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Draft response to consultation questions

What are your views on the proposed methodology for assessing income and spending needs under self-financing and for valuing each council's business?

We welcome the prospectus outcome of the national uplifts to the existing subsidy allowances. This recognises that the current system continues to be underfunded. Though our M&M increase of 3.4% is slightly above the North West region's average, it is disappointing that it is still considerably lower than the national average of 5.4%. We welcome the uplift of 32.9% of the Major Repairs allowance within the proposed settlement.

We understand the need for a system that can be modelled at a national level and subsequently broken down to local factor and accept that the use of net present valuation computations are probably the most appropriate way of assessing future income and expenditure streams.

However, we have concern that the settlement is based on the current rent policy of rent restructuring and that there is great potential for this to change over the thirty year period of assessment.

We do welcome the inclusion of the 7% NPV rate to enable the ability to build new homes.

What are your views on the proposals for the financial, regulatory and accounting framework for self-financing?

There is a need for greater transparency as to the charges levied to the HRA from the General Fund and to the presentation of the accounts to enable more realistic comparisons with similar housing providers. We welcome the proposal for an HRA balance sheet to enable this form of analysis and will assist with any consultation that the TSA or CIPFA issues.

We have considered the proposals concerning the unpooling of housing debt and favour the option of full separation of loans given that there is currently a low level of debt accounted for in the HRA CFR and the high level of debt likely to be allocated as proposed. This will aid the completion of the HRA balance sheet and treasury management for the separate funding stream. We are happy to assist with any consultation from CIPFA and the audit commission.

We do hold concerns with the uncertainty that surrounds the levels of depreciation that could be charged to the HRA, given that it could force the HRA into negative balances in the early years if there were to be significant increases to the current levels of depreciation, based on the MRA.

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The capping of debt levels is understandable given the current financial climate; however, we feel that this is against the ethos of prudential borrowing given the higher levels of certainty self-financing offers.

How much new supply could this settlement enable you to deliver, if combined with social housing grant?

Lancaster City Council welcomes the use of a 7% discount factor rather than 6.5% in order to reduce the debt allocation. The Council is currently proposing to identify land which can be used for the purpose of new supply. However we hold concerns over the future levels of social housing grant that will be available, given the current withdrawal of central government funding and the de-pooling of right to buy receipts.

Initial modelling suggests that the notional saving on interest charges could deliver 3 new build properties per annum. This is dependent on grant levels around the 50% margin.

Alternatively, 45 properties could be delivered upfront within the first 5 years, funded by the notional interest saving, with 30% grant support, breaking even over 30 years when taking into account future rental streams and maintenance expenditure.

Do you favour a self-financing system for council housing or the continuation of a nationally redistributive system?

Lancaster City Council believes that the national redistributive system has become unworkable and no longer meets the needs of councils, ALMOs and their tenants. We therefore strongly support the proposal to dismantle the HRA subsidy system as a matter of principle and favour the alternative proposed.

Would you wish to proceed to early voluntary implementation of self-financing on the basis of the methodology and principles proposed in this document? Would you be ready to adopt self-financing in 2011/12? If not, how much time do you think is required for implementation?

We have already stated that we favour self-financing as an alternative to remaining within the subsidy system. However, whilst we feel that we could be ready we feel that there are some administration issues that will need clarifying.

Firstly there needs to be a formal agreement drawn up to effectively sign up to the process, which will require individual legal opinion for all parties. This in itself could take a good period of time and could only really be considered after the comprehensive spending review, to which this prospectus is wholly reliant upon.

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Secondly we hold concerns over the ability of the Public Works Loan Board to be able to deal with potentially in excess of 170 authorities either taking on or reducing debt and the varying terms that will be sort.

We also feel that it is preferable for the accounting amendments to be made before implementation to add certainty to the budget forecasts and de-pooling of the loan portfolio.

Given the above concerns we feel that an April 2012 implementation would provide far more time and certainty both locally and nationally. If this were the case we feel that there should be some restrictions on any increase of the increase in the negative subsidy that we will pay in financial year 2011/12.

If you favour self-financing but do not wish to proceed on the basis of the proposals in this document, what are the reasons?

From our understanding it appears virtually all authorities HRA's will be better off in revenue terms as a result of the proposal and therefore can only favour self-financing.

However we feel that we could not proceed unless certain areas of concern are addressed.

Firstly the prospectus allows for the debt allocation to be reopened. We feel that there needs to be absolute clarity as to the events that could lead to the debt settlement to be reopened. Our view is that we will be working to a business plan, which in consultation with our tenants, delivers the services and maintenance to their homes over the next 30 years and see this as a threat.

Secondly we feel that the debt cap is too restrictive and should be based more on the ability to repay debt.

This settlement does not appear to take any account of where there is a clear need for additional affordable housing. In Lancaster the demand for affordable housing far outstrips supply. The re-allocation of resources ought to take account of where the need for affordable housing is and a more favourable settlement would give the Council greater ability to meet the need within the county. Currently the settlement has been divided up on the basis of 'ability to service the debt' instead of addressing housing need.