

## **Council Meeting 23 February 2012**

**Item 5: Draft Revenue and Capital Budgets – 2011/12 (Revised), 2012/13 (Budget) and 2013/14 (Forecast)**

**Item 5(a) EXECUTIVE AMENDMENT**

### **Budget Setting Report – Version 4**

Unless otherwise stated, all references in the recommendations to sections, pages and appendices relate to Version 4 of the Budget Setting Report (BSR). This can be found via the Council agenda page:

<http://www.cambridge.gov.uk/democracy/ieListDocuments.aspx?CId=116&MId=533&Ver=4>

### **Background to the Amendment Motion**

#### **Local Authority Finance Settlement 2012/13**

Since publication of the BSR Version 2, considered by The Executive at their meeting of 19 January 2012 and recommended for approval by Council, the Local Authority Finance Settlement 2012/13 and associated grant determinations were announced on 31 January 2012. The final grant determinations, including the Council's main Revenue Support Grant, were unchanged from the provisional figures included in the BSR. However, a number of revisions will be required to the text of BSR to remove references to provisional figures and to include reference to the final settlement.

#### **Housing Revenue Account Self-financing Determinations**

The final determinations for the new HRA Self-financing arrangements under the Localism Act were announced on 1 February 2012. Under the new arrangements for funding of the HRA, effective from 1 April 2012, the Council will be required to take on and service borrowing of £213,572,000 to enable a single debt settlement payment to be made to central government on 28 March 2012.

A detailed 30-year HRA Business Plan and Asset Management Plan were considered at a special combined meeting of the Housing Management Board and Community Services Scrutiny Committee on 8 February 2012 and were recommended for approval by Council by the Executive Councillor for Housing. The HRA Business Plan incorporates all of the detailed budget proposals for the HRA in respect of revenue expenditure and income capital spending and financing.

Following the announcement of final determinations for HRA Self-financing and approval of the detailed Business and Asset Management Plans for recommendation to Council, a number of changes are required to the Budget Setting Report. These amendments relate both to the main body of the report

(in particular sections 5 and 6) and to Treasury Management appendices T(a) and T(b) to reflect the final determinations, financing and borrowing requirements of the HRA. Sensitivity Analysis Appendix U has been amended to signpost readers to the relevant HRA Business Plan appendix. In addition HRA Appendices L and S are now available for incorporation into the BSR.

### **Recommendations**

Council is recommended to approve the amendments outlined below, namely:

#### **Local Authority Finance Settlement 2012/13**

- (a) To authorise the Director of Resources to make necessary changes to the text of the final version of the BSR (Version 5) to refer to the Local Authority Finance Settlement 2012/13 announcement made on 31 January 2012 and related final grant determinations.

#### **Housing Revenue Account Self-financing Determinations**

- (b) To replace Section 5 HRA Revenue, of the BSR (pages 41 to 46), with the updated version attached.
- (c) To update Section 6 Capital, of the BSR (pages 52 to 54), with the updated text attached.
- (d) To include Appendix L Housing Revenue Account Summary 2012/13 to 2016/17 (at page 132).
- (e) To include Appendix S Housing Capital Investment Programme (at page 185).
- (f) To replace Appendix T(a) Treasury Management Capital Prudential Indicators, of the BSR (pages 187 to 194) with the updated version attached. *(Note – Annexes 1 & 2 of this appendix are unchanged.)*
- (g) To replace Appendix T(b) Treasury Management Borrowing Strategy, of the BSR (pages 199 to 200) with the updated version attached.
- (h) To update Appendix U Sensitivity Analysis, of the BSR (page 215) with the updated text attached.

# Section 5

## HRA Revenue

### Changes to HRA Funding

Following recent changes in law as part of the Localism Act, the current system for financing local authority housing, the national Housing Revenue Account (HRA) Subsidy System will be replaced with a new system, known as Self-Financing.

Under the new system, the government will place a value on each local authority's housing business over a 30-year period, resulting in the need for Cambridge City Council to take on a prescribed level of debt in return for being able to retain all HRA revenue streams, to fund local housing services and also service the debt taken on.

Recognising the major change that the Housing Revenue Account will see from April 2012, when self-financing is introduced, a special joint Housing Management Board (HMB) and Community Services meeting took place on 8th February 2012, to consider the final budget, a 30-year Business Plan and Asset Management Plan for the Housing Revenue Account, incorporating an amendment to reflect the financial impact of the final debt settlement figure, which was confirmed on 1<sup>st</sup> February 2012, in the sum of £213,572,000. .

The full 30-Year HRA Business Plan and Asset Management Plan are being presented to Council for approval under separate cover. The Business Plan document incorporates all of the budget proposals identified in this Budget Setting Report in respect of the HRA, in addition to incorporating the implications of assumptions made as part of the base HRA Self-Financing business model.

