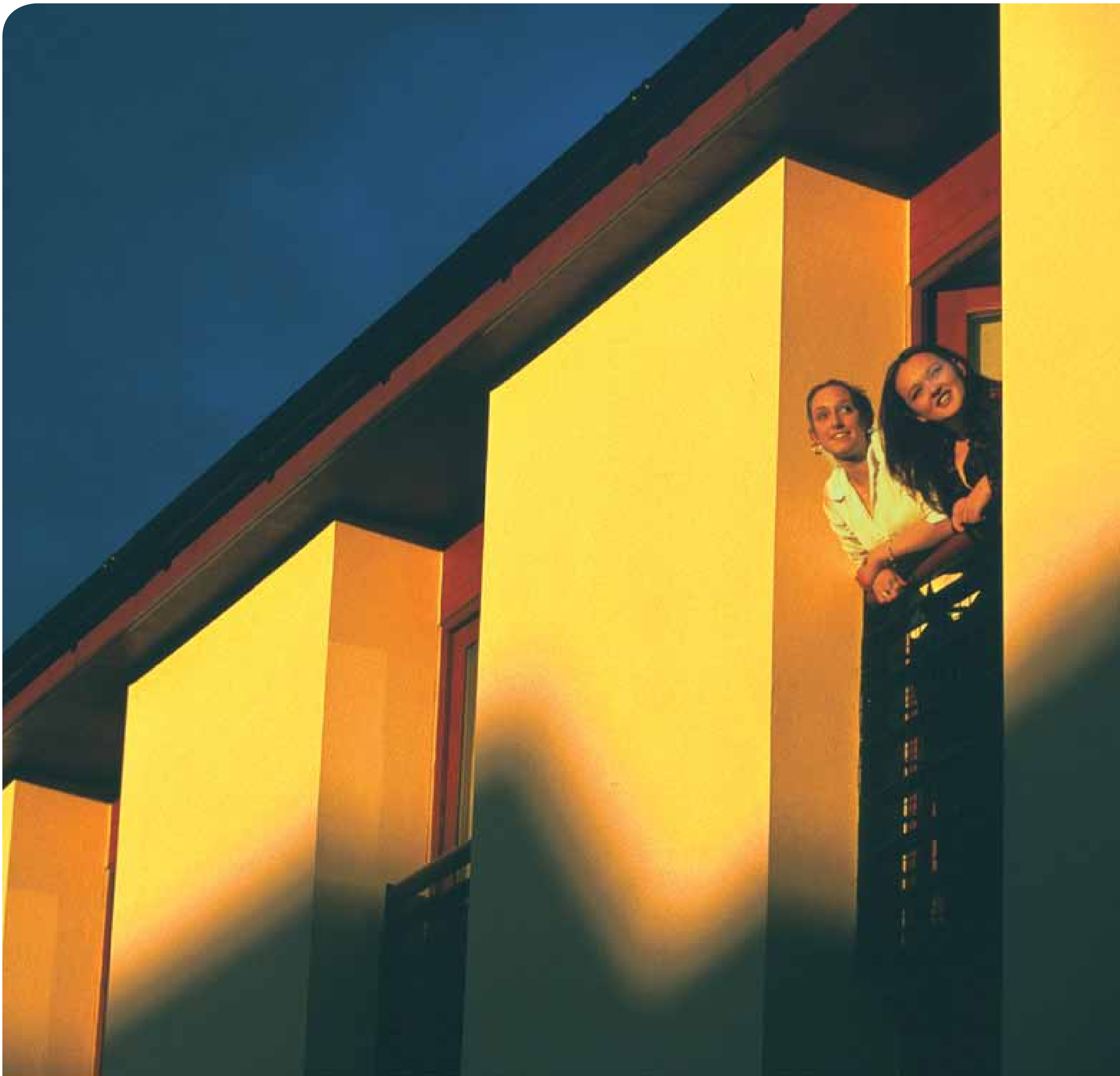
environment, housing, planning and waste

Good Practice Principles to support the Self-Financed Housing Revenue Account



Foreword

Last year's changes to the Housing Revenue Account mean that councils now have full control of their stock and have a business framework that supports long term investment.

