Briefing Paper

Accounting for Self-Financing

August 2013

Introduction

The purpose of this briefing paper is to examine some of the accounting issues that have arisen following the introduction of self-financing to housing revenue accounts in England.

Self-Financing and Treasury Management

On management of debt the Government and Chartered Institute of Public Finance & Accountancy proposed that local authorities operate two loans pools – one for the General Fund and one for the Housing Revenue Account. Their consultation paper outlined how opening debt should be divided between these two pools before self-financing was introduced.

The policy document 'Self-Financing: Planning the Transition' stated that:

"The Government and the Chartered Institute wants councils to have the flexibility to develop an approach to treasury management that meets local needs, subject to the principle that there should be a fair apportionment of costs and risks between the General Fund and the Housing Revenue Account."

Self-financing has resulted in significant adjustments to the level of housing debt in authorities with council housing. In most cases the level of debt has increased significantly. Authorities also have to change the way in which they manage and account for their debt so that the housing and non-housing debt can be dealt with separately thus avoiding decisions on housing debt having an impact on capital financing costs in the general fund and vice versa.

The Chartered Institute of Public Finance & Accountancy has therefore worked with government to identify a methodology for splitting debt to meet the requirements of the new system. The government has not imposed a single solution and authorities may pursue other methods provided that they achieve the underlying principles. Three principles have been identified:

- Debt must be managed equitably for the Housing Revenue Account and General Fund.
- Future charges to the Housing Revenue Account for borrowing will not be influenced by General Fund decisions.
- Un-invested balance sheet resources are to be properly identified between the General Fund and Housing Revenue Account.

Only long-term loans have been split. Revenue balances and short-term loans for cash purposes continue to be managed as part of an authority's overall cash balances with interest being charged or credited as part of the calculation of interest on cash balances.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

Where sufficient loans exist, the loans taken on by the Housing Revenue Account are calculated as follows:

- Housing share of Public Works Loans Board debt: Public Works Loans Board (Housing debt) = Housing Revenue Account Capital Financing Requirement / Total loans X Public Works Loans Board loans
- Housing share of market loans: ML (H) = Housing Revenue Account Capital Financing Requirement / Total loans X Market loans
- Where insufficient loans exist (Housing Revenue Account Capital Financing Requirement > Total Loans), the balance is represented by unfinanced Capital Financing Requirement.

NB: Housing Revenue Account Capital Financing Requirement = Housing Revenue Account Capital Financing Requirement: The Housing Revenue Account share of the authority's total Capital Financing Requirement.

This is illustrated in the example below:

Capital Financing Requirement

Split	£,000	Existing Debt	£,000
Housing Revenue Account	20,000	Public Works Loans Board	28,000
General Fund	24,000	Market Loans	12,000
		Unfinanced	4,000
Total	44,000	Total	44,000
Housing share 50% of loans			
Public Works Loans Board	14,000		
Market Loans	6,000		
Total	20,000		

Where the Housing Revenue Account takes on unfinanced Capital Financing Requirement the choice was to take on additional borrowing or to pay interest to the General Fund to cover the unfinanced capital financing requirement. All types of loan should have been split between the Housing Revenue Account and the General Fund. It was considered that it should be possible to split all Public Works Loans Board debt although it may not have been necessary to do this physically on day one. Only market loans taken on as long-term loans should be shared with the Housing Revenue Account. Where authorities can achieve the same impact by allocation of complete individual loans between the Housing Revenue Account and General Fund this should have been done.

Where authorities made a payment to the government at the settlement date there was a corresponding increase in the Housing Capital Financing Requirement. The authority would then have taken out additional borrowing up to this level. The cash for the payment to the government would come from the loan.

Where authorities received a settlement from the government, there was a requirement that they repay Public Works Loans Board debt. To ensure that debt could be repaid to the Public Works Loans Board there was a need to repay the Public Works Loans Board loans before splitting the residual loans between the Housing Revenue Account and the General Fund. The repayment reduced the Housing Revenue Account Capital Financing Requirement and hence the amount to be apportioned to the Housing Revenue Account.

It is important to note that where a council had a negative Subsidy Capital Financing Requirement (the subsidy system assumes that the Council has a negative amount of debt in the Housing Revenue Account), Communities & Local Government set the Subsidy Capital Financing Requirement at nil for purposes of calculating the self-financing settlement. In these cases the additional debt that Councils accepted was less than the difference between the Subsidy Capital Financing Requirement and the tenanted market valuation for self-financing purposes.

