Cambridge City Council **Item**

To:	Executive Councillor for Housing (and Deputy Leader): Councillor Catherine Smart
Report by:	Julia Hovells, Finance & Business Manager
Relevant scrutiny committee:	Housing Management Board 27/9/2011
Wards affected:	All Wards

UPDATE ON SELF-FINANCING FOR THE HOSUING REVENUE ACCOUNT (HRA)
Not a Key Decision

1. Executive Summary

1.1 This report provides an update in relation to a number of work streams that are in progress as part of the Council's preparations for the implementation of self-financing for the Housing Revenue Account with effect from 1st April 2012.

1.2 Housing Management Board received an update report in June 2011, but since this time Communities and Local Government (CLG) have issued a further publication, 'Self-Financing: Planning the Transition' and more recently a consultation document 'Streamlining council housing asset management: Disposals and use of receipts'.

2. Recommendations

The Executive Councillor is recommended:

a) To note progress to date in the work streams in preparing for the implementation of self-financing for the HRA.

b) To approve that officers prepare and send a response to the CLG Consultation 'Streamlining council housing asset management: Disposals and use of receipts', in consultation with the Executive Councillor, Chair, Vice Chair and Opposition Spokespersons.

3. Background

CLG Policy Document ‘Self-Financing: Planning the Transition’

3.1 The latest policy document, issued in late July, confirms progress of the Localism Bill, the process under which self-financing for the Housing Revenue Account will be introduced, through Parliament.

3.2 Key dates and deadlines for local authorities in the lead up to go live for self-financing are also confirmed. There are a number of returns which we are required to submit to CLG, many of which require certification by our external auditors, between August 2011 and March 2012.

3.3 There is no evidence of fundamental change in the financial assumptions being made in relation to self-financing, compared to those made in formulating the February 2011 policy document. Further guidance in respect of the exclusion of properties identified for disposal or demolition from the self-financing settlement has been received.

3.4 The actual level of debt that Cambridge City will be required to take on will not be finally confirmed until January 2012, following consultation on a draft self-financing determination in November 2011. These timescales are similar to those previously adopted for the subsidy system.

3.5 The policy document confirms that despite self-financing not going live until 1st April 2012, local authorities will be required to pay monies due to CLG under the new regime on 28th March 2012, recognising that 31st March and 1st April fall over a weekend. It is however, made clear in the policy document that CLG intend to financially compensate local authorities in year, for the cost of servicing the borrowing for 4 additional days via an adjustment to the 2011/12 subsidy settlement.

3.6 Local authorities have been asked to provide an indication to CLG by 16 September 2011 of how / from where they plan to raise the funds to meet the requirements of self-financing, thus giving CLG an early indication of the potential call upon the Public Works Loans Board (PWLB). Although this information has been requested it is acknowledged that local authorities are not formally committing themselves to a specific borrowing route at this stage. There are a number of economic factors that mean that an intended borrowing route at this stage might not be considered the most financially viable option at the point at which we require the funds.

3.7 For local authorities wishing to borrow from the Public Works Loans Board, new arrangements have been put in place to allow temporary borrowing of variable rate loans, which could be repaid within the first 12 months of the advance, providing a longer time frame for authorities to raise long term finance. This proposal could have some benefits in terms of giving us time to explore and potentially progress a wider range of financing options, but carries additional risks in terms of any rise in interest rates over this period.

Borrowing

3.8 In order to be in a position to respond to varying levels of investment need in our housing stock over the longer term, it is key that we secure a portfolio of debt that best meets these anticipated requirements, while retaining as much flexibility as possible enabling us to respond to change.

3.9 The Medium Term Strategy, which will be presented to Council in October 2011, includes amendment to the Council's Treasury Management Strategy, allowing borrowing of up to £250 million in 2011/12.

3.10 Working jointly with South Cambridgeshire District Council, officers have soft market tested a number of alternative vehicles for raising finance at the anticipated level of £230 million (if we opt to borrow up to our borrowing limit).