Councils and ALMOs have responded positively and prudently to this new opportunity and the ambition and capacity to do even more is clear to see. This document is an opportunity to highlight and to reflect on this success and learn from the good practice that is emerging up and down the country.

Self financing presents a significant opportunity to manage your housing assets locally for the on-going benefit of local people. Councils and ALMOs up and down the country are working with tenants to make the most of this opportunity, thinking about how best to use their assets and to invest in existing and new stock to meet local needs and aspirations and think about the long term future of their housing stock.

The approach will rightly vary and will depend on local judgements and issues such as the condition of existing stock, the pressing need for new build and political decisions taken over managing the debt.

Whichever approach is chosen, it will need to be underpinned by a clear policy framework supported by a long term business plan which continually assesses your asset values and revenues from rent to ensure that your policy remains sustainable and achievable.

This document aims to help elected members and senior decision makers in achieving that.

Councils and ALMOs have told us that they want to plan positively for the future and demonstrate their ability to do so prudently and transparently to tenants.

This document sets out some basic, but important, principles. It aims to set out some core questions to consider in managing your stock and accounting to your tenants for the investment and management decisions you are making over the long term.

The foreword will be signed by:

Ken Lee, Chair, CIPFA Housing Panel

Grainia Long, Chief Executive, CIH

Cllr Mike Jones, Chair, LGA Environment and Housing Board

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Introduction

Housing Revenue Account (HRA) self-financing commenced in April 2012. For the first time in generations, local housing authorities are able to fully retain the money they receive in rent in order to plan and provide services to their current and future tenants.

This represents a monumental shift in outlook from the previous financial system, replacing an annual short term focus to a longer term planning horizon with the freedom to develop and deliver a more positive, less constrained, vision for council housing.

With freedom and flexibility comes responsibility. Councils have shown that they are making the most of this opportunity and do so in a prudent, viable and measured way.

There are already a number of checks and balances in the system, including formal regulation of consumer standards in housing by the Homes and Communities Agency and the financial and accounting framework operating for local government.

These principles are not intended to duplicate or cut across these checks and balances but are designed to identify good practice to support your council in its aim of ensuring effective and sensible management of the housing business.

Viable and sustainable council housing relies upon effective governance, financial and business planning. Decisions about appropriate arrangements for effective management of long-term housing business plans need to be decided and democratically accountable at the local level.

A year in to the new arrangements councils have done a lot. Emerging from that are helpful lessons which shape some guiding principles to assist in establishing those arrangements, and to help demonstrate that councils are managing self-financing in a responsible and appropriate way.

Purpose

Councils have responded positively to the move to self-financing by putting in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their self-financed HRA.

To support this work the Local Government Association (LGA), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Housing (CIH) have produced this series of good practice principles alongside questions to support Elected Members and their officers identify areas of risk or where further support might be useful. We have developed these principles based on discussions with local authorities and ALMOs to assist the local authority in its management of the HRA in the following ways:

- To support elected members in ensuring that effective governance, finance and business planning processes are in place and are operating effectively.
- To help provide transparency to tenants, members and officers on how the housing business is being managed. The principles can be used by tenants and members as a framework against which to hold the authority to account.
- To allow housing authorities to evaluate where they may need further support and assistance.

This document covers six principles. Along with these high level principles, we outline a series of key questions which together describe areas which Councillors may wish to use in discussions with Senior Finance and Housing officers. In some cases, these principles act as a reminder of principles already covered through other regulatory or professional guidance. In these cases, you may want to familiarise yourself with the guidance, which is identified, as well as any specific provisions relating to a self-financed HRA.

The document is designed to support you by sharing good practice and lessons learned from the first year of self financing.

The principles

1. **Co-regulation**. Councillors who govern providers' service delivery are responsible for meeting the regulatory standards and being transparent and accountable for their organisation's delivery of its social housing objectives. The housing authority complies with the principles of co-regulation as set out in 'The Regulatory Framework for Social Housing in England from April 2012[1]'.

