WARWICK DISTRICT COUNCIL	**Executive 6th March 2012**	**Agenda Item No.** **3**

Title:	Housing Revenue Account Draft Business Plan 2012 – 2062 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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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 Executive Meeting 11th January 2012 Minute 112
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	16.02.12	Chris Elliot
Deputy Chief Executive	16.02.12	Bill Hunt
Section 151 Officer	16.02.12	Mike Snow
Deputy Chief Executive & Monitoring Officer	16.02.12	Andrew Jones
Portfolio Holder(s)	16.02.12	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 £136.2m (as per final determination issued February 2012) to be paid to 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 50 year period from 2012 to 2062.

2 RECOMMENDATION

2.1 That Council approves the Housing Business Plan 2012 to 2062 based on the final determination.

2.2 That Council approves the rent policy contained in section 4.4 of the Business Plan.

2.3 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 enter into all associated borrowing transactions leading up to Self Financing and payment of the final settlement.

2.4 That Council approves the setting up of a Housing Revenue Account (HRA) Capital Investment Reserve for the surpluses expected to be generated from the Housing Business Plan, to be used on capital projects.

2.5 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.

2.6 That Council gives delegated authority to the Head of Housing and Property Services in consultation with the Portfolio Holder for Housing and Property Services to incur expenditure (as necessary) of up to £100,000 from HRA balances to prepare a Business Case (for Executive approval by October 2012) to maximise the provision of new homes.

2.7 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.

2.8 That Council notes a further report will be presented by September 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 final settlement figures the Council will be required to take on debt of £136.2m with a borrowing limit of £150.0m.

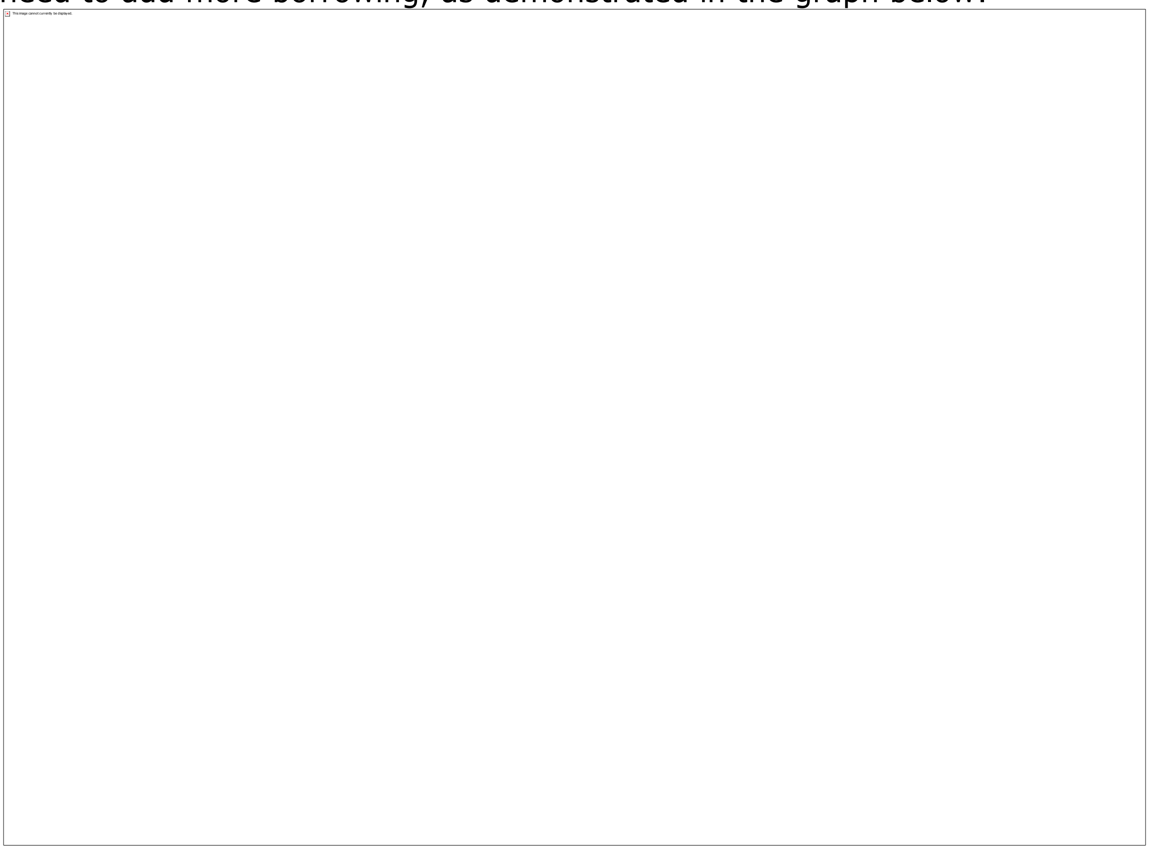
3.2 The Council has one unifying purpose, "*To make Warwick District, a great place to live, work and visit, where we aspire to build sustainable, safe, stronger and healthier communities".* The Housing Business Plan sets out the strategic purpose of the housing landlord service to deliver this through three overarching objectives; Improving Services for Customers, Leading Change Positively and Financial Viability.