# 2011/12 Revised Budget

Housing Revenue Account revenue budgets for the current year (2011/12) were initially reviewed as part of the 2011 Medium Term Strategy (MTS) in September 2011. A further review was undertaken as part of the January 2012 committee cycle. Relevant budgets will be updated following Council approval.

The overall effects of the revised budget proposals, compared to the Original Budget, are shown in the table below.

2011/12 Revised Budget	MTS 2011 £	Jan. 2012 £
Net HRA Use of / (Contribution to) Reserves	1,229,100	1,129,730
Variation on previously reported projection		(99,370)

Major variances have been identified and incorporated in the following areas:

- HRA General (£63,070) – Savings in consultant costs where audit fees for the HRA have reduced significantly and in training and office running costs (printing, postage, stationery, bank charges), resulting from a reduction in the number of staff directly employed in the HRA.
- HRA Special (£80,250) – Predominantly a reduction in employee costs due to intentionally holding vacancies to meet the reduction in costs required by Supporting People from April 2011. This underspend is directly offset by an underachievement in income from Supporting People. Electricity costs in communal areas are also less than budgeted, with the impact of introducing Smart Meters now apparent.
- HRA Repairs (£5,000) – The budget for housing occupational therapy costs is less than anticipated, with a corresponding saving also proposed in this budget going forward.
- HRA Summary Account £48,950 – Predominantly due to a reduction in the support income from Supporting People and in the income generated by HRA garages due to increased void levels. This reduction in income is partially offset by an over-achievement in service charge income from tenants and leaseholders, with the tenanted element due predominantly to a reduction in void sheltered properties as

the refurbishment programme nears completion. An over-achievement in rental income in 2011/12 is more than offset by the inclusion of funding to arrange the borrowing required for self-financing.

## Review of Charges

Proposals for the review of charges for the Housing Revenue Account were presented to HMB in January 2012. The effects of the approved changes have been included in the base budget projections.

The Final Housing Revenue Account Self-Financing Debt Settlement for April 2012 assumes that local authority guideline rents will increase rents in line with current rent restructuring policies. The level of debt which Cambridge City Council will be required to take on from 28th March 2012 is based upon the assumption that guideline rents at a local level will be increased by an inflation factor of 5.6% (RPI at September 2011) as the base rate, plus 0.5%, plus a move towards target rent by 2015/16, limited to an additional £2.00 per property per week.

Taking into account the above rent guidelines, Cambridge City Council would see an overall increase in guideline rent of 7.9% from April 2012. This in turn drives the increase that local authorities apply to actual rents.

Cambridge City Council has always set rents for tenants in line with government guidelines, to move towards target rents within the government intended timescales. Where the opportunity has arisen, within these guidelines, to limit or minimise rent increases, this has always been acted upon and implemented at a local level.

Taking into account the limit on individual rent increases of inflation (for 2012/13 this is 5.6%) plus 0.5% plus £2.00 per week, and an intended rent convergence date of April 2015, a significant increase in individual rents from April 2012 will again be necessary. Rent convergence will not be achieved at a local level across the entire housing stock for many years, with approximately 150 dwellings still not having achieved convergence in 15 years time, assuming the existing constraint upon rent increases continues to apply. The average rent increase for Cambridge City Council tenants for 2012/13 will be 8.3% or approximately £6.73 per week.

In calculating the level of debt that Cambridge City Council will be required to take on from 28th March 2012 as part of the self-financing valuation, government have made some key assumptions, one of which is:

“Assumed rental income: As described in both the February and July 2011 policy documents, national social rent policy is that rents in the council housing sector should converge with those charged by housing associations by 2015-16, followed by rent rises at RPI + 0.5% per year after this, in line with housing associations. In valuing each local authority's housing business we have assumed adherence to this rent policy”.

Based upon the Final HRA Self-Financing Debt Settlement Determination, the level of debt that Cambridge City Council will be required to take on, will be £213,572,000, with a debt cap set at £230,839,000. Government make the assumption that in order to support this level of debt, whilst still managing and maintaining decency in the housing stock, Cambridge City Council will adhere to the national rent setting guidelines. Any local decision to deviate from this assumption, will have no impact on the level of debt that is required to be supported locally, but will instead reduce the resource available to manage, maintain or improve the existing housing stock and limit any opportunity to borrow further to increase the supply of affordable housing in the city.

## Budget Proposals Summary

As in the 2011/12 budget process, a Cash Limit for the Housing Revenue Account as a whole has been adopted.

The net financial impact for the Housing Revenue Account of the bids and savings in controllable expenditure proposed as part of the budget process to date is summarised below.