3.11 It is important that good treasury management practices are applied, considering the following:

- A balanced portfolio of debt
- Diversification to spread risk
- Retention of flexibility
- Consideration of set up costs versus anticipated longer term benefits
- The maturity profile that best meets our anticipated investment needs

3.12 The options that have been investigated and considered to date include:

- Internal borrowing from the General Fund
- Borrowing from the County Council pension fund
- Borrowing from other local authorities
- Borrowing from the PWLB

- Raising funds through bond issuance (either individually or as part of a club)
- Raising funds through private market placement

3.13 Clearly, the General Fund only has the financial capacity to advance a small proportion of the finance, but internal borrowing could be advantageous to both the General Fund and the HRA in terms of interest rates that could be beneficial to both parties and reduced risk.

3.14 Discussions with the County Council are at an early stage, but again there are potential benefits to keeping the borrowing within the public sector, in terms of both risk and interest rates.

3.15 Borrowing from other local authorities would still retain the interest in the public sector, but at this stage, with no formal vehicle in place to broker the arrangements between authorities, this route may prove difficult to pursue.

3.16 Until recently, borrowing from the PWLB was likely to have been the chosen route for many local authorities, with preferential interest rates being offered for a variety of fixed and variable products. A move to a rate of Gilts plus 1% from October 2010, seeing an increase of approximately 1% in the rates being offered, means that forms of market borrowing become a more attractive option.

3.17 Bond issuance is demonstrating itself as a credible solution, with many investors in the market place keen to invest in local authority business. Bonds can be issued publicly (either on an individual or group basis) or privately with a specific investor. The process to issue a bond would be expected to take up to 16 weeks.

3.18 Currently, it is anticipated that a public bond could achieve rates in the region of Gilts plus 0.8%, with a small difference in rate making a substantial difference in the interest payable on the sums we are considering.

3.19 Although £230 million is a huge level of debt for a debt free local authority to contemplate taking on, in terms of bond issuance the sum is small. The minimum realistic value to place in the bond market is in the region of £150 million, meaning that as an individual authority, placing a bond would significantly limit the flexibility of our portfolio.

3.20 Forming a bond club with other local authorities would enable the placement of a number of bonds with varying terms, thus providing the degree of flexibility that will be required to respond to the investment needs of our housing stock. Again, a special purpose vehicle (SPV) would be required to facilitate such an arrangement, but in this instance, a number of financial institutions consider they are well progressed.

3.21 The set up costs to issue a £150 million bond would be expected to be in the region of £450,000, but the potential ongoing savings in interest payments compared to those payable with the rates currently being offered by PWLB would be expected to quickly pay back the initial costs involved.

3.22 To be in a position to place bonds in the market place, the Council and any other parties in a bond club, would be required to obtain a formal credit rating from a limited number of rating agencies, such as Moody's, Fitch or Standard & Poors.

3.23 To give an indication of the potential benefits of bond issuance, the table below compares the interest payable each year, on a £200 million debt.

Discount Compared to PWLB	Effective Rate	Cost £'000	Variance to PWLB £'000
0.40%	4.50%	9,000	800
0.35%	4.55%	9,100	700
0.30%	4.60%	9,200	600
0.25%	4.65%	9,300	500
0.20%	4.70%	9,400	400
0.15%	4.75%	9,500	300
0.10%	4.80%	9,600	200

Property Disposals / Demolitions

3.24 Updated guidance in respect of reflecting proposed property disposals or demolitions has extended the period for which CLG will consider removing the property from the debt settlement to up to 5 years after the implementation of self-financing.

3.25 However, clarity provided in respect of the evidential requirements to secure exclusion of the property from the settlement confirms that the property either needs to be:

- Unoccupied, where the authority has resolved, before 1st April 2011, to demolish the dwelling

- Unoccupied, where the authority has resolved, between 1st April 2011 and 10th October 2011, to demolish the dwelling

- Occupied, but where the authority has resolved prior to 10th October 2011, to demolish and the appropriate consultation has taken place.

3.26 In light of the guidance, and having taken advice from the consultants employed to assist us in preparing for self-financing, fewer properties have been included on our final submission to CLG than identified in principle in March 2011.

3.27 The properties on our 3-year affordable housing programme have been approved as sites that warrant future investigation, feasibility study and option appraisal, rather than the authority having made a scheme specific formal resolution to dispose or demolish any specific dwellings.

