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AT THE HEART OF  
PUBLIC SERVICES



Welcome to the twenty second 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 several pieces on the HRA Subsidy Review, including one specifically on debt. There is also some information about a consultation on housing regulation, CIPFA's own manifesto and forthcoming CIPFA events.

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](mailto:lesley.lodge@cipfa.org)

## HRA SUBSIDY REVIEW – LATEST AND WHAT NOW?

The CLG consultation paper confirming the Government's intention "to dismantle the Housing Revenue Account Subsidy system and replace it with a devolved system of responsibility and funding" and setting out options for the detail of how this might be done was published in July and many local authorities will be working on their responses this month. The actual deadline for responses to the consultation is **27 October** but the Government has given authorities a significant incentive to consider their own position early: the consultation document states that "voluntary self-financing" could (in principle) be introduced without further primary legislation, if a consensus can be reached on self-financing. The terms of an offer on this could then be set out "by Spring". However, if there is no consensus, then primary legislation would be required for a national settlement. Subject to the progress of the necessary preparatory work and to parliamentary time, the timetable for a national settlement self financing system would be "in operation from 2012-13".

The consultation paper can be downloaded from:

<http://www.communities.gov.uk/publications/housing/councilhousingconsultation>

The consultation paper describes several options for fundamental reform of the council housing finance system, from improvements to the current system, to reduce volatility, to the option for a fully devolved system. The latter – the self-financing option – would remove the need for redistribution of revenues via a subsidy system: local authorities would finance their own businesses from their own rents, in exchange for a one-off redistribution of housing debt. The paper goes on to describe methods for assessing the level of debt each council would be required to support under self-financing and how this debt could be re-allocated. [The current overall level of debt is some £17bn]. It also identifies some potential costs to the general fund from debt re-allocation and how these could be either mitigated or funded.

Importantly, the Government recognises that management and maintenance are currently underfunded and the proposals include to uplift them by 5% and the MRA by 24%.

The paper then sets out proposals for managing the amounts of new borrowing councils might undertake under self-financing, so that this is consistent with overall public borrowing and spending policies. It considers risks arising from self-financing and how these could be managed. It also includes a proposal to end the current pooling of capital receipts (provided that currently pooled amounts are reinvested locally in housing).

The consultation asks seventeen specific questions, many of which seek detailed information from respondents, particularly from local authorities, in order to inform government decision-making about the likely practical implications of proposals on different kinds of local authorities (eg, on debt-free authorities and on those with substantial housing debt).

CIPFA is currently working on its own formal response to the consultation and this will be posted to the Panel website in the usual way. However, in CIPFA's view, it is crucial that local authorities do respond directly to the consultation. This is a major opportunity for positive change and one which may be substantially delayed if not seized now. CIPFA considers that a clear signal needs to be sent to government that the broad proposals and the recognition that the current system is substantially under-funded are very much to be welcomed. Clearly, there is much work to be done on clarifying just what the proposals mean and on spelling out the details of implementation and no authority will want to sign up to any further extent without knowing just what the proposals would mean for themselves. Nevertheless, if the Government is given the message that the general thrust of the proposals is widely welcomed, work can commence quickly on further modelling, on the detail of implementation and on the best way forward so as to maximise the pluses and minimise the scope for minuses and adverse effects.

## HRA SUBSIDY REVIEW –PROPOSALS TO RE-ALLOCATE DEBT

Without doubt, the redistribution of debt is the most controversial aspect of the government's proposals and much of the discussion around it tends very quickly to get political. There is a clear view held strongly by some that those authorities which are debt-free should not have to take on any debt redistributed from other authorities. And in an ideal world they wouldn't. The real world context, though, is one of very tight public sector finances a new national settlement offering far greater flexibilities for local authorities is not going to be cost-free.

Three things are very clear. First, the conclusion that Self-Financing works nationally, with the reallocation of debt, was the culmination of a considerable body of work including four workstreams, consultation and bi-laterals, research work, modelling and options and expert submissions. What we need to discover – and what this consultation hopes to find out – is to what extent it works at individual authority level. Secondly, as with all change, there will be risks, there will be gainers and there will be some losers. Thirdly, there is a real urgency about the consultation. If local authorities can reach a consensus, the government is holding out the possibility of being able to "set out the terms of the reform" by spring 2010. If there is no consensus, though, then primary legislation will be needed and the proposals run some obvious risks from election timetables. It is crucial, then, that local authorities should have a clear understanding of what is actually on offer now and what the implications are for them.

It's important to remember that the underlying logic behind the existing housing subsidy system stems from debt in the first place. The subsidy system supports an amount of notional debt in each council, based on assumptions about what councils should have borrowed and repaid over time, according to their needs as assessed by the Government. So some authorities (those in "negative subsidy") are already, in a way, handing over rental income to central government to support other authorities which are deemed to have greater debt. Looking at it this way might help when trying to explain the broad concepts to elected members.