Proposal Type	2012/13 £	2013/14 £	2014/15 £	2015/16 £
HRA General Savings Requirement (3%)	172,130	172,130	172,130	172,130
HRA Repairs Savings Requirement	15,470	15,470	15,470	15,470
HRA PPF Funding	(75,000)	(75,000)	(75,000)	(75,000)
<b>Reduction in Net Expenditure Required – HRA Cash Limit</b>	<b>112,600</b>	<b>112,600</b>	<b>112,600</b>	<b>112,600</b>

Proposal Type	2012/13 £	2013/14 £	2014/15 £	2015/16 £
<b>HRA Budget Proposals:</b>				
Unavoidable Revenue Bid	202,890	214,890	214,890	214,890
Revenue Bids	37,580	37,580	37,580	37,580
Service Review Savings	(95,600)	(107,600)	(107,600)	(107,600)
Saving	(304,270)	(304,270)	(304,270)	(304,270)
PPF Bids	(23,720)	129,130	48,560	48,560
<b>Net Effect of HRA Proposals</b>	<b>(183,120)</b>	<b>(30,270)</b>	<b>(110,840)</b>	<b>(110,840)</b>
<b>Under / (Over) Achievement against HRA Cash Limit</b>	<b>(70,520)</b>	<b>82,330</b>	<b>1,760</b>	<b>1,760</b>

Further changes have been incorporated as part of the base business model presented in the reports to a special HMB and Community Services on 8th February 2012. The budget from 2012/13 presented as part of the HRA Business Plan incorporates the removal of HRA negative subsidy, the impact of the approved rent increases for 2012/13, the reflection of the principal repayment of debt and amendments to interest paid and received, in light of the final HRA self-financing determination and resulting debt valuation.

The Business Plan also incorporates ongoing funding at the level of £55,570 per annum from 2014/15 for additional staff in the area housing offices to reduce rent arrears, from the point at which the fixed term funding identified as a budget bid in January 2012 ceases. In addition, an amount of £100,000 per annum has been included from 2013/14 in recognition of the transactional costs associated with collecting 100% of rent due as a consequence of the introduction of welfare benefit reforms.

## Service Reviews

The service review process is being managed organisationally, with each service review recognising the potential impact of change in respect of both the Housing Revenue Account and General Fund.

Savings delivered to the HRA as a result of service reviews are being incorporated into the longer-term financial planning for the HRA as they are identified by services, and contribute to the savings requirement for the HRA from this point.



## Hold List

The Council maintains a Hold List for Projects that have been approved but are awaiting funding. The single item on the Hold List from 2007 (Park Street Car Park Refurbishment) has now been removed, as it is the subject of a bid into the 2012/13 Budget process (C2958).

Six items have been transferred to the Hold List from the Arts, Sport & Public Places portfolio's Capital & Revenue Projects Plan pending final agreement of funding sources.

Ref.	Proposed Scheme / Portfolio	Cost to CCC	Funding Source		
Arts, Sport & Public Places			Reserves	R&R	Other
SC453	Upper River Cam Biodiversity Project	£118,000	x	x	✓
SC455	Logan's Meadow LNR Extension	£188,000	x	x	✓
SC465	Upper River Cam Biodiversity Public Art	£29,000	x	x	✓
SC472	Cherry Hinton Hall Vending Kiosk	£15,000	x	x	✓
SC473	Cherry Hinton Hall Pond & Lake Restorations	£25,000	x	x	✓
SC475	Nightingale Recreation Ground Pavilion Refurbishment	£18,000	x	x	✓
<b>TOTAL</b>		<b>£393,000</b>			

## HRA / Housing Capital

In light of the major changes to funding for housing from April 2012, a complete review of the Housing Capital Plan was presented to the special joint meeting of HMB and Community Services on 8<sup>th</sup> February 2012, as part of the HRA Business Plan and Asset Management Plan. The review includes the impact of changes in investment levels in the housing stock, and incorporates the impact of any capital re-phasing or capital bids identified as part of the 2012/13 budget process.

Early consideration was given to capital bids and savings proposed as part of the 2011/12 revised and 2012/13 original budget process, and the financial implications are summarised below:

	2011/12 £000	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000
Capital Bids – Requiring Funding	0	3,634,970	330,000	330,000	0
Capital Bids – Existing Funding	10,000	0	0	0	0
Capital Savings	(208,000)	0	0	0	0
<b>Net Capital Bids</b>	<b>(198,000)</b>	<b>3,634.970</b>	<b>330,000</b>	<b>330,000</b>	<b>0</b>

## Potential Need for Prudential Borrowing

The Council has been debt-free since 2003, when it took advantage of the then capital controls to repay external debt giving benefits to both the General Fund and HRA.

Under the Governments Final HRA Self-Financing Debt Settlement Determination, the Council will need to undertake significant borrowing in order to fund the payment of £213,572,000 to the Government on 28 March 2012 as part of the change to the new self-financing system.

In addition to borrowing to finance the initial debt take-on as part of self-financing, the Council will be able to undertake additional prudential borrowing for the HRA up to a Government determined limit. Based on the figures in the final determination, this provides the opportunity to borrow further £16.09m. Any decisions leading to actual requirements for borrowing would be subject to individual business cases.