The Chartered Institute of Public Finance & Accountancy also considered a one-pool or a three-pool approach. With a one pool approach the current arrangements would continue. With a three pool approach there would be a pool for existing debt and two new pools for new Housing Revenue Account and General Fund debt. It was suggested that local authorities could opt for either of these options if they considered that specific advantages could be identified at local level.

The paper noted with regard to a single pool that:

"It may initially seem attractive to local authorities to continue with a single pool…Administratively it definitely has advantages (but)… most authorities will have materially different debt levels as a result of the settlement… This change in debt is likely to have a significant impact on the apportionment of interest… Maintaining a single pool approach will restrict the authority's ability to manage interest rates according to the Housing Revenue Account's debt and risk profile."

The paper noted with regard to three pools that:

"Because of the difficulties around debt repayment and interest rate management the two pool approach would appear to be preferable in the long-run."

This methodology for management of debt represented the most practical way forward in the circumstances. Authorities are allowed to adopt an alternative approach if they consider that this would be best in view of the local circumstances.

The Housing Revenue Account pool includes those old debts that have been allocated to housing and (in most cases) the new loans that were taken out on 28th March 2012 as part of the self-financing arrangements. In most authorities the actual rate of interest is lower than was assumed in the self-financing calculation helping to give rise to the headroom in the revenue account that has been noted above.

New borrowing is constrained by the debt cap so many authorities are not able to use the headroom that they have in their revenue accounts to carry out the prudential borrowing they would otherwise have done to fund either new build or improvements.

Local authorities can borrow either from the market or the Public Works Loans Board. Traditionally, the Public Works Loans Board has offered loans to local authorities at preferential rates so most borrowing has been from them. In October 2010 the Treasury decided to raise the rate of interest on loans made by the Public Works Loans Board leading many authorities to consider borrowing from the market to fund self-financing. However, in September 2011 the Treasury announced that loans for self-financing would be at 1% less than the usual rate but in November 2011 it was announced that this low rate would only be available to authorities that applied on 26th March 2012 for loans on 28th March 2012.

A choice of loans was available. Fixed rate loans were available for one to fifty years; variable rate loans were available for one to ten years. Interest payments could be made monthly, three monthly or six monthly. Repayments could be made at the end of the loan or in instalments and in the case of fixed rate loans on an annuity basis.

The Local Authority Accounting Panel (LAAP) Bulletin 92 of March 2012 covers the accounting entries required for authorities making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1st April 2012.

Depreciation and the Major Repairs Allowance

The treatment of depreciation is important as the major repairs allowance has been abolished with self-financing and the depreciation charge will become the sum that is transferred to the major repairs reserve to fund major repairs. Depreciation will therefore become a real cost in the housing revenue account on the basis of these proposals.

In ‘Self-Financing: Planning the Transition’, the government said that it intended to retain the principles of the major repairs reserve. They consider that with self-financing it will be even more important for Councils to set aside an appropriate provision for capital works and that money needed for the capital programme is not spent on other things. The policy document states that:

“There will not be a major repairs allowance with self-financing. The amount to be paid into the major repairs reserve must therefore be drawn from a local assessment of capital spending needs.

“This assessment should be based on the amount which needs setting aside for depreciation, namely the cost of replacing or renewing all the time-limited components of the stock plus an amount for the fabric of the building. If the components are replaced at the end of their lifespan then it is expected that the fabric of the building will have a long life. As the self-financing valuation is based on an updated Major Repairs Allowance which is built up using the same method in respect of components, we expect that the need to spend in local plans will be broadly similar to the figure funded in the self-financing valuation.

“Under the subsidy system, councils have been required to put a figure equivalent to their depreciation into the Major Repairs Reserve, but have then been allowed to ‘reverse out’ any difference between that and the Major Repairs Allowance. In future, councils will need to develop a component-based approach to depreciation in order to comply with accountancy standards. There should be no difference between this and the need to spend on major repairs identified in the business plan, which is itself based on the cost of replacing and renewing components. We therefore see no need longer term to have a mechanism which prevents the full depreciation charge from hitting the Major Repairs Reserve.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

These were interesting statements. Communities & Local Government had previously maintained that with self-financing the amount transferred into the major repairs reserve should be equal to depreciation and it is confirmed that with self-financing this will be the case. However, this policy document referred to three different approaches: depreciation, the up-rated major repairs allowance (that will not be recalculated each year) and a local assessment of capital spending needs. It implies that all three methods should result in a similar conclusion. In practice this may not be the case as depreciation can be a higher figure than the up-rated major repairs allowance or councils' assessments of capital spending needs. Consequently, the use of depreciation to calculate the transfer to the major repairs reserve could be unaffordable.