3.3 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 30 year stock condition survey information which was independently updated and validated by Michael Dyson Associates in October 2011. The average cost of the Business Plan for years 31 to 50 have been based on the average 30 year cost extrapolated forward. Financial, risk and other cost data have also been assessed through a peer challenge session with another Local Authority.

3.4 The Business Plan maintains the current Warwick District Council refurbishment and service standards. It assumes circa £660m in today's prices capital and revenue repairs expenditure over the 50 year period. The average capital expenditure for each property over 50 years equates to £77,000.

3.5 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. In the absence of any new housing development the plan has the capacity to repay debt by year 21 with balances accumulating to £420m in year 50 within the plan.

3.6 All forecast capital expenditure identified in the stock condition survey for the existing housing stock is met with additional capacity for new build without the need to add more borrowing, as demonstrated in the graph below:

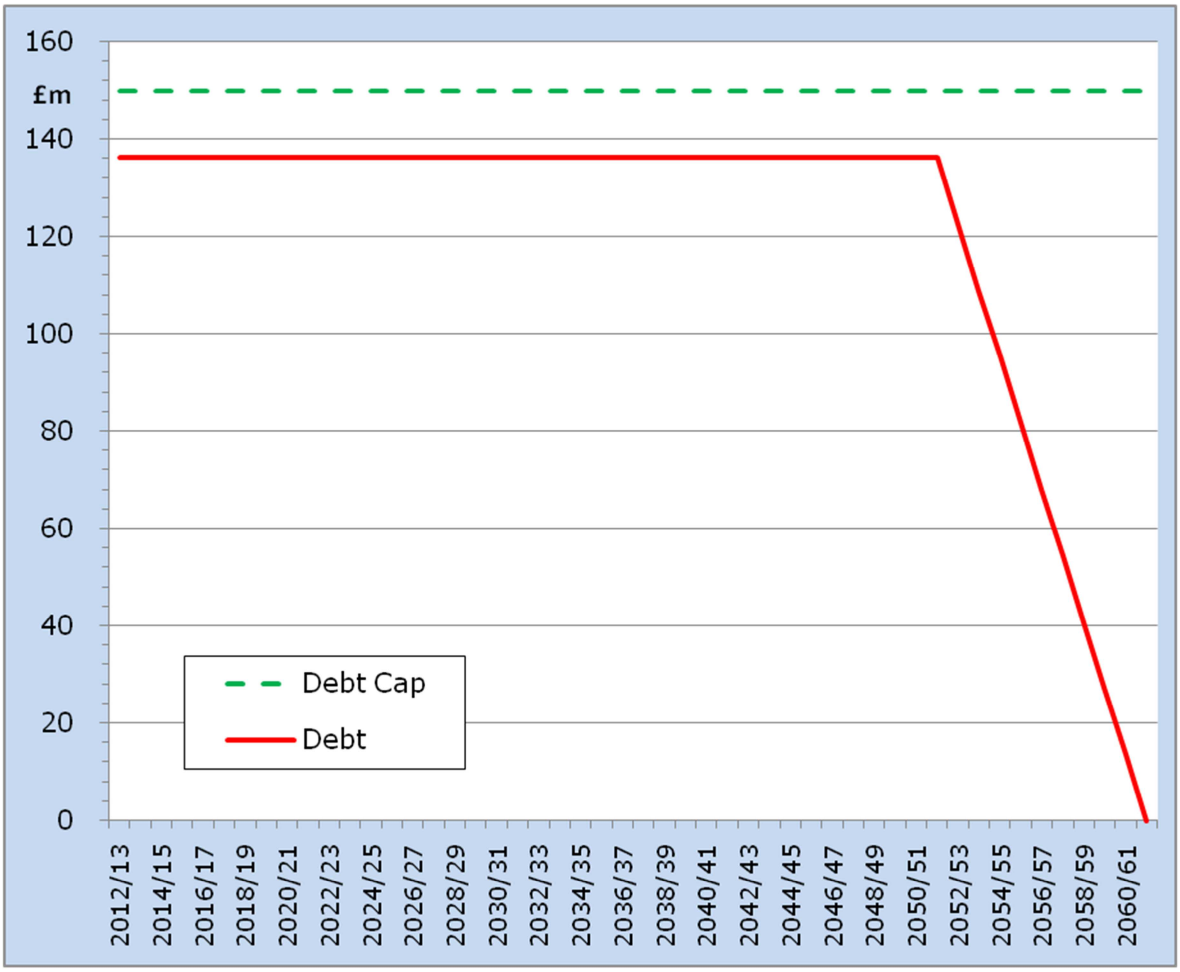


3.7 The specific risks associated with the Business Plan are included in the risk register at appendix 1 of the Business Plan.

3.8 The Business Plan is based on a rent policy in line with the Governments Rent Restructuring Guidance which is further detailed in section 5.10 and 5.11.

3.9 The funding of the Business Plan requires the take on of a large amount of debt, as detailed in section 5.

3.10 The graph below illustrates the recomended strategy which shows that the debt will be repaid in stages from year 41 of the Business Plan:



3.11 It is proposed that any surpluses generated from the Housing Business Plan, at the end of each year, are transferred to a separate HRA Capital Investment Account, to be preserved for use on new investment and spending opportunities, as they arise. It is intended that the balance on the Housing Revenue Account will be maintained at £1.25 million, plus annual inflation, as forecast in the Housing Business Plan model. This will be implemented as part of closure of the 2011/12 accounts.

3.12 The Business Plan has the financial capacity to deliver approximately an additional 1,400 homes over the 50 year period based on current assumptions. This is based on the following development profile

10 yearly period Up to Financial Year	1 to 10 2021/22	11 to 20 2031/32	21 to 30 2041/42	31 to 40 2051/52	41 to 50 2061/62	Total for 50 years
No. Built in each 10 year period	300	280	200	360	300	**1,440**
Cumulative number built	300	580	780	1,140	1,440	

From year 6 (2017/18) of the business plan we have modelled building as many homes as possible from available resources, based on our current projections. This development programme will enable the council to increase the number of affordable homes in the district as well as deliver homes to meet the needs of older people.