2. **Financial Viability**. The housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability.

3. **Communications and governance**. The housing authority keeps under review the communications and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability and accountability of the housing business.

4. **Risk Management**. The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.

5. **Asset Management**. The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.

6. **Financial and Treasury Management**. The housing authority complies with proper accounting practices including CIPFA's Code of Practice on Local Authority Accounting[2] and CIPFA's Treasury Management in the Public Services Code of Practice[3].

1 The Regulatory Framework for Social Housing in England from April 2012 published by the Homes and Communities Agency March 2012

2 'The code of practice on local authority accounting' published by CIPFA

3 'Treasury management in the public services code of practice and cross-sectoral guidance notes' published by CIPFA

Principle: co-regulation

Co –regulation means that Councillors who govern providers' service delivery are responsible for meeting the regulatory standards and being transparent and accountable for their organisation's delivery of its social housing objectives.

The housing authority complies with the principles of co-regulation as set out in 'The Regulatory Framework for Social Housing in England from April 2012[4]'.

Questions you may wish to ask:

What (if any) action needs to be undertaken to comply with the HCA regulatory framework?

For example, presenting financial and other performance information in a format that is inclusive to all. Further details on the HCA's regulatory framework can be found at www.homesandcommunities.co.uk/

4 The Regulatory Framework for Social Housing in England from April 2012 published by the Homes and Communities Agency March 2012

Principle: financial viability

The housing authority has arrangements in place to monitor the viability of the housing business and takes appropriate actions to maintain viability.

Questions you may wish to ask:

1. Has your authority put in place a business planning process underpinned by appropriate financial modelling that allows the cash flows of the business to be forecast?

   This might incorporate a set of assumptions that include:

   - Rent levels. The government has recently established a rental settlement until 2025[5]. You may wish to ask officers to revisit the assumptions made in your current business plan.
   - General income and expenditure levels.
   - Interest rates on investment and borrowing, and associated costs.
   - Levels of void properties and bad debts.

2. Do you always test the viability of proposed major capital expenditure projects against the resources generated in the business plan?

   This will help you to ensure that the impact of any additional activity (for example the development of new housing) has been fully considered and any additional liabilities or risks mitigated.

3. Do you regularly review the allocation of resources to ensure the long term maintenance of the stock and other assets?

   For example, transferring resources from revenue to reserves to ensure that the peaks and troughs of life cycle investment needs are able to be met.

4. How do you ensure that the assumptions that underpin your business plan are kept under regular review and tested against actual financial performance?

   Alterations to underlying assumptions will have an impact on the delivery of the overall plan and it will be helpful to ensure that they reflect current conditions and pressures.

5. How do you maintain accurate data about the cost of your services?

   It is also important to consider how you use this data to ensure that your resources are allocated appropriately to support high quality management services over the longer term.

5 The government announced in the 2013 Spending Round that Social Rent would be set at CPI + 1% until 2025. This is a change to the previous settlement of RPI + 0.5%

Principle: communications and governance

The housing authority keeps under review the communication and governance arrangements with regards to the new operating environment and adopts governance arrangements appropriate to supporting viability of the housing business.

Questions you may wish to ask:

1. How does your authority share information and ensure that it is expressed in clear and accessible language?

   What feedback have you had from Tenants and others about the accessibility of this information?

2. How do you work with Tenants and other relevant parts of the local authority to ensure they are able to input into the delivery and management of the business plan?

3. What systems do you have in place to review, on a regular basis, the quality, accuracy and utility of all information which impacts on the management of your housing business?

4. How will you use the principles in this document to help you to manage the HRA business plan successfully, share information and account for decisions with tenants?

5. Do the governance arrangements that you have established enable proper and full scrutiny and decision making by elected members over the decisions in your HRA business plan?

This may include:

Setting up or using existing engagement channels (for example tenants panels or area committees) to discuss the investment into affordable housing over the long term.