The policy document continued:

"However we recognise that councils will need time to implement component-based depreciation. There are also issues to be resolved, including the link between depreciation and stock valuations (and revaluations) and how impairments are dealt with. The Chartered Institute of Public Finance and Accountancy consulted on proposals in February and will issue a further consultation on this shortly. We expect this to propose a five-year transitional period during which councils may choose to use the uplifted Major Repairs Allowance in the self-financing valuation as the figure which must be funded in the Major Repairs Reserve. They will also be able to reverse out the effect of impairments as a below the line adjustment in the Statement of Movements on the Housing Revenue Account balance sheet. Authorities will still be able to transfer amounts in excess of depreciation to their Major Repairs Reserves."

This paragraph establishes a five year transitional period during which councils will be able to use the uplifted major repairs allowance to calculate the transfer to the major repairs reserve. It also suggests that impairment should continue to be 'reversed out' as it is now. Communities & Local Government appear to recognise in this final paragraph the difficulties that are likely to arise if depreciation is used to calculate the transfer to the major repairs reserve.

Prior to self-financing, charges for depreciation and impairment were made to the Housing Revenue Account. However, in practice these were notional charges as they were 'reversed out' of the account and the charge that was actually made to the account is the transfer of the Major Repairs Allowance to the Major Repairs Reserve. Usually, depreciation was greater than the Major Repairs Allowance and if impairment was charged this was totally 'reversed out'.

The introduction of self-financing means that there is no longer an annual calculation of the Major Repairs Allowance. Resources for major repairs have, in theory, been built into the calculation of tenanted market value and there should therefore be sufficient resources in the rent stream to fund major repairs at the level that has been assumed in the self-financing settlement.

There is therefore a need to decide how Councils will determine how much to transfer into the Major Repairs Reserve. The amount needs to be sufficient to meet the cost of ongoing major repairs and also needs to be affordable. The proposal is that this should be achieved by using depreciation – with depreciation no longer being 'reversed out' and becoming a real charge to the Housing Revenue Account.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

Advocates of this approach argue that depreciation is a good measure of the need to set resources aside for major repairs. For example, if new kitchens on an estate cost £300,000 and are estimated to last thirty years, depreciation of £10,000 a year should be sufficient to create a reserve to replace the kitchens when this is due. However, this approach is seen as having two disadvantages: First, it is argued that this is not logical given that Council housing is valued on the basis of Existing Use Value for Social Housing rather than at Market Value (see below) and Second, that depreciation is a higher figure than major repairs allowance meaning that:

- Councils may not be able to afford depreciation
- This may demonstrate that the uprated major repairs allowance is insufficient and that the self-financing settlement will not provide sufficient resources for ongoing major repairs.

In March 2011, the Chartered Institute of Public Finance & Accountancy published a consultation paper on depreciation and the major repairs reserve. The aims and objectives of the paper were:

- To set out a methodology for the calculation of depreciation which:
  - Is consistent with International Financial Reporting Standards
  - Is affordable to Housing Revenue Account business plans by not giving vastly different values to the long term component renewal and replacement costs in council housing
  - Where possible, minimises the additional administrative burden of data collection and analysis required to make an appropriate calculation
- To set out proposals to ensure that authorities act appropriately in recognising the economic cost of maintaining stock over the long term
- To identify the entries required to the Housing Revenue Account and associated reserves to take effect from the date of self-financing.

Council houses are currently valued according to Existing Use Value for Social Housing that is based on Open Market Value discounted by a proportion to reflect the fact that the dwellings are let to social tenants with secure tenancies. International Financial Reporting Standards now require the identification of significant components within each dwelling and their separate treatment for depreciation. This means that there is a need to depreciate major building components (valued at gross replacement cost) and a residual value (Existing Use Value for Social Housing less the value of the components) that is a balancing figure that varies significantly from place to place and can be negative in many instances. It is not clear what this residual value actually represents in reality!

The consultation paper proposed that a number of components should be identified separately utilising asset maintenance and stock condition data and assigned a value, component life and remaining life. Components may be grouped together if they have a similar useful life. They should then be depreciated using the straight-line method.

