	Executive 11th January 2012	Agenda Item No. **6**

Title:	Housing Revenue Account Draft Business Plan 2012 – 2042 and Self Financing
For further information about this report please contact	Jameel Malik, Head of Housing and Property Services
Service Area	Housing and Property Services
Wards of the District directly affected	All
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No
Date and meeting when issue was last considered and relevant minute number	Executive Meeting 23rd June 2010 Minute 25 Executive Meeting 8th June 2011 Minute 13
Background Papers	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	Yes
Included within the Forward Plan? (If yes include reference number)	Yes - 359
Equality & Sustainability Impact Assessment Undertaken	Yes

Officer/Councillor Approval		
Officer Approval		
Officer Approval	**Date**	**Name**
Chief Executive	05.12.11	Chris Elliot
Deputy Chief Executive	05.12.11	Bill Hunt
Section 151 Officer	05.12.11	Mike Snow
Deputy Chief Executive & Monitoring Officer	05.12.11	Andrew Jones
Portfolio Holder(s)	05.12.11	Councillor Norman Vincett
Consultation Undertaken		
The self financing Project Board have been consulted together with members of the Tenant Panel. The Board consists of Head of Housing & Property Services, Business Support Manager, Property Manager, Housing Strategy Manager, Head of Finance, Principal Accountant, Accountant, Principal Accountant, Senior Solicitor, Portfolio Holder for Housing & Property Services, Shadow Portfolio Holders for Housing & Property Services, the Portfolio Holder for Finance and the Leader of the Council.		
Final Decision?	Yes	
Suggested next steps (if not final decision please set out below)		

1 SUMMARY

1.1 In April 2012, the existing Housing Revenue Account (HRA) subsidy system will be replaced by a self financing model. This will mandate Warwick District Council to take on debt of £136.8m (as per draft determination issued November 2011) to be paid the CLG on 28th March 2012.

1.2 This report sets out how the Council will service the debt and maintain a viable Business Plan (attached at appendix 1) over the 30 year period from 2012 to 2042.

2 RECOMMENDATION

2.1 That Council approves the draft Business Plan 2012 to 2042 based on the current draft determination.

2.2 That Council gives delegated authority to the Head of Housing and Property Services, Head of Finance in consultation with the Portfolio Holders for Housing and Property Services and Finance to update the Business Plan with the final determination figures ensuring that it remains viable within 30 years and to enter into all associated borrowing transactions leading up to Self Financing and payment of the final settlement.

2.3 That Council notes that through continuous monitoring and management of the programme any emerging new investment and spending opportunities will be brought forward as recommendations for Executive approval.

2.4 That Council notes performance of the HRA Business Plan will be continuously monitored and managed and any divergence from the agreed programme will be reported to Executive at least annually and as part of the mid-year estimates.

2.5 That Council notes a further report will be presented by July 2012 to evaluate and recommend a preferred governance structure that is fit for purpose and reflects the complexity and risk-profile of the Housing and Property Service

3 REASONS FOR THE RECOMMENDATION

3.1 The Localism Act abolishes the HRA subsidy system and introduces a new compulsory system of Self Financing in April 2012. In accordance with CLG's latest indicative debt settlement figures the Council will be required to take on debt of £136.8m with a borrowing limit of £150.6m.

3.2 The current Business Plan is based on the draft determination which was published by CLG on 21st November 2011 which requires the Council to take on debt of £136.8m. This determination will be finalised by CLG in January 2012 and therefore is likely to be subject to change. Delegated authority has been requested as per recommendation 2.2 to enable the Business Plan to be updated with the final determination to be issued by the CLG. This authority is granted within the given parameters that the Business Plan remains viable and the debt is forecast to be repaid within 30 years.

