CIPFA's response to the Draft Capital Finance Amendments Regulations issued by DCLG

10-01-2007

CIPFA welcomes the draft regulations and their consideration alongside the development of the local authority accounting SORP by the CIPFA/LASAAC Joint Committee.

A key driver of proper accounting practice is the need to ensure that resources are accounted for as they are consumed. Within the public sector this is embedded in the principle of generational equity. The proposed changes to the 2007 SORP recognise the role that Accounting for Financial Instruments has in ensuring costs and benefits are correctly recognised over time. At the same time CIPFA recognises the impact that these changes have on taxation, particularly in their transitional effects, and the government's responsibility for taxation policy and determining the charges to taxation.

CIPFA therefore welcomes the regulations dealing with issue of premia and discounts arising on the early repayment of loans and the mitigation of the taxation impact on the transition to the new system. The clarification that the new SORP brings on accounting for financial instruments may result in other transitional issues for some authorities, although the extent of this is England and Wales is unclear, and CIPFA would encourage the Department to look at individual cases should local authorities approach them on this matter and if necessary issue further regulations.

The regulations around Soft Loans as they are currently written may lead to practical implementation issues and have unintended consequences. CIPFA is happy to provide detailed issues should you require, however, an alternative approach would be to focus on the service aspect of these loans and make all loans given by local authorities in support of its services capital expenditure. Currently any loan given for capital purposes are treated under legislation as capital expenditure and the charge to the revenue account determined accordingly. Given that the bulk of loans authorities make in support of services are likely to be for capital purposes, this may be a simpler treatment of such loans in line with existing legislative practice.

CIPFA's view is that the charge to the HRA for capital financing is determined by the Item 8 calculation set out in legislation. This is important as, if the regulations are not formulated in line with this view, there may be implementation issues arising both with premia/discounts and the calculation of the CFR. The legislation makes reference to the split of the CFR being required by the Prudential Code. The Prudential Code states "The separation between the HRA and non-HRA elements of these prudential indicators will be undertaken as determined under legislation". It would helpful if clarification could be provided that the Item 8 determination will provide the basis for this split or, if not, how the split will be legislatively determined.

The regulation allowing deferment of making MRP contributions for projects under construction will be broadly welcomed by practitioners, however the requirement that such projects be funded by borrowing may be difficult to prove in practice as financing decisions are made globally. Clarification of how this expected to be shown would be helpful.

Concerns have been raised that the regulations allowing 100% retention of Social Home Buy receipts may distort decisions on sales of Right to Buy which has a lower retention element of receipts. The department may wish to consider whether there is the potential impact on its policies as a result.

The proposed regulations on Single Status, by allowing no charge to the revenue account to be made for known future liabilities, would appear to support future capitalisation of these costs or other funding from other sources. The Department may wish to clarify the position to allow members to take a view on the robustness of their financial arrangements.

As the new accounting policies are implemented and become embedded in practice there is an argument for reviewing the regulations to ensure that the interaction between legislation and accounting policies remains appropriate.