The consultation paper puts forward not only its main proposals with regard to debt, but also some key Government guidelines which underpin the proposals. The main thrust on debt is that under self-financing, there would be a one-off allocation of housing debt and that debt would be allocated to councils on the basis of each council's ability to service it. The Council's ability in this context would be determined "using the same updated figures for costs of management, maintenance, major repairs and income that would be used to calculate subsidy". The government has said that it will use the basis of tenanted market value (TMV) to determine the opening debt level. The process would be for each council to produce a business plan with the investment needs based on common service standards and evidence from the review about the cost of delivering those standards. The assumptions

about income would - as might be expected – assume that rent levels are in line with government social rent policy. The value of the stock would be calculated from the present value of the cash flows in the business plan. Each council's housing debt would then be adjusted to reflect the value of its stock. The outcome would be that each council would then need to make or receive a capital payment to or from the government to reflect the adjustment.

The government's underlying guidelines or principles are that the government itself will not repay the debt nor will take it the debt centrally. And the effect on the General Fund should be neutral.

A couple of key points to bear in mind are:

- A note in the consultation paper suggests that "in principle the total debt allocated on councils under self financing could be higher or lower than the current level of debt in the system".
- Question 8 asks authorities to let the government know about issues around premia for repayment and market debt that would potentially need to be adjusted in the opening debt position.

## HRA SUBSIDY REVIEW – WHAT DO THE DEBT PROPOSALS MEAN FOR YOUR AUTHORITY?

Local authorities will want to test different scenarios in order to model potential impacts on their own current position. The first step is to develop a thirty year business plan along the lines implied in the consultation paper, that is, setting out rental income on a restructuring basis, other income such as service charges, management costs [these should be based on subsidy figures], repairs and improvements costs [again these should be based on subsidy figures] and maintenance costs [based on a stock condition survey and regularly maintained to decent homes]. Note, though, that the subsidy figures to be used will include some uplift – the HRA Review recognized that management and maintenance are currently underfunded and identified a need to uplift them by 5% and the MRA by 24%. The resulting cash flows then need to be converted into present value cash with the discount rate key of 7%.

Then take a number of scenarios for the position on the opening debt and profile these across the thirty years. Typically you might find that at a lower opening debt position, say, the stock condition survey might be funded and some debt repaid but that with higher levels of opening debt, the debt has risen by year 30, maybe becoming unviable. Sensitivity analyses are also advised as actual levels of uplifts in the allowances are likely to vary widely across the country, and the discount rate could vary.

Housing professionals seeking to study the impact on their authority - whether their authority is likely to be allocated new debt or have debt taken away - will need to consult Treasury Management colleagues. Treasury Management will undoubtedly take on a more important role for authorities under self-financing with debt reallocation. Big changes in the balance of the debt portfolio may be required, between fixed and variable interest rates, for example, or PWLB loans vs market loans. The initial transfer of debt under reallocation will involve transaction costs and any thoughts around indicative levels of such costs should be included in responses to the consultation paper, where possible.

## HRA SUBSIDY REVIEW – DEBATE IN PUBLIC FINANCE

The HRA Review has stirred up debate in Public Finance magazine. Paul Cook, an independent consultant, described the government's proposals for housing finance reform as "more akin to flogging a dead horse than giving councils freedom."

"While one can appreciate the technical reasoning behind the proposals," he wrote, "they seem to be moving ever further away from local decision-making. Where is the local freedom without the right to set rents or make local decisions unless it has TSA approval of some 30-year business plan? Where is the prudential borrowing freedom if the freedom is controlled, and most of the housing debt in the HRA is not the authority's?"

Paul's full article can be read online at the Public Finance website:

<http://opinion.publicfinance.co.uk/2009/08/saddled-with-debt/>

Paul's article has drawn two responses to date. Lesley Lodge, Finance & Policy Manager at CIPFA but writing in a personal capacity, made the point that the proposals on offer are the best deal local government is likely to get. Housing minister John Healey's view that those hoping ministers can simply write off £18bn of debt are 'whistling in the dark' and need to 'get real' is – unfortunately – not some kind of negotiating starting point but more likely the bald truth, given the current and future state of the public finances.

The full letter can be read at;

<http://opinion.publicfinance.co.uk/2009/09/let%E2%80%99s-talk-horse-sense-on-housing/>

David Hall, a director of consultancy and service provider Tribal, argued that none of the issues around the self-financing proposals are going to be easy, but that's not to say we shouldn't aim towards it. There are lots of other questions that could have been asked in the consultation paper – but we should at least credit the government on taking that first step. He urges consultee organisations to respond to the consultation document and see where it takes us.

David's article can also be read on the Public Finance website at:

<http://opinion.publicfinance.co.uk/2009/09/backing-the-wrong-horse/>

## TENANTS SERVICES AUTHORITY CONSULTS ON REGULATION

The TSA has a consultation document out for comments. In summary, the consultation proposes:

- The TSA would regulate all local authority landlords in a largely similar way to its regulation of housing associations. This would include local authorities whose stock is managed by another organisation, for example, arms length management organisations (ALMOs) and tenant management organisations (TMOs).
- The TSA would focus its regulation on landlord services (those services which are delivered to tenants, for example repairs and maintenance and customer service).
- The TSA would, where it considers it appropriate, set common standards for social housing (across local authorities and housing associations) following extensive consultation with tenants and landlords. The standards which the TSA would set would generally aim at encouraging landlords and tenants to agree, at a local level, on the levels of performance they should expect.
- There could be some issues on which the TSA sees a case for a common level of performance nationally which would apply to all landlords. The Government has made a commitment to local authorities that no national indicators will be set outside a national set of performance indicators. Therefore, with regard to local authorities, if

the TSA wished to set any standards of this type, it would need to agree with Government to include them in the national set rather than setting them independently.