3.28 The properties identified for exclusion from the settlement are:

- 51 vacant units in Seymour Court / Street
- 14 vacant units in one wing of Roman Court identified for disposal on long lease to Papworth Housing Trust
- 5 vacant units in the other wing of Roman Court, where 15 existing units will be re-modelled into 10 units of accommodation
- 7 units in Brandon Court, where 37 existing units are being re-modelled into 30 units of accommodation

Asset Management

3.29 The introduction of self-financing drives a major change in the way we manage our HRA assets. Our ability to effectively service our housing debt from 2012, will be wholly dependent upon securing a viable net revenue stream from our housing asset base.

3.30 Work is underway in analysing our stock data, to inform a new asset management strategy, which will form part of our 30 year business plan. It will, in future, be necessary to consider both individual and groups of assets in terms of their financial contribution to the business plan, driving investment decisions in our stock, with demolition, re-development or strategic disposal of some assets being considered as potential options.

3.31 With many of the financial deterrents to local authority new build that are inherent as part of the HRA subsidy system removed under self-financing, the delivery of new affordable housing, to be managed locally, also becomes a viable option for the first time in many years.

3.32 Work has begun, supported by Savills, to consider the financial contribution that particular categories of our dwelling stock make to the business plan. This work will then need to be expanded to include other housing assets, such as garages, land, shops and commercial property. Individual properties, or groups of properties, that make a negative contribution to our business model, will need to receive consideration as to the best option for the future, whether that be significant investment, disposal, demolition or alternative use.

3.33 The categories within which Savills are preparing an assessment to inform our asset management strategy are:

1. 3 Year Affordable Housing Programme Properties
2. Lichfield / Neville Road
3. Shared Ownership
4. Miscellaneous Leases
5. Easiform
6. BISF
7. Unity
8. Caldor
9. Timber Framed
10. Listed Buildings / Houses of Special Interest
11. Temporary Housing - Hostels
12. Temporary Housing - Dispersed Tenancies
13. Sheltered Housing - Cat I
14. Sheltered Housing - Cat II
15. Sheltered Housing - Cat II.5
16. New Build (Under 10 Years Old) Post 2000
17. Flats above Shops
18. Flats in Blocks of 4
19. Low Rise Flats (2 storeys)
20. Medium Rise Flats (3 to 5 storeys)
21. High Rise Flats (6 storeys and over)
22. Bungalows
23. Houses - Detached Pre 1945
24. Houses - Semi Pre 1945
25. Houses - Terraced Pre 1945
26. Houses - Detached 1945 -2000
27. Houses - Semi 1945 - 2000
28. Houses - Terraced 1945 - 2000

3.34 In the future, we will need to carefully balance investment decisions in housing assets, with both their financial impact on our business plan and social impact on our tenants and leaseholders.

CLG Consultation 'Streamlining council housing asset management: Disposals and use of receipts'

3.35 A recent consultation, issued by Communities and Local Government, seeks to further reduce the administrative burden on local authorities in respect of strategic disposal of housing assets. The consultation proposes amendments to the existing requirement, under Section 32 of the Housing Act 1985, to obtain approval from the Secretary of State prior to disposal of a housing asset unless it meets limited criteria which excludes it from needing consent. Government consider that current legislation unnecessarily burdens local authorities in effectively managing their asset base, investing in social housing, aiding regeneration, assisting in sustainable home ownership and creating mixed communities.

3.36 The consultation also addresses the financial disincentive that the continuation of the pooling regime for capital receipts has, in respect of a local authority's ability to maintain housing schemes such as shared ownership. It is clear, however, that there is no intention to revisit the proposal to continue with pooling in respect of receipts from right to buy sales.

Financial Modelling

3.37 Once the result of the asset management analysis is available, officers will be in a position to undertake extensive financial scenario modelling, providing a view on the impact on the HRA business plan of investment in the stock at a number of levels.

3.38 ConsultCIH have been preparing an advanced financial model, which when populated with both our asset management investment need and options for our debt portfolio, will assist us to demonstrate the financial impact of multiple scenarios.