In addition, there are a number of other areas where the Council may choose to use prudential borrowing as the most appropriate means of financing new capital requirements:

- **Clay Farm Community Facilities** - a separate report will be considered in the current scrutiny committee cycle providing an update on the project to provide community facilities as part of the Clay Farm development. It is currently anticipated that the Council will take-on the lead role in the provision of these facilities, and it is estimated that this may involve the need to borrow around £2.8m initially.

- **Clay Farm Collaboration Agreement** - under the agreement the City and other development partners, will be required to contribute to the shared cost of providing infrastructure in order to facilitate development of the site. Work is being undertaken to finalise the anticipated amounts and timing of such payments, but it is anticipated that these are likely to precede the point at which the City disposes of its land interest, and so the capital receipt may well not be available to fund these costs. In such a case, consideration would be given to the need for short-term prudential borrowing as a means of financing the collaboration agreement costs until the receipt is achieved.
- **Ditchburn Place** – The BSR and HRA Business Plan includes an HRA capital bid of £3.075m for the potential refurbishment of the extra care housing at Ditchburn place. The bid assumes funding by either the use of revenue funding of capital expenditure or by prudential borrowing against some of the headroom available under the self-financing regime.
- **New Build HRA Dwellings** – The HRA Business Plan also includes the assumption that an element of prudential borrowing against the headroom available in the plan will be required to assist in the delivery of 250 new build homes in the city between 2012/13 and 2016/17.

These items have formed part of the consideration in setting the prudential borrowing limits set out in Appendix T (a) as part of the treasury management strategy. This is considered in more detail in Section 7.

# Appendix L

## HRA Summary 2012/13 to 2016/17

Description	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
<b>Income</b>					
Rental Income (Dwellings)	(32,828)	(34,609)	(36,359)	(38,848)	(40,564)
Rental Income (Other)	(1,023)	(1,049)	(1,075)	(1,102)	(1,130)
Service Charges	(2,309)	(2,361)	(2,414)	(2,468)	(2,523)
Contribution towards Expenditure	(481)	(488)	(497)	(505)	(514)
Other Income	(28)	(31)	(36)	(36)	(36)
<b>Total Income</b>	<b>(36,669)</b>	<b>(38,538)</b>	<b>(40,381)</b>	<b>(42,959)</b>	<b>(44,767)</b>
<b>Expenditure</b>					
Supervision & Management - General	4,704	4,993	5,172	5,381	5,592
Supervision & Management - Special	2,426	2,665	2,591	2,676	2,765
Repairs & Maintenance	6,763	7,091	7,427	7,913	8,398
HRA Subsidy	0	0	0	0	0
Depreciation – t/f to Major Repairs Res.	9,289	9,4307	9,655	10,017	10,249
Debt Management Expenditure	151	155	159	163	167
Other Expenditure	312	521	545	571	592
<b>Total Expenditure</b>	<b>23,645</b>	<b>24,855</b>	<b>25,549</b>	<b>26,721</b>	<b>27,763</b>
<b>Net Cost of HRA Services</b>	<b>(13,024)</b>	<b>(13,683)</b>	<b>(14,832)</b>	<b>(16,238)</b>	<b>(17,004)</b>
<b>HRA Share of operating income and expenditure included in Whole Authority I&amp;E Account</b>					
Interest Receivable	(110)	(135)	(153)	(153)	(152)
Mortgage Interest Receipts	(1)	0	0	0	0
<b>(Surplus) / Deficit on the HRA for the Year</b>	<b>(13,135)</b>	<b>(13,818)</b>	<b>(14,985)</b>	<b>(16,391)</b>	<b>(17,156)</b>
<b>Items not in the HRA Income and Expenditure Account but included in the movement on HRA balance</b>					
Loan Interest	6,982	6,985	7,093	7,144	7,057
Debt Redemption Premium	301	0	0	0	0
Housing Set Aside	1,090	0	0	3,156	5,490
Depreciation Adjustment	(1,969)	(1,989)	(2,024)	(2,070)	(2,118)
Direct Revenue Financing of Capital	9,333	8,778	9,918	8,183	6,741
<b>(Surplus) / Deficit for Year</b>	<b>2,602</b>	<b>(44)</b>	<b>2</b>	<b>22</b>	<b>14</b>
Balance b/f	(4,559)	(1,957)	(2,001)	(1,999)	(1,977)
<b>Total Balance c/f</b>	<b>(1,957)</b>	<b>(2,001)</b>	<b>(1,999)</b>	<b>(1,977)</b>	<b>(1,963)</b>

