



To: Council 23/2/2012

Report by: Julia Hovells, Housing Finance & Business Manager

Wards affected: All Wards

**HOUSING REVENUE ACCOUNT SELF-FINANCING BUSINESS PLAN,
ASSET MANAGEMENT PLAN AND BUDGET REPORT - 2012/13
Key Decision**

1. Executive Summary

- 1.1 As part of the Localism Act, the Housing Revenue Account (HRA) Subsidy System will be abolished from the end of 2011/12, bringing to an end the national system of annual formulaic re-distribution of housing resources.
- 1.2 The subsidy system will be replaced with a system of Self-Financing from April 2012, with Cambridge City Council being able to retain all HRA rental streams locally, being responsible for funding the management, maintenance and major improvement of the housing stock, but also being required to take on a one-off share of the national housing debt.
- 1.3 To facilitate this change, Cambridge City Council are required to pay the Department for Communities and Local Government (CLG) the sum of £213,572,000 on 28th March 2012, based upon the final HRA Self-Financing debt settlement.
- 1.4 In preparation for Self-Financing, a 30-Year Business Plan and Asset Management Plan have been produced to provide a clear direction for operation of the housing business at a local level.

2. Recommendations

Council is recommended, in line with the recommendation of the Executive Councillor for Housing following a special joint meeting of Housing Management Board and Community Services on 8th February 2012:

- a) To approve the detailed 30-Year Housing Revenue Account Business Plan 2012/13 to 2041/42 at Appendix A to this report.

- b) To approve the Rent Policy as detailed in Appendix C of the HRA Business Plan 2012/13 to 2041/42.
- c) To approve the detailed 30-Year Housing Revenue Account Asset Management Plan 2012/13 to 2041/42 at Appendix B to this report.
- d) To approve the 2012/13 budget as shown in Appendix G of the HRA Business Plan.
- e) To approve the Housing Capital Investment Plan for 2011/12 to 2016/17, as detailed in Appendix H of the HRA Business Plan and Appendix F to the HRA Asset Management Plan, to include approval of in-year savings in capital budgets, re-allocation of budgets for decent homes works, rephrasing of existing projects and schemes, and approval of capital bids as submitted as part of the 2012/13 budget process.
- f) To approve, incorporating presentational amendments, the long-term Housing Capital Investment Plan for 2012/13 to 2041/42, as detailed in Appendix I of the HRA Business Plan and Appendix G to the HRA Asset Management Plan.
- g) To approve a Housing Capital Allowance for 2012/13 of £21,663,000.
- h) To agree that the authority borrow funds from the Public Works Loans Board in 2011/12, as detailed in Section 9 of the HRA Business Plan and summarised in paragraphs 3.6 to 3.16 of this report, to facilitate payment of the full self-financing settlement sum due to government on 28th March 2012.
- i) To approve that the Director of Resources have delegated authority to make the final decision with regard borrowing arrangements to facilitate payment of the self-financing settlement sum on 28th March 2012, based upon the prevailing interest rates and loan types available for that date.

3. Background

- 3.1 The introduction of Self-Financing for the HRA follows a number of years of deliberation and consultation by Communities and Local Government, in an attempt to arrive at the best financial regime to replace the HRA Subsidy System.
- 3.2 A model where each local authority takes on a share of national housing debt, which their local housing business is deemed able to support, has been in the forefront throughout the consultation process.

Early estimates by CLG were that the level of debt that Cambridge City would take on would be approximately £220 million, based on the policy document issued in February 2011.

- 3.3 A draft settlement figure was released on 21st November 2011, which saw the debt settlement reduce to £214,384,000, due to a combination of changes in inflation assumptions, reductions for dwellings identified for disposal or demolition and re-classification of flatted accommodation.
- 3.4 Following a formal consultation period, which ended on 6th January 2012, the final settlement figure for Cambridge City Council was confirmed as £213,572,000 on 1st February 2012. This now allows the Council to set the final budget for the HRA for 2012/13, following consideration by HMB and Community Services. The table below compares the indicative debt settlement figures provided at earlier stages in the consultation process with the final figures, confirmed on 1st February 2012.