For the residual element the consultation paper proposed that:

"The value attributable to the residual (non-componentised) element can be assigned on the basis of an additional gross replacement cost calculated in line with the stock condition data."

It was proposed that the depreciation charge will continue to be debited to the Housing Revenue Account and credited to the major repairs reserve.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

On Impairment the consultation paper stated that:

"Impairment occurs when a specific event leads to a reduction in value of an asset. Where impairment occurs, International Financial Reporting Standards requires a provision for impairment, over and above any accumulated balance held in the revaluation reserve, to be charged to the Housing Revenue Account. If the impact on the revenue account is to be mitigated, new regulations would be required to enable the impairment to be reversed out."

I find this statement surprising as impairment has always been 'reversed out'.

It appears to me that these proposals may have been logically flawed because they were based on the depreciation of components at gross replacement cost, whereas council housing is valued at Existing Use Value for Social Housing. If we were looking at housing that was rented at market rents there would be no difficulty. It would be possible to value a house based on market value and then break this down into the land value, the cost of construction (the components at cost) and the surplus value that would accrue to the landlord. Each of these elements of the valuation would be meaningful and depreciation of the components based on gross replacement cost would be logical and affordable.

However, in the case of social housing the property value is based on Existing Use Value for Social Housing that is significantly lower than market value reflecting the fact that it is let to social tenants at below market rents. This results in the creation of this 'residual amount' that is difficult to define, explain or calculate depreciation for. It can even be a negative amount.

Following the consultation process the Chartered Institute of Public Finance & Accountancy published revised proposals including a recommendation that social housing should be valued at gross or net tenanted market value. This would mean that the valuation would be based on the net present value of the next thirty years' rent and cost streams.

In January 2012, Alison Scott, Assistant Director for Local Government at the Chartered Institute of Public Finance & Accountancy wrote in 'Public Finance' that:

"The removal of a prescribed statutory framework has thrown up a few problems (including) the loss of the centrally prescribed Major Repairs Allowance.

"CIPFA has consulted twice on proposals for calculating the depreciation charge to be applied to the self-financing Housing Revenue Account. Judging by the responses, this is definitely a matter of concern for some local authorities.

"First, it's worth spelling out that no changes are required to the Accounting Code to actually implement self-financing. The code already requires depreciation accounting and componentisation. But currently legislation allows depreciation to be reversed out of the accounts leaving the Major Repairs Allowance as the charge that falls on the Housing Revenue Account. Under the revised legislation, this reversal will be optional for the first five years, allowing depreciation to be applied.

"For depreciation accounting itself, the charge will continue to be charged to the Comprehensive Income and Expenditure Statement but there will be no reversal out of this charge. Depreciation will need to be split between the depreciation element related to historic cost (or cost as at 1st April 2007 when revaluation accounting was introduced) and depreciation arising as a result of revaluation. The element relating to revaluation will be reversed out in the statement using unrealised gains / losses.

"Componentisation has caused considerable debate, with many interpreting the example given in our first consultation as the way forward.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

"It is important to remember that there is no single solution and it is up to each authority to determine the level of componentisation required. Examples we have seen range from half a dozen components identified for each dwelling, through an approach based on major programmes for the stock as a whole, to treatment of dwellings as a single component.

"Local Authority Accounting Panel Bulletin 86 provides further advice on determining components.

"In terms of the Major Repairs Reserve, the intention is to maintain the capital / revenue split that exists in local authority accounting. To this end, the Department for Communities & Local Government will use regulations to transfer accumulated depreciation into the Major Repairs Reserve where it will be ring-fenced to be used for repayment of debt or capital and maintenance expenditure.

"Discussions are taking place with the Department for Communities & Local Government on using a wider definition of maintenance to ensure that authorities have the flexibility they need for effective asset management. It should also be noted that authorities will still be able to make additional voluntary contributions to the Major Repairs Reserve, for example where their asset management plans suggest greater provision will be needed to meet future maintenance costs.

"On valuation, in order to introduce the proposed revised Discounted Cash Flow approach, it is suggested that the Chartered Institute of Public Finance & Accountancy works with the Department for Communities & Local Government to amend the Existing Use Value – Social Housing guidance. This would remain the basis of valuation, with a revised Discounted Cash Flow approach as a method within it. We need to ensure that the Discounted Cash Flow valuation approach within the Existing Use Value – Social Housing guidance works with a component based depreciation charge.

