Voluntary code for a

self-financed housing revenue account
CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world’s only professional accountancy body to specialise in public services, CIPFA’s qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

CIPFA values all feedback it receives on any aspects of its publications and publishing programme. Please send your comments to publications@cipfa.org

The Chartered Institute of Housing (CIH) is the independent voice for housing and the home of professional standards. Our goal is simple – to provide housing professionals with the advice, support and knowledge they need to be brilliant. CIH is a registered charity and not-for-profit organisation. This means that the money we make is put back into the organisation and funds the activities we carry out to support the housing industry. We have a diverse and growing membership of more than 22,000 people who work in both the public and private sectors, in 20 countries on five continents across the world. Find out more at www.cih.org

Contact us
T: 024 7685 1700
E: customer.services@cih.org

Published by:
CIPFA \ The Chartered Institute of Public Finance and Accountancy
3 Robert Street, London WC2N 6RL
020 7543 5600 \ publications@cipfa.org \ www.cipfa.org
Copyright October 2013 CIPFA / Chartered Institute of Housing
No responsibility for loss occasioned to any person acting or refraining from action as a result of any material in this publication can be accepted by the authors or publisher.

While every care has been taken in the preparation of this publication, it may contain errors for which the publisher and authors cannot be held responsible.

Apart from any fair dealing for the purposes of research or private study, or criticism or review, as permitted under the Copyright, Designs and Patents Act, 1988, this publication may be reproduced, stored or transmitted, in any form or by any means, only with the prior permission in writing of the publishers, or in the case of reprographic reproduction in accordance with the terms of licences issued by the Copyright Licensing Agency Ltd. Enquiries concerning reproduction outside those terms should be sent to the publishers at the above mentioned address.
The introduction of Housing Revenue Account (HRA) self-financing has given local authorities the freedom to develop and deliver a more positive, less constrained, vision for council housing. The Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Housing believe that it is vital that local authorities have effective governance and financial management frameworks in place in order for self-financing to be a success.

In order to support local authorities in assessing and developing these frameworks the two institutes have worked together to produce a voluntary code of practice for the sector. The principles and provisions of this voluntary code will:

- assist housing authorities in ensuring effective governance, finance and business planning
- provide transparency to tenants, members and officers on how the housing business is being managed. The code will give tenants and members a framework against which to hold the authority to account
- allow housing authorities to assess where they may need further support and assistance.

In some cases, these principles are already covered through other regulatory or professional guidance. These are highlighted along with any specific provisions relating to a self-financed HRA.

These principles are designed to be self-regulatory and we believe that they represent a key tool in assisting local authorities to account for the management of the HRA to tenants and residents and those charged with governance.

Ken Lee
Chair, CIPFA Housing Panel

Grania Long
Chief Executive, Chartered Institute of Housing
Acknowledgements

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Housing (CIH) are grateful to the authors, Louise Dunne and Ben Taylor, and to the members of the project team who undertook the background research:

Julie Crook  
St Leger Homes of Doncaster

Louise Dunne  
CIPFA

Steve Partridge  
Chartered Institute of Housing

Peter Pennekett  
Portsmouth City Council

Ben Taylor  
Chartered Institute of Housing
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 with 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 are keen to make 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. This document is designed to support councils in their aim to ensure effective and sensible management of the housing business and to be consistent with existing frameworks.

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. However, there is an appetite within the sector for some guiding principles to assist in establishing those arrangements, and to demonstrate that councils are managing self-financing in a responsible and appropriate way.
Councils have responded 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 CIPFA and the CIH have produced this voluntary code of practice and accompanying provisions to assist the local authority in its management of the HRA in the following ways:

- To assist councils in ensuring effective governance, finance and business planning.
- To provide transparency to tenants, members and officers on how housing business is being managed. The principles will give tenants and members a framework against which to hold the authority to account.
- To allow housing authorities to assess where they may need further support and assistance.

**HOW THE CODE WORKS**

This is a voluntary code of practice covering six principles. Along with these high level principles, the code comprises a series of supporting provisions which together describe what the sector considers as essential elements for the continued sustainability of a self-financed HRA. In some cases, these principles are already covered through other regulatory or professional guidance. In these cases, this is stated along with any specific provisions relating to a self-financed HRA.

The code is designed to be self-regulatory and compliance is not formally required. As such there are no formal entry level requirements and no formal sanctions for non-compliance. It will be for a housing authority to determine how it wishes to assess its compliance with the code on an on-going basis and this reflects our belief that this code is a tool to assist the authority to account for the management of the HRA to its stakeholders. One option available to housing authorities is to undertake reviews of compliance with the code and report these reviews to the appropriate scrutiny groups and include them within the authority’s Annual Governance Statement. Where an authority does not feel it is complying with the code, it is a prompt to review its approach and question whether different things need to happen.

**STATUS**

The voluntary code has the support of a wide range of organisations, including those who work alongside tenants and residents – this set of principles and provisions is intended to support these groups and individuals to better challenge and scrutinise the performance of the HRA under self-financing.

Finally, it is not intended that any of the Principles or Provisions as set out in this code will override or countermand Statute.
The Principles

1. **Co-regulation.** 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*.

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 in the United Kingdom* and CIPFA’s *Treasury Management in the Public Services Code of Practice*.

**PRINCIPLE: CO-REGULATION**

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*.

**Existing provisions:**

There are six provisions outlined in the Regulatory Framework:

- Councillors and boards who govern providers are responsible and accountable for delivering their organisation’s social housing objectives.
- Providers must meet the regulatory standards.
- Transparency and accountability is essential to co-regulation.
- Tenants should have opportunities to shape service delivery and to hold the responsible boards and councillors to account.