	Indication in February 2011	Draft for Consultation in November 2011	Final February 2012
Opening Debt Allocation	£230,060,000	£224,858,000	£224,045,000
Debt Settlement	£219,586,000	£214,384,000	£213,572,000
Debt Cap	£230,060,000	£231,651,000	£230,839,000
Debt per Dwelling	£31,067	£30,737	£30,660

- 3.5 There are a number of work streams that have been progressed in preparation for April 2012, and include:

Borrowing

- 3.6 Until September 2011, officers at Cambridge City and South Cambridgeshire District Councils were exploring a variety of options for securing the level of borrowing that will need to be taken on from 28th March 2012. The interest rates that the Public Works Loans Board (PWLB) was charging prior to September were high enough that a number of market alternatives for securing the funds required were financially viable options.

- 3.7 An announcement in September that the PWLB would reduce rates for this transaction only, to the levels being charged prior to the Comprehensive Spending Review of October 2010, significantly altered the view of both authorities.
- 3.8 Working with South Cambridgeshire District Council, Ernst and Young were procured to provide specialist financial advice in respect of the borrowing options available, with their final report confirming that from an external borrowing perspective, borrowing from PWLB at the reduced rate carries the greatest relative advantages compared with other options available to the authority.
- 3.9 In determining an effective borrowing strategy for the HRA, it is important to balance the cost of borrowing against the ability to retain sufficient flexibility to respond to future opportunities and challenges in terms of the delivery of housing and housing services. A key part of the assessment has been consideration of the level of risk associated with the various options available.
- 3.10 Use of any internal resource available from the General Fund could, in some circumstances, be advantageous for both the HRA and General Fund. However, as highlighted in Section 8 of the HRA Business Plan, a combination of factors, with fixed rate borrowing representing the lowest risk option for the HRA, the PWLB offering a preferential rate for this transaction and interest rates anticipated to increase in the medium to long term, in is not considered to be in the best interest of the General Fund to lend to the HRA to meet the initial self-financing payment.
- 3.11 The recommendation not to internally borrow at this point in time, does not preclude the possibility that it may be advantageous to undertake such borrowing at a future point, ie; when the business plan requires additional borrowing against the headroom available, at which point the standard PWLB rates may compare less favourably against the rates which the General Fund would seek to charge for any internal loan.
- 3.12 Although PWLB borrowing is, on balance, anticipated to be the lowest risk and cost option, the mix of loan types and terms will be key to the success of our HRA into the future.
- 3.13 As detailed in Section 9 of the HRA Business Plan, a portfolio of 20 maturity loans is recommended, with varying maturity periods, with the first loan not maturing until the point at which the business plan anticipates there will be sufficient resource to pay off the entire debt.

This approach seeks to minimise risk, while maximising the flexibility available in the business model.

3.14 The table below summarises the proposed loan portfolio, with the interest rates available as at 12th January 2012:

Loan Value (£)	Loan Rate (%)	Loan Term (Years)	Maturity Date
10,678,600	3.17	25	28/03/2037
10,678,600	3.19	26	28/03/2038
10,678,600	3.20	27	28/03/2039
10,678,600	3.22	28	28/03/2040
10,678,600	3.23	29	28/03/2041
10,678,600	3.25	30	28/03/2042
10,678,600	3.26	31	28/03/2043
10,678,600	3.27	32	28/03/2044
10,678,600	3.27	33	28/03/2045
10,678,600	3.27	34	28/03/2046
10,678,600	3.29	35	28/03/2047
10,678,600	3.29	36	28/03/2048
10,678,600	3.29	37	28/03/2049
10,678,600	3.29	38	28/03/2050
10,678,600	3.29	39	28/03/2051
10,678,600	3.28	40	28/03/2052
10,678,600	3.28	41	28/03/2053
10,678,600	3.28	42	28/03/2054
10,678,600	3.27	43	28/03/2055
10,678,600	3.27	44	28/03/2056

3.15 PWLB interest rates are reviewed and amended twice daily, introducing the risk that rates may change significantly between now and 26th March 2012, the point at which the borrowing at the preferential rate can be arranged.