# Appendix S

## Housing Capital Investment Plan (5 Year Detailed Investment Plan)

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Description	£'000	£'000	£'000	£'000	£'000	£'000
<b>General Fund Housing Capital Spend</b>						
Assessment Centre	2,760	37	0	0	0	0
Disabled Facilities Grants	582	550	550	550	550	550
Private Sector Housing Grants and Loans	195	195	195	195	195	195
Long Term Vacants	20	20	20	20	20	20
<b>Total General Fund Housing Capital Spend</b>	<b>3,557</b>	<b>802</b>	<b>765</b>	<b>765</b>	<b>765</b>	<b>765</b>
<b>HRA Capital Spend</b>						
<b>Decent Homes</b>						
Kitchens	665	691	255	618	598	292
Bathrooms	120	196	128	522	525	119
Boilers / Central Heating	1,553	2,024	1,316	618	2,450	1,688
Insulation / Energy Efficiency	58	100	100	100	100	100
External Doors	378	16	28	129	108	63
PVCU Windows	130	3	339	1,002	1,350	912
Wall Structure	0	15	36	621	63	114
Wall Finishes	479	284	196	319	230	115
Wall Insulation	0	100	100	100	100	100
External Painting	0	0	0	0	0	0
Roof Structure	0	307	300	800	300	322
Roof Covering	934	1,130	544	215	210	274
Chimneys	0	51	39	12	2	1
Electrical / Wiring	304	279	83	91	181	317
Smoke Detectors	0	3	5	19	109	9
Sulphate Attacks	125	102	102	102	102	102

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Description	£'000	£'000	£'000	£'000	£'000	£'000
Major Voids	59	56	53	51	48	53
HHSRS Contingency	140	150	150	100	100	100
Other Health and Safety Works (Balconies)	464	50	50	50	50	50
Other External Works	0	0	0	3	5	0
Rising Damp / Penetrating Damp	20	0	0	0	0	0
Professional Fees	377	377	377	377	377	377
External Professional Fees	0	19	19	19	19	19
Decent Homes Backlog	0	2,131	3,907	2,131	1,065	3,019
Planned Maintenance Contractor Overheads	0	970	975	960	971	978
<b>Total Decent Homes</b>	<b>5,806</b>	<b>9,054</b>	<b>9,102</b>	<b>8,959</b>	<b>9,063</b>	<b>9,124</b>
<b>Other Spend on HRA Stock</b>						
Garages	66	300	300	300	300	300
Asbestos Contingency	200	200	200	200	200	200
Disabled	915	878	878	878	878	878
TIS Schemes	25	21	21	21	21	21
Communal Areas Uplift	0	546	546	546	546	546
Fire Prevention / Fire Safety Works	1,424	300	300	300	300	300
Hard surfacing on HRA Land - Health and Safety Works	270	150	250	250	150	150
Hard surfacing on HRA Land - Recycling	199	100	0	0	0	0
Communal Areas Floor Coverings	207	100	100	0	0	0
Professional Fees	104	104	104	104	104	104
Lifts and Door Entry Systems	13	13	13	13	13	13
Fencing	116	100	100	100	100	100
Cemetery Lodge	0	50	0	0	0	0
Hanover / Princess Laundry	3	0	0	0	0	0
East Road Garages - Lighting Controls	0	4	0	0	0	0
TV Aerials	8	0	0	0	0	0
Planned Maintenance Contractor Overheads	0	344	337	325	313	313

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Description	£'000	£'000	£'000	£'000	£'000	£'000
<b>Total Other Spend on HRA stock</b>	<b>3,550</b>	<b>3,210</b>	<b>3,149</b>	<b>3,037</b>	<b>2,925</b>	<b>2,925</b>
<b>HRA New Build / Re-Development</b>						
Teversham Drift	115	0	0	0	0	0
Cockerell Road	14	0	0	0	0	0
Harris Road	5	0	0	0	0	0
Church End	319	0	0	0	0	0
Roman Court	165	578	591	41	0	0
Seymour Court	1,153	0	0	0	0	0
3 Year Affordable Housing Programme (Excl. Seymour Court)	0	4,510	10,761	2,859	0	0
Clay Farm	0	0	0	10,046	3,617	0
<b>Total HRA New Build</b>	<b>1,771</b>	<b>5,088</b>	<b>11,352</b>	<b>12,946</b>	<b>3,617</b>	<b>0</b>
<b>Cambridge Standard Works</b>						
Cambridge Standard Works	455	200	200	200	200	200
<b>Total Cambridge Standard Works</b>	<b>455</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
<b>Sheltered Housing Capital Investment</b>						
Emergency Alarm Service	96	0	0	0	0	0
Talbot House	5	0	0	0	0	0
Ditchburn Place	634	3,224	0	0	0	0
Brandon Court	3,045	0	0	0	0	0
<b>Total Sheltered Housing Capital Investment</b>	<b>3,780</b>	<b>3,224</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other HRA Capital Spend</b>						
Orchard Upgrade / Open Contractor / Mobile Working / ASB Database	34	227	0	0	0	0
Low Cost Home Ownership	300	300	300	300	300	300
RFR Buy Back	0	330	330	330	0	0
Commercial Property	68	30	30	30	30	30
<b>Total Other HRA Capital Spend</b>	<b>402</b>	<b>887</b>	<b>660</b>	<b>660</b>	<b>330</b>	<b>330</b>