- The TSA would make best use of existing information about a landlord's performance to meet its needs as a regulator in order to help minimise burdens on landlords. It could ask for additional information, where necessary, if it has concerns about a landlord's performance.
- Where the TSA is content that a landlord is meeting local standards and that tenants are generally satisfied with their landlord's performance, then the landlord should be allowed to get on with the job without undue interference.
- Where the TSA identifies poor performance, a landlord would normally be given an opportunity to address the problem. The TSA could also hold an inquiry or commission an inspection to help it determine the scale and nature of a problem.
- Where it is clear a landlord has not achieved better outcomes for tenants the TSA would be able to take proportionate action using a range of intervention and enforcement powers. Many of these would be common across all landlords (for example, enforcement notices). Not all would be appropriate for local authorities (including appointment of board members and compensation).

The consultation deadline is **30 October** and documents can be found at:  
<http://www.info4local.gov.uk/documents/consultations/1307602>

## CIPFA'S OWN MANIFESTO

As the main political parties begin to prepare their policies for an election, CIPFA has published its own manifesto. CIPFA's manifesto, *Better Ideas, Better Public Services*, calls for an urgent debate on improving governance and financial management in the UK public services. *Better Ideas, Better Public Services* can be downloaded from the CIPFA website at: <http://www.cipfa.org.uk/corporate/manifesto.cfm>

In the manifesto, CIPFA sets out its ideas for improving openness and transparency, making better decisions, providing better information to the public, strengthening accountability and much more. Above all the manifesto focuses on the need for politicians to re-inspire trust and confidence after the MPs' expenses debacle.

"If we are to reverse the cynicism which currently surrounds UK politics the next election has to mark a watershed. The political parties have to find a new way of governing which reconnects with people, engages their interest and, over time, wins their trust," said Steve Freer, CIPFA's Chief Executive.

CIPFA's overriding aim is to encourage a healthy, open debate and to ensure that this critically important challenge is fully and clearly addressed by the political parties. Your views on the CIPFA manifesto and your alternative proposals are warmly welcomed. Please submit them to: [Steve.freer@cipfa.co.uk](mailto:Steve.freer@cipfa.co.uk)

## IFRS

There have been concerns that the move to IFRS could potentially impact on council tax and housing rents. CIPFA is already in discussions with the Department for Communities and Local Government and the devolved administrations in Scotland, Wales and Northern

Ireland to ensure any impacts can be minimised, if not avoided, and anticipates that any necessary measures will be in place in time for authorities to set their 2010/11 budgets.

The adoption of 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. No matter how prepared your organisation, CIPFA can help you get to grips with IFRS and support you on the journey to full adoption. To read more, visit CIPFA's IFRS website at: <http://www.cipfa.org.uk/pt/ifrs/>

To assist authorities further with the transition to IFRS, sections of the draft IFRS-based Code of Practice on Local Authority Accounting are being made available as they are developed, via the CIPFA/LASAAC web site at: <http://www.cipfa.org.uk/pt/cipfalasaac/ifrs.cfm>

## SUSTAINABILITY: CIPFA BRIEFING PAPER

Carbon Reduction Commitment is a mandatory energy emissions trading scheme aimed at large public and private sector organisations across the whole of the UK. The proposal is for the scheme to commence in April 2010. CIPFA has issued a briefing paper which takes a first look at the financial and accounting aspects of the scheme and raises key issues for organisations to consider.

You can download a copy from the CIPFA website at: <http://www.cipfa.org.uk/pt/sustainability/publications.cfm>

## PUBLIC MANAGEMENT AND POLICY ASSOCIATION (PMPA) EVENTS

The PMPA has a number of interesting events coming up:

On 16 October 2009, in Saint Helens, Janet Grauberg, PMPA, will be speaking on 'Information for decision making' at the CIPFA Regions Conference *'Managing public services in challenging times'*

On 6 November 2009, in Edinburgh Prof Geert Bouckaert, Director of the Public Management Institute, Katholieke Universiteit Leuven will be speaking on Perspectives on public management reform in Scotland

And the last lecture in the PMPA's 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.

If you would like further information or to book for any of these events, please email [info.pmpa@cipfa.org](mailto:info.pmpa@cipfa.org)

## THE HOUSING PANEL – VACANCY FOR WELSH REPRESENTATIVE

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 currently has a vacancy for a Panel member from Wales and occasionally has other vacancies. We would be particularly interested to hear from local authority housing finance practitioners in this context. To express an interest or to find out more, please contact Julian Smith [julian.smith@cipfa.org](mailto:julian.smith@cipfa.org) Tel: 020 7543 5795.