3.16 It is therefore proposed that delegated authority be sought, to allow the Director of Resources to determine the final loan portfolio, taking into consideration the rates that are available for the differing loan terms on 26th March 2012.

Business Planning

3.17 ConsultCIH, the consulting arm of the Chartered Institute of Housing, have supplied the authority with a 30-year financial modelling system. The system has allowed officers to explore the long-term impact of Self-Financing for the HRA, and to model a variety of financial and

operational scenarios, testing sensitivities to changes in modelling assumptions, for example inflation rates.

- 3.18 Officers have used outputs from this model in preparing a 30-Year Business Plan, to support decision-making in the new financial environment. The Business Plan makes a number of key base assumptions, with changes in these assumptions modelled as part of the sensitivity analysis.
- 3.19 The HRA 30-Year Business Plan is presented at Appendix A to this report, and it is anticipated that the plan will be reviewed annually as part of the authority's medium term planning and budgetary processes.

Asset Management

- 3.20 In a self-financing environment, effective asset management is key to the success of the housing business.
- 3.21 The Council invited Savills to undertake a stock condition survey validation exercise in early 2011/12, to give confidence that the 90% of stock that has been surveyed internally, has been done in a consistent manner to the 10% undertaken by Savills in 2003. This exercise provided full assurance, with a recommendation to review the useful lives of one or two building components, where experience indicated the assumptions in our database may not be realistic. The recommendations have been fully adopted in all financial modelling undertaken as part of this exercise.
- 3.22 In conjunction with ConsultCIH, Savills have also undertaken an exercise to model the financial viability of our housing stock, both as a whole, and across 28 agreed categories. The purpose of this work was to identify whether any asset types or group of assets has a negative impact on the business model, driving the need to consider alternative options for these assets.
- 3.23 Our housing stock is in good condition, relative to some other areas of the country, and as a result, no category as a whole appeared to negatively impact on the business model.
- 3.24 To support and compliment the Business Plan, a 30-Year Asset Management Plan has also been prepared, and is included at Appendix B to this report.
- 3.25 The Asset Management Plan, which will also be refreshed on an annual basis, and fully reviewed every 3 years, provides an overview

of the assets owned and managed within the HRA. The plan identifies specific issues associated with, and investment need in, the existing stock, and considers the possibility to deliver new build affordable housing. An action plan, presented as part of the document, identifies key areas where specific work effort is required in the short to medium term.

4. Implications

(a) Financial Implications

The financial implications associated with this report are incorporated as part of the detailed 30-Year Business Plan presented as Appendix A to the report.

(b) Staffing Implications

As identified in reports to HMB, during the implementation phase of self-financing for the HRA, external expert advice is being secured using a number of external consultants.

Consideration will need to be given to any ongoing need for additional staffing resource after implementation of the support services review in April 2012, with any identified additional need presented for consideration as part of the 2012 Medium Term Strategy 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, which will require individual Equality Impact Assessments.

(d) Environmental Implications

Environmental issues in relation to the housing stock and housing estates are considered as part of the Asset Management Plan, included at Appendix B to this report.

(e) Consultation

Although formal consultation with tenants and leaseholders is not required under the Housing Act, regular communication has been undertaken in respect of the changes that the new self-financing arrangements will bring. A series of briefings and reports to Housing

Management Board have informed members and tenant / leaseholder representatives of the progress in preparing for, and implementing, self-financing. A number of articles have been included in Open Door to inform tenants and leaseholders about the change in funding regime, with individual letters having been sent to all tenants and leaseholders during December 2011.

(f) **Community Safety**

Any community safety issues in relation to the housing stock and housing estates have been considered as part of the Asset Management Plan, included at Appendix B to this report.

5. Background Papers

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

- CLG Self-Financing Policy Documents, Consultations and Determinations
- ConsultCIH Self-Financing Business Model
- Savills Asset Investment Modelling
- Ernst & Young – Funding Options for the HRA Settlement Payment

6. Appendices

The appendices included as part of this report are:

- Appendix A – 30-Year Housing Revenue Account Business Plan 2012/13 to 2041/42
- Appendix B – 30-Year Housing Revenue Account Asset Management Plan 2012/13 to 2041/42

7. Inspection of Papers

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

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