"The advantage of using the existing Existing Use Value – Social Housing basis of valuation is it would provide maximum flexibility for authorities, allowing them to continue to use the adjusted market value approach.

"In addition, it would allow differential approaches to be used within the United Kingdom and would not require any changes to the Accounting Code."

Valuation issues were therefore resolved. Existing Use Value – Social Housing will continue to be used with two options for calculating it:
- Market rates that are to be updated annually.
- Discounted Cash Flow amended for International Financial Reporting Standards

The Chartered Institute of Public Finance & Accountancy has identified the following actions for Councils to take to review componentised depreciation:
- Decide on the components
- Obtain the basic data on lifetimes
- Decide on beacon properties or individual properties or groups of assets.
- Undertake a draft depreciation calculation.
- Compare dwellings depreciation to uprated major repairs allowance.
- Assess the impact on the housing revenue account business plan.
- Review and re-evaluate
- Implement!

From March 2017 (after the transitional period) depreciation based on componentisation will be used in the housing revenue account rather than the uprated major repairs allowance. Impairment will also be a charge to the housing revenue account.

In June 2013, Alison Scott, Assistant Policy & Technical Director at the Chartered Institute of Public Finance & Accountancy wrote in 'Public Finance' that:

"A side effect of self-financing has been to put housing revenue account financing under the spotlight. The intensity of this spotlight has been increased by the ending of the Major Repairs Allowance, which the previous government set up to charge to the housing revenue account revenue budget for capital assets. The decision was taken to move the housing revenue account towards full depreciation accounting following CIPFA's research on the impact of valuation methodology and componentisation in pilot authorities. This work suggested that where componentisation and asset lives accurately reflected asset management assumptions, sensible charges could be achieved, provided that the asset management plan itself was affordable.

"There were two key concerns. The first was about authorities still using the major repairs allowance as a proxy for depreciation and the second was the impact of revaluations and, more importantly, impairments. While all local authorities should have been applying componentisation to their housing stock for some time, it was recognised that some had not sufficiently developed this approach to be able to make a non-reversible charge to the revenue account. They might benefit from being given some time to develop their componentisation sufficiently.

"The impact of revaluation and impairments was more problematic. Although some stability could be achieved by varying the basis of valuation, concern over impairments led the government to introduce transitional arrangements to mitigate this risk. A major issue was insufficient balances in the revaluation reserve to offset impairment losses against. With this in mind, the government allowed the major repairs allowance to continue to be used for a period of up to five years. However, this applies only to housing assets.

"When these arrangements were first discussed, it was felt that five years would be enough time to allow authorities to build up their revaluation reserves. With hindsight, the recession has been longer and deeper than was projected then and the five year period might now be too short. Given that the major repairs allowance will become increasingly out of date, extending the transition period would not be a long-term solution.

"The Chartered Institute of Public Finance & Accountancy is therefore beginning to look at alternative scenarios for the end of the transitional period and at how full depreciation could still be implemented in an affordable way. To give time for possible solutions to be assessed and consulted on as widely as possible, it is important that this work starts now. The institute wants to encourage as many local authorities as possible to be involved so that the arrangements can be firmed up in time to give councils as long a run-up to implementation as possible.

"To prepare for the end of the transition period, and more importantly, make the most of the opportunities of self-financing, councils need to look closely at both their asset management planning and their valuation and componentisation policies to ensure that these reflect a realistic and affordable plan for the housing revenue account. Ultimately, the success of self-financing will depend on how well authorities use their property and finance skills to manage their assets."

The treatment of depreciation will depend in large part on how the housing market proceeds. The Department for Communities & Local Government and Chartered Institute of Public Finance & Accountancy are working on transitional aspects. The intention is use componentised depreciation after the transitional period expires in 2017 but this intention may be revised.