3.39 The financial modelling will form part of our 30 year business plan, which will be presented for decision later in the year.

Governance

3.40 Due to the timing of both the consultative and final self-financing determinations, it may be necessary to convene special meetings of Housing Management Board, Community Services and Council.

3.41 It is anticipated that delegated authority will be sought for the Director of Resources, in consultation with appropriate Executive Councillors, Chairpersons and Opposition Spokespersons, to finally determine the most appropriate route for securing the funding required on 28th March 2012, dependent upon the position in the market place in the lead up to this date.

3.42 Formal approval will be sought as part of the Medium Term Strategy, to be considered by Council on 20 October 2011, to changes required to the Council's Treasury Management Strategy to enable borrowing to be undertaken during 2011/12 to meet the self-financing debt settlement payment on 28 March 2012.

3.43 Reports presented to special meetings later in the calendar year are also anticipated to consider some constitutional amendments to delegations in respect of HRA borrowing and debt repayment.

Communication

3.43 An article introducing the concept of self-financing was recently incorporated in the summer edition of Open Door, which will have been received by all tenants and leaseholders. We will continue to include updates in future editions of Open Door as we move towards 1st April 2012.

3.44 Although we are clear, having obtained a legal opinion, that formal consultation with tenants and leaseholders is not required to meet the terms of the Housing Act, it is still intended to produce a communication for tenants and leaseholders on an individual basis, which we hope to send out with rent statements in early December.

3.44 Included, as an annex to the latest CLG policy document, is a summary of self-financing for tenants, which is included at Appendix A to this report.

3.45 CLG are clear in this communication that self-financing provides the opportunity for investment to be driven by local priorities, that it assumes there will be more resource available for council housing at a local level and that tenants can expect clear and transparent information about how the rent they pay relates to the services they receive. The policy document encourages local authorities to strive to provide a similar level of information around rents and service charges to secure tenants, that leaseholders are entitled to receive under the terms of the Landlord and Tenant Act 1985.

3.45 The annual report produced by Cambridge City Council provides tenants with this information at a summary level, but consideration needs to be given to how we might move to communicating similar information on an individual basis.

4. Implications

(a) Financial Implications

The cost of the consultancy being deployed in the current financial year is being met from the policy space in the HRA for 2011/12, ear-marked specifically for this purpose.

The business plan, to be presented later in the year, will contain the known longer-term financial implications for self-financing.

(b) Staffing Implications

As identified in the report to HMB in June 2011, during the implementation phase of self-financing for the HRA, additional staffing resource is being secured using a number of external consultants. Consideration will need to be given to any ongoing need for additional staffing resource, and any identified need will be presented for consideration as part of the 2012/13 budget process.

(c) Equal Opportunities Implications

An initial Equality Impact Assessment has been undertaken. The change in funding regime in itself is not expected to have a disproportionate impact on any particular equalities group, although the change in regime is anticipated to lead to future amendments to policy, all of which will require independent Equality Impact Assessments.

(d) Environmental Implications

There are no specific environmental issues for consideration as a direct result of this report, although there will need to be consideration given to the level of desired investment in environmental initiatives in the preparation of the new / updated Asset Management Strategy.

(e) Consultation

Following confirmation that formal consultation under the Housing Act is not required, the communication plan that has been adopted ensures that a series of briefings and reports to Housing Management

Board will inform members and tenant / leaseholder representatives of the progress in implementing self-financing. As described in more detail in the body of the report, communication with tenants and leaseholders will take the form of Open Door articles and individual letters.

(f) **Community Safety**

There are no specific community safety issues for consideration as a direct result of this report, but again there will need to be consideration given to the level of desired investment in community safety initiatives in the preparation of the new / updated Asset Management Strategy.

5. Background Papers

These background papers were used in the preparation of this report:

- CLG Policy Document 'Self-Financing: Planning the Transition'
- CLG Consultation 'Streamlining council housing asset management: Disposals and use of receipts'

6. Appendices

The appendices included as part of this report are:

Appendix A – CLG Summary of Self-Financing for Tenants

7. Inspection of Papers

To inspect the background papers or if you have a query on the report please contact:

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