and there is a section of the CIPFA website devoted to updates, details of training events, news and briefings on IFRS at: <http://www.cipfa.org.uk/pt/ifrs/>

The CIPFA/LASAAC Board, following CIPFA's recent Back to Basics consultation process, is working on how to apply International Financial Reporting Standards to local government generally and there is a working group on the format of accounts. As the HRA Subsidy Review was yet to report, the Board is not yet considering

changes for local authority housing accounts. Therefore HRA statements should remain in their existing format for the time being.

CONSULTATION ON EXCLUDING NEW COUNCIL HOUSING FROM HRA SUBSIDY AND POOLING

Communities and Local Government (CLG) has issued a consultation document on *Excluding New Council Housing From HRA Subsidy And Pooling*. The document contains proposals for removing revenue and capital disincentives to local authority investment in new council housing and includes a draft regulation on capital receipts. It can be downloaded from the CLG website at:

<http://www.communities.gov.uk/documents/housing/pdf/capitalruleschanges.pdf>

The proposed changes would exempt specified new properties – and properties purchased or derelict ones brought back into use by LAs - from the redistributive effects of the HRA subsidy system and from pooling of capital receipts, essentially facilitating new supplies of council housing. This consultation follows a great deal of work and research by CLG, other Government Departments and a number of other organisations including CIPFA, first through the Self-Financing Working Groups and more recently through a number of more specific working groups within the Review of the HRA Subsidy System.

These changes, if made, to the treatment of income from new homes would be effected using powers in section 80B of the Local Government and Housing Act 1989. (This provides for exclusions of specified properties or descriptions of property, including future properties, from the HRA subsidy system). This would in effect make the properties “invisible” to the subsidy system whilst leaving them within the Housing Revenue Account. Changes to the capital receipts rules would be made through secondary legislation.

The focus of the consultation is on seven specific questions - questions such as: *Given the objectives of the policy, what types of properties should qualify to be excluded from the HRA subsidy system and pooling requirements?* However, in considering any response, authorities might want to consider also the wider picture, including how these proposals might fit with the outcome of the current and radical review of the HRA Subsidy system and, for example, whether other measures such as allowing authorities to retain all Right to Buy receipts might be needed also alongside those for the proposed new council housing.

Responses to the consultation are due in by **17 April**

DEVELOPMENTS IN LOCAL AUTHORITY HOUSING BENEFITS, 5 MAY 2009

The Department for Work and Pensions is carrying out a fundamental review of the housing benefit system with an emphasis on tackling worklessness. The Audit Commission is developing new approaches to housing benefit inspection. Local Housing Allowance has been in operation for a year. At the same time fraud remains a major challenge for all housing benefit authorities. This one-day seminar aimed at

finance directors and finance managers examines the financial management and funding issues for this key service.

For more information or to book a place, contact jess Cotton: Jess.cotton@cipfa.org

THE CIPFA LOCAL AUTHORITY ACCOUNTING CONFERENCE 2009, HARROGATE, 17-19 MARCH

There is still time to book for the 2009 CIPFA Local Authority Accounting Conference. Set against the upcoming changes to the framework of local government accounting and reporting, the conference agenda will provide essential and invaluable guidance to help you prepare for the transition from the SORP to the IFRS-based Code of Practice on Local Government Accounting.

The two day conference is fully residential (with other attendance options if preferred) and will take place this year at the Majestic Hotel, Harrogate. Sessions will include:

- International Accounting Standards and the Public Sector
- Developing the New Local Authority Accounting Code of Practice
- What next for Local Government Reform?
- Local Government Finance in Recession
- The SORP 2009
- Audit Commission Issues

Additionally, there will be breakout sessions on District Council Issues, Accounts Closedown, A Practical Guide to Using the SORP and Accounting for Investments. The conference will close with a powerful motivational session on ***How to avoid a near life experience... making the most of who you are.***

For more details or to book a place, visit the CIPFA Online Shop at:
<http://secure.cipfa.org.uk/cgi-bin/CIPFA.storefront/EN/product/YS10>

PMPA 'SUSTAINABLE FUTURES' LECTURE SERIES

The last lecture in our series of spring lectures, 'Sustainable futures' will be 'Public Finances in the long term – sound platform or cause for concern?' with Ian Carruthers, Policy and Technical Director CIPFA, as guest speaker on the 2 April.

The short-term effects of recession are clear, but what about fiscal sustainability in the long-term? With borrowing forecast to rise to a 40-year high, what are the long-term implications for public services and public finances? What are the challenges facing public managers in managing in this new environment? Ian will address these topical and pressing questions in the light of the long term public finance analysis to be published in the Budget, and drawing out the implications for all of us who work in public services.

For more information visit www.cipfa.org.uk/pmpa/events/index.cfm and please email info.pmpa@cipfa.org if you would like to book a place.

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 is available on the panel website at: <http://www.cipfa.org.uk/panels/housing>

The Panel occasionally has vacancies and would be particularly interested to hear from local authority housing finance practitioners. To express an interest or to find out more, please contact Julian Smith julian.smith@cipfa.org Tel: 020 7543 5795.