Reform of Reporting

It is considered that current systems for reporting the housing revenue account have the following weaknesses:

- Notes to the accounts (intended to be a partial balance sheet) do not fully promote efficient management of housing stock and assets
- It is not possible to establish total housing liabilities – including any repairs and investment backlog
- Councils cannot maximise the benefits and investment potential of the value of the housing stock
- Financial accounts are seen as complicated and not understood outside the accounting profession

It is has therefore been proposed that local authorities should publish housing revenue account balance sheets. An example of how one might look is shown below:

	£million
Fixed Assets	2,213
Current Assets	
- Tenants' arrears	9
- Others	23
- Sub-Total	32
Creditors	32
Net Current Assets	0
Total Assets less Current Liabilities	2,245

	£million
Long-Term Loans:	
- Brought Forward	635
- In Year	44
Provisions & Reserves:	
- Bad Debts	18
- HRA balances	2
- Capital Reserve	1,546
Total Financing and Reserves	2,245

Explaining Self-Financing to Tenants

Explaining self-financing to tenants is not easy! The best advice is therefore to keep it simple.

A Focus on the big picture is to be recommended:

- More local control – Councils will keep all their rent money to spend locally.
- No housing subsidy – especially welcome news for authorities that are now in negative subsidy.
- More debt (usually) – generally speaking if an authority gains by losing negative subsidy it will lose by gaining more debt and vice versa.
- Expenditure limited to that contained in model – the model is designed to enable councils to afford the level of spending that the government assumes is needed in doing the tenanted market value calculation. There is no money for anything else and no money for any capital investment other than major repairs at the level assumed by government.
- No more borrowing – Councils will have a 'borrowing cap' and even if they did not, most would probably not be able to afford to do any borrowing anyway.
- Capital resources will be limited to those provided through Homes & Communities Agency – these are only provided to Councils that have yet to achieve the decent homes standard and in those cases the amount provided is only a small proportion of that which is required.

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

- No incentives for ALMOs or stock transfer – unless the government can be persuaded to write off debt in specific instances.

Regular Financial Information that could be provided to tenants includes:

- Revenue and Expenditure – What does the Council spend the rent money on?
- Treatment of Depreciation – What depreciation is charged into the housing revenue account and how is it used to fund major repairs?
- Reconciliation to Management Information – How does the level of expenditure compare with the level of performance?
- Revenue and Capital Expenditure – What is the balance between ongoing revenue expenditure and capital investment?
- Housing Balance Sheet – What are the Council's housing assets and liabilities?
- Long-Term Viability – What are the Council's long-term financial plans? Do they demonstrate long-term financial viability?

The Landlord and Tenant Act 1985 sets out information that tenants (other than secure tenants) can expect to receive from their landlord. Local authorities are not required to provide this information to their secure tenants although long leaseholders are entitled to such information. In the interests of greater transparency and accountability, local authorities are asked to consider how they can comply in so far as practicable with requirements of Act in respect of secure tenants.

Self-Financing and Tenant Management

Self-Financing has the potential to offer greater freedoms to tenant management organisations.

The first Tenant Management Organisation to be given control over its rent income under self-financing is the Leathermarket Joint Management Board in Southwark. This will replace the current arrangement whereby the Tenant Management Organisation, in common with most, receives allowances from the Council.

This means that, in 2013/14, instead of receiving £2.4million in allowances from the Council to cover the cost of the management of the 1,451 homes on the estate, the Board will retain all the £6.6million of rental income on the estate but be responsible for paying the Council £4.2million to cover capital financing, depreciation and central establishment costs. There will therefore be no financial benefit in the initial year but there should be a financial benefit in future years as rents are expected to increase faster than costs. It will also give the Tenant Management Organisation more certainty regarding its income enabling it to produce a robust thirty year business plan.

This also overcomes the practical problem of the calculation of allowances for Tenant Management Organisations when there is no housing subsidy system. In the past Tenant Management Organisations usually received allowances that were based on the management and maintenance allowances in the annual housing subsidy calculation.

Self-Financing and the Ring Fence

In April 2013 the 'Local Government Chronicle' revealed that local authorities had taken advantage of the flexibilities created by localism and self-financing to take 'millions of pounds from their tenants' rent account to fund support services for the government's controversial welfare cuts and prop up their falling budgets'.

When I was a member of the Communities & Local Government / HM Treasury working party on self-financing in 2008 I had foreseen this possibility and had argued for a firmer definition of the housing revenue account ring fence to protect tenants. The former government included this in its proposals for self-financing but it was dropped by the present government when self-financing was introduced.

Examples include:

- Barking & Dagenham Borough Council transferring £0.6million of costs of street lighting.
- Brent Borough Council is creating a new welfare support team to prepare for universal credit and direct payments at a cost of £400,000 that will be charged to the housing revenue account.
- Lewisham Borough Council transferring £750,000 of costs of maintain and replacing bulk waste bins
- Portsmouth City Council transferring £2.1million of costs over three years from the General fund to the housing revenue account including the costs of libraries, youth clubs, a community centre and car parks.