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Description	£'000	£'000	£'000	£'000	£'000	£'000
<b>Total HRA Capital Spend</b>	<b>15,764</b>	<b>21,663</b>	<b>24,463</b>	<b>25,802</b>	<b>16,135</b>	<b>12,579</b>
<b>Total Housing Capital Spend at Base Year Prices</b>	<b>19,321</b>	<b>22,465</b>	<b>25,228</b>	<b>26,567</b>	<b>16,900</b>	<b>13,344</b>
Inflation Allowance for Future Years	0	0	835	1,709	2,010	2,343
<b>Total Inflated Housing Capital Spend</b>	<b>19,321</b>	<b>22,465</b>	<b>26,063</b>	<b>28,276</b>	<b>18,910</b>	<b>15,687</b>
<b>Housing Capital Resources</b>						
Right to Buy Receipts	-344	0	0	0	0	0
Other Capital Receipts (Land and Dwellings)	0	0	0	0	0	0
Major Repairs Allowance (MRA)	-5,119	0	0	0	0	0
Major Repairs Reserve	0	-7,673	-7,398	-7,529	-7,702	-7,881
Direct Revenue Financing of Capital	-2,972	-9,333	-8,778	-9,918	-8,183	-6,741
Other Capital Resources (Grants / Shared Ownership / R&R Funding)	-349	-3,507	-6,596	-1,826	-2,260	-300
Disabled Facilities Grant	-262	-262	-262	-262	-262	-262
Developer's Contributions (Affordable Housing)	-331	0	0	0	0	0
Prudential Borrowing	-283	0	-2,526	-8,238	0	0
<b>Total Housing Capital Resources</b>	<b>-9,660</b>	<b>-20,775</b>	<b>-25,560</b>	<b>-27,773</b>	<b>-18,407</b>	<b>-15,184</b>
Net (Surplus) / Deficit of Resources	9,661	1,690	503	503	503	503
Capital Balances b/f	-13,794	-5,036	-3,346	-2,843	-2,340	-1,837
Use of / (Contribution to) Balances in Year	9,661	1,690	503	503	503	503
Use of balance previously ear-marked for affordable housing	-903	0	0	0	0	0
<b>Capital Balances c/f</b>	<b>-5,036</b>	<b>-3,346</b>	<b>-2,843</b>	<b>-2,340</b>	<b>-1,837</b>	<b>-1,334</b>



# Appendix T(a)

## Capital Prudential Indicators 2012/13 to 2014/15

The Council's capital expenditure plans are a key driver of treasury management activity. Capital expenditure plans are reflected in prudential indicators, which are designed to provide members with an overview of the impact of capital expenditure.

A key issue currently facing the Council is preparations for the impact of HRA reform. The reforms will essentially end the housing subsidy system and will see the HRA as a stand-alone business. The legislation has now been enacted, and the Council will need to approve revised indicators reflecting the reforms going ahead.

The Council currently pays into the HRA housing subsidy system approximately £13m per year. On the ending of the current subsidy system the Council will be required to make a one-off payment to the Government of £213.572m, as set out in the HRA Self-Financing Determinations issued on 1<sup>st</sup> February 2012. This payment is effectively HRA debt, and so the prudential indicators have been adjusted to reflect this change. The actual borrowing transactions and settlement payment will be made on the 28 March 2012 and so the revised indicators will take immediate effect from the approval of these limits by Council.

### Capital Expenditure

This Prudential Indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. Members are asked to approve the capital expenditure forecasts:

Capital Expenditure £000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
General Fund (Non-Housing)	5,032	11,579	13,920	5,591	5,076
Housing (Incl. HRA)	9,514	19,321	22,465	26,063	28,276
HRA settlement	-	213,572	-		
Total	14,546	244,472	36,385	31,654	33,352

Capital Expenditure £000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Financed by:					
Capital receipts	(792)	(822)	(937)	(300)	(300)
Other contributions	(13,754)	(30,078)	(35,448)	(28,828)	(24,814)
Net financing need for the year	0	213,572	0	2,526	8,238

## The Council's Borrowing Need (the Capital Financing Requirement)

The second Prudential Indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure for which borrowing is required will increase the CFR.

Following accounting changes, the CFR includes any other long term liabilities (e.g. PFI schemes, finance leases) brought onto the balance sheet. Whilst this increases the CFR, and therefore the Council's borrowing requirement, these types of scheme include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council is asked to approve the CFR projections below

£000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Capital Financing Requirement					
General Fund CFR	(894)	(1,177)	(1,177)	(1,177)	(1,177)
HRA CFR	893	1,176	214,748	217,274	225,512
HRA Settlement	-	213,572	-	-	-
Total CFR	(1)	213,571	213,571	216,097	224,335

Movement in CFR represented by					
Net financing need for the year	(1)	1	(213,571)	(216,097)	(224,335)
HRA Settlement	-	(213,572)	-	-	-
Less MRP/VRP and other financing movements	-	-	-	-	-
Movement in CFR	(0)	(213,571)	(213,571)	(216,097)	(224,335)

## Minimum Revenue Provision (MRP) Policy Statement 2012/13

As this Council is currently debt free and has no immediate plans to borrow externally to finance any General Fund capital expenditure in 2012/13, there is no need for this Council to determine a MRP policy for the forthcoming year. No revenue charge is currently required for the HRA. However under HRA reform the HRA will be required to charge depreciation on its assets, which will have a revenue effect. In order to address any possible adverse impact, regulations will allow the Major Repairs Allowance to be used as a proxy for depreciation for the first five years.

