

Consultation on the draft determinations to implement self-financing for council housing

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General

CIPFA welcomes the opportunity to comment on the Government consultation on Consultation on the draft determinations to implement self-financing for council housing.

It is perhaps worth reiterating that CIPFA does of course welcome the Self Financing proposals themselves.

Clearly most of the issues raised in the draft determinations are specific to local authorities and their representative bodies. However, CIPFA does want to raise a couple of general points and some specific points on the determinations in relation to their interaction with the Accounting Code of Practice and the accounting guidance to be issued in 2011/12 and 2012/13.

In terms of our general principles, CIPFA believes in promoting proper accounting practices, good financial administration and local discretion in decision making.

Rent increases

This is an issue we have raised before but CIPFA believes it is important that the Government does fully realise the impact on tenants of the very large increases in rents from the combination of the use of the September RPI for inflation and the policy of moving towards restructured rents. This is especially the case of course for those tenants not on benefit.

Rent caps

Concerns have been raised with CIPFA that the proposed settlement overstates the rental income that an authority could raise by following the rent restructuring formula. Caps on formula rents by bedroom size are a feature of rent restructuring yet the self-financing settlement does not appear to take into account these caps on an authority's ability to raise rents. This in turn can lead to an overstatement of the level of debt that an authority can afford under the self-financing formula – an effect which is likely to impact disproportionately on those authorities with high rental values.

Comments on the Housing Revenue Account Self Financing Determinations

Please find below our detailed comments on the determinations. We would be happy to meet with you to discuss these further if that would be helpful.

Page 3 - Interpretation	We note that there is only one interpretation for the suite of Determinations – will the final determinations also be issued as a suite of determinations? If not then the interpretation would need to be repeated.
Page 7 - Paragraph 3.4.2 of the Settlement Payments Determination 2012.	We are not clear from the description of payments to local authorities in the Settlement Payments Determination 2012 whether the DCLG is acting as agent for the authority in this transaction or whether the DCLG is principal in the transaction. In order to provide local authorities with appropriate accounting guidance on the settlement transaction CIPFA needs to understand the nature of the transaction. We would be happy to discuss this issue with you.
Page 43 - reference to Paragraph 5.3	Should this be 5.3.2 item Q?
Various references in the Item 8 Credit and Item 8 Debit (General) Determination from 1 April 2012 - Proper accounting	We note that both proper accounting practices and proper practices are used in the Determination. Section 21 of the Local Government Act 2003 refers to this as “proper practices, in relation to accounts of a local authority”.

practices/ proper practices	We recommend therefore that in order to provide clarity on the proper practices in question that the Determination should refer to proper practices defined in accordance with Section 21 of the Local Government Act 2003.
Interest on HRA Capital Financing Requirement (page 49)	This item appears within the Item 8 credit. When CIPFA queried this previously we were informed that it was included to incorporate those authorities who may have a negative HRA CFR post settlement. We would welcome a further discussion in relation to this as we are still struggling to identify a scenario where the "interest on HRA CFR" would be calculated. It may be that this would be better worded along the same lines as the Item 8 debit "interest on loans" given that it is the loans (or perhaps in this case investments) on which interest would be calculated rather than the CFR itself?
Interest on notional cash balance (Debit and Credit) (pages 49 and 51)	<p>This item refers to "proper accounting practice". The CIPFA Treasury Management Code Local Authority Guidance Notes do refer to the allocation of costs and require authorities to "choose and evidence a fair rate of interest to charge". This may lead to authorities using different methodologies for the calculation of a rate which are specific to their circumstances, rather than the previously prescribed CRI calculation.</p> <p>We are planning to include reference to this and the seven general principles of cost allocation in the Service Reporting Code of Practice in an anticipated HRA LAAP Bulletin.</p>
PFI Subsidy Payments – (page 50)	Local authorities do not directly follow IFRIC 12 – we would anticipate that the proper practices referred to in relation to PFI would be those covered by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) (which follows the Government's Financial Reporting Manual (the FReM) in extending the definition of infrastructure in IFRC 12 to cover administrative buildings). We consider that for clarity for practitioners the Determination could refer to the definition of service concession arrangements in the Code (for the purpose of the Determination, proper practices).
Transfer from the Major Repairs Reserve (page 50)	<p>We consider that in order to provide clarity the Determination should clearly set out the detail of the individual transactions relating to transfer from the Major Repairs Reserve (and the interaction with the transactions required by the Accounts and Audit (England) Regulations 2011). We would be happy to discuss these detailed transactions with you.</p> <p>We also consider that for the avoidance of doubt it would be useful to set out what the transitional basis and the transitional period mean in relation to the Determination. We also consider that it might be useful to clearly define/specify the MRA figure to which the Determination refers</p> <p>We note that local authorities were required by the</p>

	<p>Code to apply component accounting on all property, plant and equipment from 1 April 2011. We consider therefore that references in the transfer description "... to allow local authorities time to develop a component-based approach to depreciation" might be deemed to be superfluous.</p>
<p>Impairments Adjustment (Debit and Credit) (pages 51 and 52)</p>	<p>We understand that the adjustment for depreciation provided in the Determination will relate only to housing dwellings. We consider therefore that the rationale for this has to be applied consistently to depreciation and impairment and that this should be clarified in the Determination. We note currently that the credit for the impairment adjustment does not refer to specific types of assets (and for example, could relate to financial instruments). We consider that the adjustment should therefore for clarity and consistency refer to housing dwellings. This adjustment also does not appear to include revaluation losses that would arise due to decreases in valuation which do not result in the consumption of economic benefit or service potential.</p> <p>Also we note that the Code does not define an HRA Revaluation Reserve. Perhaps, following the requirements of the Code it might be easier to adjust "impairments and revaluation decreases chargeable to the Housing Revenue Account Income and Expenditure Statement in accordance with proper practice".</p> <p>Again we would be happy to discuss the accounting implications of this transaction.</p>
<p>Premiums / discounts for early repayment of debt (pages 50 and 51)</p>	<p>We have queries in relation to the treatment of premiums and discounts that are carried forward into the system of self-financing. We note that the "Commentary on the Self-Financing Model" indicates that the total remaining value of premiums outstanding as at the 1 Feb 2011 (less any discounts) is included "as a one off cost in 2012/13". We consider that the Determination should clarify the accounting treatment for balances for premiums and discounts outstanding at 1 April 2011. Again we would be happy to discuss in detail the accounting implications of these transactions.</p>
<p>Item 8 Debit</p>	<p>There is no longer an element in the formula for any charge calculated in accordance with proper practices in respect of Revenue Expenditure Funded From Capital Under Statute attributable to the HRA. Whilst we recognise that there are not likely to be significant amounts of REFCUS in local authorities it may be possible that such expenditure is required by local housing authorities.</p>