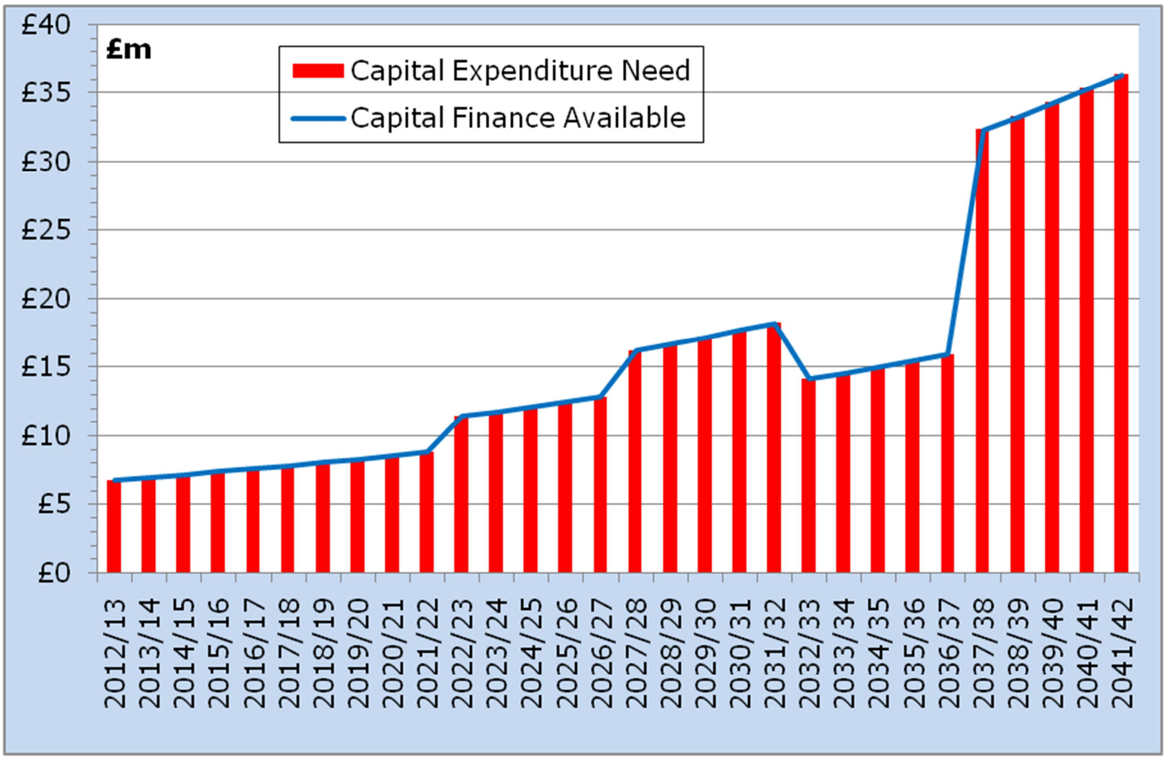
3.3 The Business Plan sets out the strategic purpose of the housing landlord service to make Warwick District a great place to live, work and visit. The Plan proposes to deliver this through three overarching objectives; Improving Services for Customers, Leading Differently and Financial Viability.

3.4 The Business Plan has been externally validated by Chartered Institute of Housing with independent treasury management advice received from Sector Treasury Services Ltd. The Plan has been based on stock condition survey information which was independently updated and validated by Michael Dyson Associates in October 2011. Financial, risk and other cost data have also been assessed through a peer challenge session with another Local Authority.

3.5 The Business Plan maintains the current Warwick District Council refurbishment and service standards. It assumes circa £398m capital and revenue repairs expenditure over the 30 year period. The average capital expenditure for each property over 30 years equates to £31,524.