## Treasury Management Strategy

Part of the treasury management function is to ensure that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet its capital expenditure. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual deposit strategy.

## Current Portfolio Position

The Council's treasury portfolio position at 31 March 2011, with forward projections are summarised below. The table shows the actual net external borrowing (for treasury management operations).

£000	2010/11 Actual	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
External borrowing					
Net Borrowing at 31st March	1	(213,571)	(213,571)	(216,097)	(224,335)
Other long-term liabilities (OLTL)	-	-	-	-	-
Actual borrowing requirement at 31 March	1	(213,571)	(213,571)	(216,097)	(224,335)
Deposits at 31 March	56,437	34,953	32,432	32,372	32,423
Cumulative net borrowing requirement	56,438	(178,618)	(181,139)	(183,725)	(191,912)

Within the Prudential Indicators are a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its total borrowing, net of any deposits, does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2012/13 and the following two financial years (shown as cumulative net borrowing above). This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

The Director of Resources reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this budget report.

## Treasury Indicators: Limits to Borrowing Activity

### The Operational Boundary

The operational boundary is the limit which external borrowing is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual borrowing.

Operational boundary £000	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Outstanding debt (including HRA settlement)	213,572	213,572	216,098	224,336
Other long term liabilities	-	-	-	-
Total	213,572	213,572	216,098	224,336

### The Authorised Limit for external borrowing

A further key Prudential Indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external borrowing is prohibited, and this limit was previously set as part of the Medium Term Strategy 2011, approved by Council on 20th October 2011. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

The Authorised Limit follows in the table below:

Authorised limit £000	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Outstanding debt (including HRA settlement)	250,000	250,000	250,000	250,000
Other long term liabilities	-	-	-	-
Total	250,000	250,000	250,000	250,000

Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime. This limit is currently:

HRA Debt Limit £000	2011/12 Estimate	2012/13 Estimate	2013/14 Estimate	2014/15 Estimate
Total	230,839	230,839	230,839	230,839

## Prospects for Interest Rates

The Council has appointed Sector as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Annex 2 draws together a number of current City forecasts for short term (Bank Rate) and longer fixed interest rates. The following table gives the Sector central view.

Annual Average %	Bank Rate	Money Rates		PWLB Borrowing Rates		
		3 month	1 year	5 year	25 year	50 year
March 2012	0.50	0.70	1.50	2.30	4.20	4.30
June 2012	0.50	0.70	1.50	2.30	4.20	4.30
Sept 2012	0.50	0.70	1.50	2.30	4.30	4.40
Dec2012	0.50	0.70	1.60	2.40	4.30	4.40
March 2013	0.50	0.75	1.70	2.50	4.40	4.50
June 2013	0.50	0.80	1.80	2.60	4.50	4.60
Sept 2013	0.75	0.90	1.90	2.70	4.60	4.70
Dec 2013	1.00	1.20	2.20	2.80	4.70	4.80
March 2014	1.25	1.40	2.40	2.90	4.80	4.90
June 2014	1.50	1.60	2.60	3.10	4.90	5.00

## The Economy

Growth in the UK economy is expected to be weak in the next two years and there is a risk of a technical recession (i.e. two quarters of negative growth). Bank Rate, currently 0.5%, underpins deposit returns and is not expected to start increasing until quarter 3 of 2013 despite inflation currently being well above the Monetary Policy Committee inflation target. Hopes for an export led recovery appear likely to be disappointed due to the Eurozone sovereign debt crisis depressing growth in the UK's biggest export market. The Comprehensive Spending Review, which seeks to reduce the UK's annual fiscal deficit, will also depress growth during the next few years.

Fixed interest borrowing rates are based on UK gilt yields. The outlook for borrowing rates is currently much more difficult to predict. The UK total national debt is forecast to continue rising until 2015/16; the consequent increase in gilt issuance is therefore expected to be reflected in an increase in gilt yields over this period. However, gilt yields are currently at historically low levels due to investor concerns over Eurozone sovereign debt and have been subject to exceptionally high levels of volatility as events in the Eurozone debt crisis have evolved.

This challenging and uncertain economic outlook has several key treasury management implications:

The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods;

Deposit returns are likely to remain relatively low during 2012/13;

Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;

There will remain a cost of capital – any borrowing undertaken that results in an increase in deposits will incur a revenue loss between borrowing costs and deposit returns.