Nick Golding, the Acting Editor of the 'Local Government Chronicle' commented that:

"Councils are increasingly using income from their housing revenue accounts for purposes largely unrelated to housing.

"At a time of rapid population growth, Britain is facing a housing crisis – we need more housing. And, while many improvements have been made, much of our housing stock is not up to standard. Rental income form housing should be spent on house building, maintenance and improvement – investment that will benefit those crying out for decent housing.

"So it is therefore undesirable that councils are spending the housing revenue account in a manner not in keeping with traditional landlord expenses. Street lighting, libraries and community centres are being funded using the housing revenue account – costs that would normally be associated with councils' general funds.

"At a time when the government is providing money for the housing of the wealthy (the mortgage guarantee scheme), it is pursuing policies that are forcing councils to cut back their expenditure on housing for those on low and modest incomes. At a time when the government has been so desperate to help the building industry that it was prepared to allow inappropriate or unsightly house extensions, it has also presided over policies that mean council landlords have less money to support their local builders and maintenance staff."

August 2013

Local Authority Housing Finance 2013 : Training Course

We are running our 2013 series of 'All You Want to Know about Local Authority Housing Finance' at venues in all parts of England from February to November. This seminar is designed to give an introduction and overview to this important subject and is fully up to date with all developments.

Do you think that a working knowledge of local authority housing finance, acquired at our fully up to date seminar, would put you and your colleagues in a position of advantage?

Whether you are in a Local Authority, Arm's Length Management Organisation, Central Government or other organisation; whether you are a Housing Manager, Tenant Representative, Elected Member, ALMO Board member, a member of the Housing Finance Team or are otherwise interested in local authority housing, you could benefit from one of our courses at which you will learn 'All You Want to Know about Local Authority Housing Finance'.

This seminar will cover a range of topics including:

- Housing Revenue Account
- Ring-Fencing
- Rent Restructuring
- Service Charges
- Self-Financing and the redistribution of housing debt
- Depreciation and Major Repairs
- Treasury Management with Self-Financing
- Capital Programmes
- Decent Homes Standard
- Distribution of Capital Grants by the Homes & Communities Agency
- Housing Business Plans
- Comprehensive Spending Reviews
- The Big Society
- Reform of Social Housing
- Affordable Rent Scheme
- New Homes Bonus Scheme
- The Right to Buy initiative
- The National Housing Strategy
- New Build
- Value for Money
- Procurement
- Shared Services
- Strategic Housing responsibilities
- Private Sector Housing
- Homelessness
- Supporting People
- Housing Benefit – including the recent and planned reforms
- Regulation
- Options Appraisals
- Private Finance Initiative
- Arms Length Management
- Stock Transfer
- The Council Community (CoCo) housing model and much more.

The course is accompanied by a very useful 100+ page book entitled: "All You Want To Know About Local Authority Housing Finance 2013"

Many people - officers, elected members, tenants and others with an interest in local authority housing have already benefited from this course.

The cost of this seminar is £250 plus VAT in London and £220 plus VAT at the other venues, making a total of £300.00 in London and £264.00 at the other venues. The fee includes lunch.

Below is a list of the remaining locations we will be holding this training course.

- Midlands: Novotel Hotel, Coventry - 02 October 2013
- London: Novotel Hotel, Waterloo - 12 November 2013

Further details can be found at: http://www.awics.co.uk/local_authority_housing_finance_2013_training_course.asp

---

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk

Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars - http://www.awics.co.uk/regionalSeminars.asp
- In-House Training - http://www.awics.co.uk/inHouseCourses.asp
- Independent Residents' Advice – http://www.awics.co.uk/IndependentTenantAdvice.asp
- Technical Books - http://www.awics.co.uk/TechnicalBooks.asp
- Information Service - http://www.awics.co.uk/informationservice.asp

Room 3, Shire Hall, The Sands, Appleby in Westmorland, Cumbria. CA16 6XN.
Telephone: 017683-52165. Mobile: 07502-142658.
E-Mail: Adrian.waite@awics.co.uk. Website: www.awics.co.uk. Twitter: @AdrianWaite
Managing Director: Adrian Waite MA CPFA CIHM FInstLM
Company Number: 3713554. VAT Registration Number: 721 9669 13