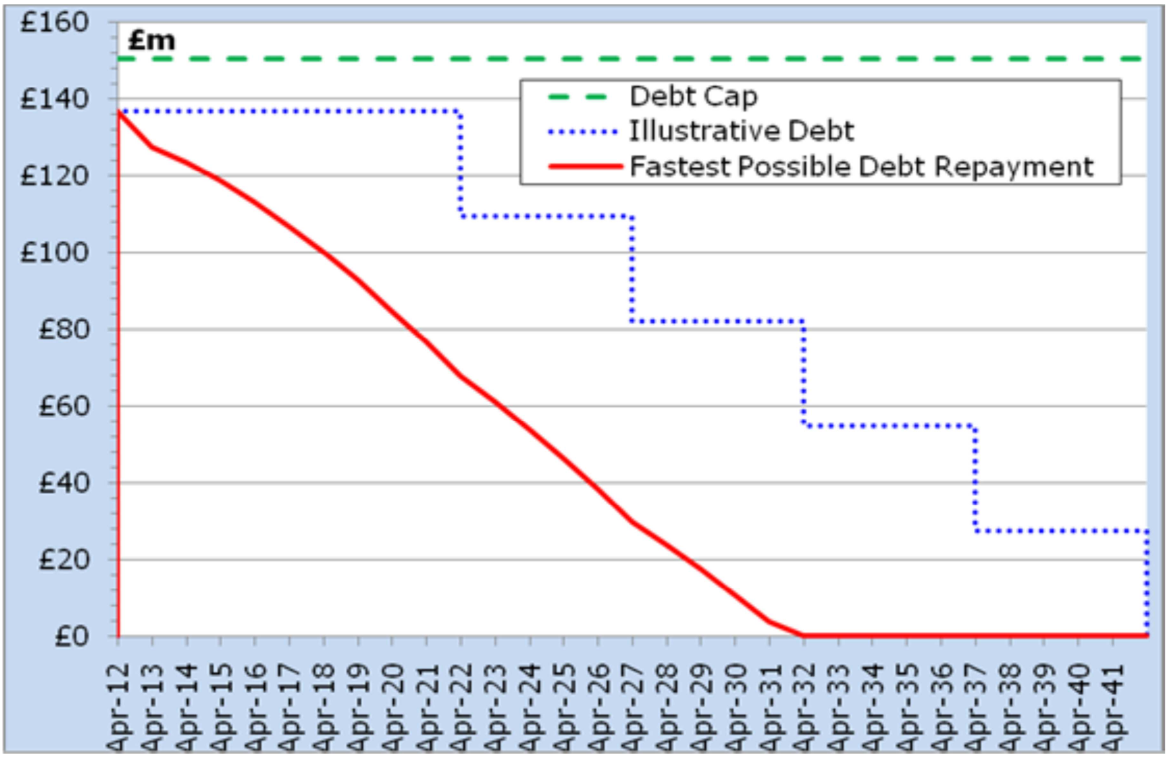
3.6 The plan projects a healthy position for the HRA account, given that the balances do not fall below a pre-set minimum balance of £1.25m. After year 20 potential repayment of debt is fully provided for and available balances start accumulating to £67m in year 30 within the plan.

3.7 All capital expenditure identified in the stock condition survey is met, as demonstrated in the graph below:



3.8 The capital is fully funded by the depreciation charge and revenue contributions from the HRA. No additional borrowing is required to meet currently forecast capital expenditure requirements from the gap between current and capped debt limit.

3.9 The graph below illustrates the recomended strategy which shows that the debt will be repaid in stages over the life of the Business Plan.



3.10 The Business Plan will be reviewed annually in line with the budget setting process to ensure that all expenditure is contained within budgets and any variance is reported as part of the mid-year estimates.

3.11 The specific risks associated with the Business Plan are included in the risk register at appendix 1 of the Business Plan.

3.12 The Business Plan has the financial capacity to deliver an additional £1m of investment per year within the financial envelope of the repayment strategy for the initial loan facility of £136.8m. This would be notwithstanding any additional borrowing which the Business Plan might take within its borrowing limit. Any such additional expenditure which is not allowed for in the HRA Business Plan will be presented to Executive for approval if required.

3.13 This £1m per year could deliver on average 8 homes (£125,000 build costs per unit) per year, or 236 over the planned period. This resource could also be used to improve services and/or increasing standards of existing homes to reduce fuel poverty.