*The following tables consolidate the Prudential and Treasury Management Indicators for Cambridge City Council, from 2010/11 to 2014/15 inclusive.*

PRUDENTIAL INDICATORS	2010/11 actual (£000)	2011/12 probable outturn (£000)	2012/13 estimate (£000)	2013/14 estimate (£000)	2014/15 estimate (£000)
<b>Capital Expenditure</b>					
General Fund (Non-Housing)	5,032	11,579	13,920	5,591	5,076
Housing (Incl. HRA)	9,514	232,893	22,465	26,063	28,276
TOTAL	14,546	244,472	36,385	31,654	33,352
<b>Ratio of financing costs to net revenue stream</b>					
General Fund	(370)	(356)	(791)	(1,606)	(2,409)
HRA	(37)	(24)	9,934	9,869	9,792
	(407)	(380)	9,143	8,263	7,383
<b>Net borrowing requirement</b>					
<b>Capital Financing Requirement as at 31 March</b>					
General Fund	(894)	(1,177)	(1,177)	(1,177)	(1,177)
HRA	893	214,748	214,748	217,274	225,512
TOTAL	(1)	213,571	213,571	216,097	224,335
<b>Annual change in Capital Financing Requirement</b>					
General Fund	(1)	0	0	0	0
HRA	0	213,571	0	2,526	8,238
TOTAL	(1)	213,571	0	0	0
<b>Incremental impact of capital deposit decisions</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>	<b>£ p</b>
Increase in council tax (Band D, per annum)	0.00	0.00	0.00	0.00	0.00
Increase in housing rent per week	0.00	0.00	0.00	0.00	0.00
	(no increases in either council tax or housing rents are anticipated in connection, specifically, with the reform of the HRA)				

TREASURY MANAGEMENT INDICATORS	2010/11 actual (£000)	2011/12 probable outturn (£000)	2012/13 estimate (£000)	2013/14 estimate (£000s)	2014/15 estimate (£000s)
<b>Authorised limit for external debt</b>					
Borrowing	250,000	250,000	250,000	250,000	250,000
Other long term liabilities	-	-	-	-	-
TOTAL	250,000	250,000	250,000	250,000	250,000
<b>Operational boundary for external debt</b>					
Borrowing	3,000	213,572	213,572	216,098	224,336
Other long term liabilities	-	-	-	-	-
TOTAL	3,000	213,572	213,572	216,098	224,336
Actual external debt	0	213,572	213,572	216,098	224,336
<b>Upper limit for fixed interest rate exposure</b>					
Net interest re fixed rate borrowing / deposits	(320)	(400)	721	660	607
<b>Upper limit for variable rate exposure</b>					
Net interest re variable rate borrowing / deposits	(120)	(375)	(420)	(420)	(420)
<b>Upper limit for total principal sums invested for over 364 days</b>					
(per maturity date)	5,000	5,000	5,000	5,000	5,000
<b>Maturity structure of new fixed rate borrowing during 2011/12</b>		<b>Upper Limit</b>	<b>Lower limit</b>		
Under 12 months		100%	0%		
12 months and within 24 months		100%	0%		
24 months and within 5 years		100%	0%		
5 years and within 10 years		100%	0%		
10 years and above		100%	0%		



# Appendix T(b)

## Treasury Management Borrowing Strategy

The requirement for the HRA reform settlement to be made to the CLG on 28 March 2012 will require a separate consideration of a borrowing strategy. The Council will need to have the cash settlement amount of £213.572m available by the 28th March 2012, so separate borrowing solely for this purpose is anticipated.

The PWLB are providing loans at interest rates 0.85% lower than the usual PWLB interest rates solely for the settlement requirements. This provides a compelling reason to utilise this borrowing availability. The exact structure of debt to be drawn is currently being considered by officers to ensure it meets the requirements of the HRA business plan and the overall requirements of the Council.

Whilst the debt can be drawn earlier than needed, this may incur a revenue cost, and will be considered when a review of the structure of actual prevailing borrowing and deposit interest rates is undertaken nearer to the time.

Any decisions will be reported to the appropriate decision making body at the next available opportunity.

### Policy on Borrowing in Advance of Need

The Council will not borrow more than, or in advance of its needs, purely in order to profit from the deposit of the extra sums borrowed.

Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates, and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

Risks associated with any borrowing in advance activity will be subject to prior appraisal and subsequent reporting through the mid-year or annual reporting mechanism.

# Appendix U

## Sensitivity Analysis - updated final page

Topic	Quantum	BSR Assumption	Risk
Land Charges Income	c. £0.2m	Reductions based on latest experience have been incorporated	Increased proportion of personal searches and reduced number of overall searches due to market conditions. Potential loss of ability to charge for Personal Searches following a decision by the Information Commissioner.
<b>Housing Revenue Account</b>			
A sensitivity analysis in respect of the Housing Revenue Account is included in the HRA 30-Year Business Plan at Appendix F			