

Social Housing – Financial Update

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Item 8 – What does it all mean?

- Background and Context
- What's the Problem?
- Draft Item 8 Determination Consultation
- Implications for Local Authorities
- Taking Action

Background and Context – Item 8

- Self-Financing of the HRA
 - Principles
 - Timelines/transition
- Item 8 Determinations
 - Basis of charge to HRA
 - Implications

What's the Problem?

- HRA valuations/impairment
 - Dwellings
 - Non-dwellings
 - Implications for the capital financing requirement?
- Depreciation – bottom line impact

Council Dwellings – Issues and Risks

- Impairment and revaluation losses above RR balance hitting the HRA I&E can be reversed
- BUT – what about post-transition?
- Big affordability risk
 - Assets vs reserves
 - Social Housing Discount Factor
- Government policy – local authority social housing role

Non-Dwellings – Issues and Risks

- Impairment and revaluation losses above RR balance **cannot** be reversed to CAA ie they hit the HRA bottom line
- Local authorities reporting significant impact
- Gaps in the Determinations:
 - Impact of **gains** in the HRA I&E
 - How to address? Are they reversible? Transfer to reserves to cover future losses?

Capital Financing Requirement (CFR)

- CFR reflects the local authority's underlying need to borrow for a capital purpose
- Non-dwelling losses charged to HRA I&E but NOT reversed to the CAA
- Balance sheet – asset reduction not matched by change in CAA or RR = reduction in CFR!
- HRA CFR (Determinations) does not include such losses – so impact on general fund CFR?
- Adjust CFR to neutralise impact?

HRA Depreciation (England)

- A charge to the HRA I&E
- Based on proper accounting practice (IFRS)
- Not reversible (unlike general fund)
- Transitional adjustment permitted over five-year period only
- Can adjust bottom line charge to equal notional MRA during transition

www.cipfa.org/services/networks/finance-advisory-network/other-documentation/hra-briefing-paper

HRA Depreciation: During Transition

- Dwellings:
 - Dr HRA I&E, Cr PPE
 - Dr CAA, Cr Movement in HRA
 - Dr Movement in HRA, Cr Major Repairs Reserve
 - Optional during transition: Dr MRR, Cr Movement in HRA (with difference between depreciation and notional MRA)
- Non-dwellings:
 - Dr HRA I&E, Cr PPE
 - Dr CAA, Cr Movement in HRA
 - Dr Movement in HRA, Cr Major Repairs Reserve

Actual
depreciation

Actual
depreciation

Item 8 Consultation (26 May to 8 July)

- Dwellings – extend transitional protection
- Non-dwellings – protection added prospectively
- Depreciation – removal of transitional adjustment
- New Determinations effective from 1 April 2017
- Any uncertainties?

www.gov.uk/government/consultations/housing-revenue-account-draft-item-8-credit-and-item-8-debit-general-determination

Observations and Implications for Local Authorities (1)

- Valuation gains?
- Dwellings
 - Good news
 - Risks addressed
- Non-dwellings
 - Mixed news
 - Prospective protection will protect HRA bottom line
 - Any CFR adjustments will remain

Observations and Implications for Local Authorities (2)

- Depreciation
 - It depends!
 - Are you using the transitional protection now?
 - What difference will it make?
 - Any implications for components?
 - Housing PFI schemes?

Next Steps – Taking Action

- Read and respond to consultation
- Raise any concerns with DCLG
- Consider any accounting changes required
- Support from FAN is available
www.cipfa.org/services/networks/finance-advisory-network
- Any questions?