3.14 Consultation with the Tenant Panel provided strong support for using the additional investment to reduce fuel poverty in particular through renewable technologies.

3.15 The Localism Act, changes the powers of the social housing regulator for registered providers (such as housing associations and local authorities) in England from 1 April 2012.

3.16 The Government's consultation document (A revised regulatory framework for social housing in England from April 2012) was issued in late November 2011 and sets out the framework to meet the powers given to the social housing regulator in the Localism Act 2011. Following this consultation the regulator is expected to publish a statement in March 2012 before the new powers are activated on 1st April 2012.

3.17 The Government's review and the Localism Act brings significant differences to the regulator's current role, especially on consumer protection. In future, the regulator's responsibilities in relation to the consumer standards will be limited to setting standards and intervening when there is risk of serious harm to tenants (the 'serious detriment' test). The regulator will have no role in monitoring how providers deliver the housing service (or 'consumer') standards. The proposals in the aforementioned consultation document reflect these fundamental changes.

3.18 The cornerstone of the current regulatory approach is a commitment to co-regulation – that is, that the regulator expects robust self-regulation by Councillors who govern the delivery of housing services, incorporating effective tenant involvement. As a result of these changes, Recommendation 2.5 proposes to evaluate and recommend to Council by July 2012 an appropriate governance structure which is fit for purpose, reflects the complexity and risk-profile of the Housing and Property Service going forward and responds to the impending changes in the regulatory environment.

4 POLICY FRAMEWORK

4.1 The proposals directly contribute to Fit for the Future and meeting the Vision and Objectives of the Council as set out in the Sustainable Community Strategy. The effective transition from the HRA subsidy system to self financing and the development of an updated HRA Business Plan will meet housing and well being needs of the District's residents.

5 BUDGETARY FRAMEWORK

5.1 Under the current Housing Subsidy System, the HRA pays around £8m to the national subsidy pool, this is generally referred to as "negative subsidy". Out of the payments into the pool, the majority is paid to other housing authorities to help maintain their housing stock. Under Self Financing authorities are required to "buy" themselves out of the subsidy system by way of payment of a single upfront commuted sum (those in receipt of subsidy will receive a commuted sum). The settlement figures are based on the cash flows for 30 year HRA business plans.

5.2 Self Financing will be the largest financial transaction that the District Council has ever entered into, or likely to in the foreseeable future. The Council is required to pay DCLG approaching £140m to buy itself out of the HRA system, and will need to take on substantial debt to enable this to happen. The Council has been debt free since 2004. Its Financial Strategy enables the Council to borrow to finance capital expenditure providing it can be demonstrated that it has the resource to finance the debt.

As mentioned above, the Council is currently debt free, however, if any borrowing had been necessary it would have been obtained on behalf of the Council as a whole, as a combined venture, whether or not it was specifically for HRA or GF purposes. All debts would have been consolidated and an overall rate of interest calculated and applied to either the GF or HRA as appropriate. For this new debt, the Council will operate a separate 'HRA Loans Pool', in accordance with current best practice guidance, so that the cost of servicing the debt will be a specific charge to the HRA only. There should be no problem with the HRA being able to afford to service the debt as these payments are effectively a replacement for the £8m currently being paid as negative housing subsidy, to the Government.

5.3 The debt the Council will take on will be a major financial commitment that may impact upon the business plan of the HRA for many years. The Council has therefore used Sector (as referred to in paragraph 3.4) to advise on treasury management aspects of self financing. Appendix 3 sets out the main issues that need to be considered in taking on the debt. These are further discussed below.

Source of debt

5.4 In the past local authorities have secured most of their debt through the Public Works Loans Board (PWLB). A year ago the PWLB put its borrowing rates up for local authorities by 1%. This made the PWLB no longer the obvious choice for local authority borrowing. Local authorities have therefore been considering other sources of funding (e.g. market loans, bonds issue). However, the Government announced in September that it will reduce PWLB rates by approximately 0.75% specifically for self financing, and only on the 26th March, which is the date that local authorities will be arranging the loans with the PWLB. This move effectively makes PWLB the cheapest option for local authorities to borrow for self financing.

