Appendix C

RE: CIPFA CONSULTATION ON PROPOSED CAPITAL FINANCE ARRANGEMENTS UNDER THE NEW HOUSING FINANCE SYSTEM

Dear Julian,

We welcome the opportunity to respond to the CIPFA Consultation document.

Management of debt:

West Lancashire Borough Council's main area of concern is the unusual position it finds itself in with regards to its Capital Financing Requirement. The Council, which is a debt free authority, has an overall CFR of some £5m. However, this consists of two elements, the HRA CFR, which is negative and is -£12.5m whilst the GRA CFR is positive and some £17.5m. Hence, upon commencement of the new housing finance system this could mean that the GRA may have extra charges from the MRP liability that would ensue of around £350,000. This is 2% of the GRA CFR, which is in line with our MRP Policy, as agreed by Council. The sum would be a heavy burden for this Council to accommodate; especially in light of the well-documented position Councils are facing over the coming months and years. We would propose that some mitigating calculation, akin to the adjustment 'A' principle, be introduced in order to negate any affect on the general fund moving forward. Alternatively, central government could allocate extra resources to Councils to neutralise this affect.

Under the self-financing proposals the Council would be allocated a debt in the region of £90m. Under current regulations this would mean that the interest costs on the GRA would be £3.6m if the debt was financed at 4%. However, we would only be able to allocate £3.1m to the HRA as a result of it being in a negative CFR position (£90m – £12.5m * 4%) the remainder would stay within the GRA, this totalling 0.5m. It is our understanding that the two-pooled approach, as proposed in the documentation, would mitigate this affect. This would occur by the housing debt being fully financed and ring fenced within the HRA account, however confirmation and clarification upon this point would be welcomed as it is another significant issue for this Council.

General comments on the differing pool approaches are that it would appear better to have a two-pooled approach. This would facilitate more transparent business planning in the HRA over the coming several years.

In summary the Council broadly welcomes the self-financing initiative however it wishes to ensure that there is no detrimental affect on the GRA nor HRA upon the introduction of the new system.

Depreciation:

The Council dwellings value contained within the statement of accounts is some £192.4m. The depreciation charge associated with these assets is typically £2.3m p.a. Also, in the past impairment charges have been as high as £31.1m, this being due to a market price reduction during the 2008/09 financial year. Hence, it is considered important that new regulations take account of such issues in a similar manner as to the current arrangements i.e. no affect on the bottom line and hence rental levels. We would welcome some clearer guidance within this area.

Componentisation in the HRA area is currently being undertaken and will ensure improved asset management planning. Whilst this is quite a big task, currently it is not proving unwieldy and future processes will be adapted to streamline the information flows and to achieve operational benefits.

Mike Kostrzewski
Deputy Borough Treasurer