Areas to consider might include how you work with Tenants and others to continually assess that resources are appropriately allocated between investment, maintenance and management and that the key priorities established by elected members are achieved. How effective are these channels and how does the feedback inform the decisions that are taken?

Linking the HRA business plan to the wider housing strategy and considering how the two support each other and have consistent aims and objectives.

Principle: risk management

The housing authority has in place an effective system for the on-going management, monitoring and reporting of risks to the HRA.

Questions you may wish to ask:

1. Have you set up a process to carry out appropriate analysis across the business plan to identify potential risks to the successful implementation of the plan?

   You may wish to consider evaluating risks arising from: changes in government policy; treasury management risks; inflation; income recovery rates; void levels; changes to rent policy; changes in the composition of the stock; investment return; right to buy; debt levels and grants.

2. Where you do identify higher risks, what mechanisms do you have in place to tackle these quickly and mitigate their effects? Helpful mechanisms to do this might include:

   - A suitable level of balance of reserves maintained by the HRA as a contingency against risks on inflation and income, bad debt increases as well as investment risk.
   - Performance management frameworks effectively enforced to manage the risks of poor performance in voids, income collection and investment scheme delivery.
   - An active treasury management strategy and procedures to manage treasury management risks in accordance with the CIPFA treasury management code.

Your risk management may include the following processes:

- Identification of risk
- Quantification of risk
- Management of risk
- Reassessment of risk
- Communication of risk to appropriate decision-makers.

Principle: asset management

The housing authority has in place arrangements to maintain its assets to maximise their value into the future. The authority complies with the principles of good asset management as they apply to HRA assets.

Questions you may wish to ask:

1. How are your assets managed?

   For example, do you have a long term strategic vision for the authority that is underpinned by a thorough and up to date understanding of current and future needs? How often is this revised or considered?

2. Is the consideration of the way the council manages its land and housing assets integrated with discussions about the HRA business plan and overall approach to the management and investment in housing in your area?

3. How do you involve tenants, members and other stakeholders to set standards for the management of your assets?

4. Do you have a process to ensure that you have an up to date understanding of the information relating to the condition, maintenance and investment needs of your housing stock and any other relevant assets?

   For example, what impact might this have on the assumptions in your business plan for investment in new or existing stock and over what time period?

This may include:

- Consideration of the use and long term investment in housing assets as part of a wider review and strategy regarding the councils' assets overall.
- A long term plan towards investing and renewing the asset base. This might include: consideration of what proportion of the stock will be refurbished and to what standard, those homes that will be redeveloped when major refurbishments become due, those homes that have a backlog and which it is not worth investing in (with consideration of the appropriate disposals route) and those that are sheltered housing which require remodelling to extra care schemes.
- Using the stock condition survey to provide regular updates on the long term renewal needs and updating the asset management strategy accordingly.

Principle: financial and treasury management

The HRA is a ring fenced fund and funding can only be used for housing purposes.

The housing authority complies with proper accounting practices including CIPFA's Code of Practice on Local Authority Accounting and CIPFA's Treasury Management in the Public Services Code of Practice.

Questions you may wish to ask:

1. Is your authority moving to a full depreciation accounting charge system?

   CIPFA guidance 'Calculation of the depreciation charge to be applied to the Housing Revenue Account' may support you in moving to this position.

2. Are only the appropriate costs relating to affordable housing being charged to the HRA and is there a rational case for overheads?

Glossary of terms

Co-Regulation is the principle that underpins the Homes and Communities Agencies regulatory approach. Councillors who govern providers' service delivery are responsible for meeting the regulatory standards and being transparent and accountable for their organisation's delivery of its social housing objectives.

Housing Revenue Account (HRA) means the Housing Revenue Account of the local housing authority as defined by the Local Government and Housing Act 1989 (as amended)

Housing Authority has the same meaning as in the Housing Act 1985

Housing business means the housing activity that is accounted for in the Housing Revenue Account

Proper accounting practices in relation to the accounts of a local authority are defined in accordance with section 21 of the Local Government Act 2003

Self-financing a system for financing council housing introduced in April 2012 that replaced the Housing Revenue Account subsidy system

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