Period of Debt

5.5 Appendix 3 sets out the possible scenarios for the debt maturity, these being:-

- Take on debt for maturity at 30 years in line with the business plan.
- Take on debt for the minimum time and repay it as soon as possible.
- Take on debt to be repaid during the course of the business plan, with different maturity loans (this is depicted in the chart in paragraph 3.9).

5.6 These options are discussed in some detail in Appendix 3. The third option is the preferred option for the following main reasons:-

- It enables the HRA to reduce its overall debt exposure
- It enables the HRA to have additional funding which it may invest in the stock, and possibly additional stock.
- Interest rates will be unlikely to be at the current record low rates, meaning should the HRA wish to borrow in the future, it would be necessary to pay higher than rates at present.
- Whilst any borrowing involves risk, this is believed to be the lowest risk option.

Internal borrowing

5.7 The Council does hold some substantial balances which are invested on a daily basis on the money markets. Much of this is General Fund money. The Council will be able to lend some of these General Fund balances to the HRA for the medium term. The advantages of this are:-

- The HRA will be able to be flexible in its repayment of this money. It is possible that the HRA will seek to repay some of its overall debt in the initial years of the Business Plan. By borrowing internal debt, it will be possible to be flexible as to the precise debt repayment date.
- The interest rate on the borrowing should be able to benefit both the HRA and the General Fund.

5.8 The Council will need to arrange its borrowing from the PWLB on the 26th March. The final structure of the debt portfolio will be finalised once the HRA Business Plan has been updated following receipt of the final HRA Determinations, this will be in conjunction with Sector.

5.9 In terms of the General Fund there should be no impact upon the Council's finances. However, as referred to in paragraph 5.7 above, the General Fund may be able to benefit from lending some of its balances to the HRA at better rates than it is currently able invest on the money markets.

Rent Policy

5.10 The Business Plan currently assumes rents to increase by RPI plus 0.5% plus a maximum of £2.00 year on year until rent convergence with formula rent. RPI for 2012/13 is 5.6% (as at September 2011). Thereafter year on year RPI forecasts are predicted to be 2.5% which is consistent with Sector's (independent Treasury Advisor) projections.

5.11 As the Business Plan will be presented to Members during the rent setting process this will enable a full evaluation of the implications for any rent setting decisions.

6 LEGAL ADVICE

6.1 The Localism Bill received the Royal Assent on the 15 November 2011. This means that on this date the Bill became law. The self-financing requirements for local housing authorities will be in force on the 1st April 2012. The Project Board has expressed concerns about the risks and implications to WDC if the Government subsequently changed the law in relation to self-financing. In practice if the Government were to change their position on self-financing it would have to go through a lengthy legal process to implement the new law and this can take up to three years. WDC will therefore know in good time about the proposal and will be able to consult at an early stage on the proposed new law; at this time WDC could also put in place a 'task group' to review and consult on the proposed law and also consider what necessary steps WDC need to put in place. Note the Government is also susceptible to Judicial Review if they make a decision which is unreasonable and irrational, this could be an option open to local housing authorities (maybe as a group action) if the Government changed the law in an unreasonable and irrational manner.

7. ALTERNATIVE OPTIONS CONSIDERED

7.1 Do Nothing

7.1.1 The clauses in the Localism Act which abolished the HRA subsidy system and introduced Self Financing are compulsory and the Council have no choice but to take on and transfer the agreed debt to CLG.

7.2 Agree an alternative Business Plan

7.2.1 The Council may wish to agree alternative policies, service standards and investment options as part of agreeing this Business Plan. Provided these options are financially viable and deliverable, the Business Plan would be updated as a result.

7.2.2 The re-drafting of an alternative Business Plan would need to be accomplished within the set project timetable to ensure Council delivers the self financing project.