---

2. *The Code of Practice on Local Authority Accounting in the United Kingdom*, CIPFA, annual
Providers should demonstrate that they understand the particular needs of their tenants.

Value for money goes to the heart of how providers ensure current and future delivery of their objectives.

Voluntary code provisions

Financial and other performance information is presented in a format that is inclusive to all.

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.

Voluntary code provisions

Provision 1:
The housing authority has put in place a business planning process underpinned by appropriate financial modelling that allows the cash flows of the business to be forecast. The process incorporates an appropriate set of assumptions relating to forecast:

- rent levels
- general income and expenditure levels
- interest rates on investment and borrowing, and associated costs
- levels of void properties and bad debts.

Provision 2:
The housing authority tests the viability of proposed major capital expenditure projects against the resources generated in the business plan. This ensures that additional activity (for example the development of new housing) is fully integrated into the business planning process and does not introduce liabilities that are unable to be fully funded within an appropriate timescale.

Provision 3:
The housing authority ensures that sufficient resources are allocated for the long-term maintenance of the stock and other assets, adopting an appropriate mechanism to transfer resources from revenue to a reserve ensuring that the peaks and troughs of lifecycle investment needs are able to be met.

Provision 4:
Assumptions are kept under regular review and tested against actual financial performance. Alterations to underlying assumptions are made in direct relation to the impact on the overall plan.

Provision 5:
The housing authority maintains accurate data about the cost of its services, and regularly reviews these in relation to its procurement and commissioning strategies. The business plan allocates resources to ensure the continued viability of high quality management services.
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.

Voluntary code provisions

Provision 1:
The housing authority undertakes to achieve openness in communication and sharing of information, and expresses all internal and governance communications in clear language.

Provision 2:
The housing authority engages in appropriate levels of consultation with tenants, members, officers and other stakeholders in a way that ensures it delivers efficient management and control of its business plan.

Provision 3:
The housing authority reviews on a regular basis the quality, accuracy and utility of all information pertaining to the management of its housing business including financial and performance based sources.

Provision 4:
The housing authority has an appropriate mechanism to assess its on-going compliance with the key principles and accounts to residents on this compliance. One option could be to undertake to publish a commentary on its compliance as part of its Annual Governance Statement or through other appropriate channels.

Provision 5:
The housing authority has adopted suitable governance arrangements consistent with the effective operation of a housing business, paying attention to the long-term nature of the business: incorporating for example the need to plan maintenance and investment over the long term and the need to manage large levels of long-term housing debt.

Provision 6:
The housing authority ensures that resources are appropriately allocated between investment, maintenance and management priorities in line with business plan objectives and that the balance of priorities is agreed with tenants, members and other stakeholders as appropriate.

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. A different set of risks have been transferred to the housing authority from central government within the self-financing system.
Voluntary code provisions

Provision 1:
The housing authority carries out appropriate sensitivity analysis across the business plan to identify potential high, medium and low level risks to the financial viability of the HRA. In particular, attention is given to 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.

Provision 2:
The housing authority has a risk management system in place which, as a minimum, includes the following processes:
- identification of risk
- quantification of risk
- management of risk
- reassessment of risk
- communication of risk to appropriate decision-makers.

Provision 3:
The housing authority identifies appropriate mitigating actions where higher level risks to the overall sustainability of the business plan are identified, to ensure the long term viability of the HRA. These may include:
- an active treasury management strategy and procedures to manage treasury management risks in accordance with CIPFA's Treasury Management in the Public Services Code of Practice
- 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.

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.

Voluntary code provisions

Provision 1:
The housing authority takes a strategic approach to asset management ensuring that the long-term strategic vision for the authority is underpinned by a thorough understanding of current and future needs.
Provision 2:
The housing authority’s strategic asset management and business planning processes are fully integrated. The business plan supports the maintenance and development of the asset base which in turn provides value to the business plan.

Provision 3:
The housing authority has agreed asset management standards with tenants, members and other stakeholders having regard to the financial resources generated within the business plan.

Provision 4:
The housing authority maintains accurate information relating to the condition, maintenance and investment needs of its housing stock and other HRA assets.

Provision 5:
Asset management information forms the basis for the asset investment programme of the housing authority driven by the business plan and set out over an appropriate medium-term financial period.

**PRINCIPLE: FINANCIAL AND TREASURY MANAGEMENT**

Existing provisions:
The housing authority complies with proper accounting practices including CIPFA’s *Code of Practice on Local Authority Accounting in the United Kingdom* and CIPFA’s *Treasury Management in the Public Services Code of Practice*.

Voluntary code provisions
There are two specific provisions in relation to the operation of a self-financed HRA relating to accounting for interest charges and depreciation.

Provision 1:
Housing is a long-term investment and HRA borrowing policy needs long term stability to ensure long-term planning is undertaken on a reasonable and consistent basis. The housing authority has set out a policy stating how a reasonable charge for borrowing costs of the HRA will be calculated, set for the long-term such that it enables long-term planning of HRA resources and borrowing.

Provision 2:
The depreciation charge to the HRA is calculated on a componentised basis in line with proper accounting practices. The housing authority is moving to a full depreciation accounting charge in line with the transitional arrangements set out by the Department for Communities and Local Government.

---

4 For more information see *Housing Finance under Self-financing*, CIPFA, 2013.
Glossary

**Co-regulation**: the principle that underpins the Homes and Communities Agency’s 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 authority**: the same meaning as in the Housing Act 1985.

**Housing business**: the housing activity that is accounted for in the Housing Revenue Account.

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

**Proper accounting practices**: in relation to the accounts of a local authority these 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.