3.13 Any proposals for investment in new homes or improvements in services of existing homes to reduce fuel poverty will be presented to the Executive whenever required. Consultation with the Tenant Panel provided strong support for using the additional investment to reduce fuel poverty in particular through renewable technologies.

3.14 The development programme in the Business Plan is currently proposed to be 100% funded from Housing Revenue Account Resources within the preferred debt strategy, without relying on gap funding through external grant, debt, equity or cross subsidy arrangements. The maturity profile of the preferred debt strategy with actual debt to be repaid from years 41 to 50) together with the one-off preferential interest rates from the Public Works Loans Board (PWLB) provide the opportunity to attract significant investor interest to match fund/lever external funding which could significantly increase the development programme. Hence recommendation 2.6 proposes the preparation of a Business Case to fully investigate the options available to the Council to lever additional funding and maximise opportunities to deliver the Council's housing ambitions contained in the forthcoming draft Local Plan to be agreed by Executive in early 2013. The request to incur expenditure of up to £100,000 is planned to fund external financial/market advice on the available options for the Council in maximising the development programme and delivering the Local Plan ambitions.

3.15 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.

3.16 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.

3.17 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.

3.18 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.

3.19 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 2.8 proposes to evaluate and recommend to Council by September 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.

3.20 In the interim period until a new Governance structure is agreed the Housing and Property Service intend to continue the meetings of the Self Financing Board with the purpose of overseeing Business Plan performance.

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 £136.2m 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 will impact upon the business plan of the HRA for many years. The Council has therefore used Sector (as referred to in paragraph 3.3) 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 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 0.85% 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 out one single loan maturing in year 50.
- Take out several loans maturing between years 11 and 30.
- Take out several loans maturing between years 41 and 50.

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 allows for New Build throughout the life of the Business Plan.
- It allows for initial borrowing to be re-borrowed from year 41 onwards, if required.
- It minimises Treasury Management risk as surplus balances are not being invested rather they are being used to fund the development of new homes up to year 41 and debt repayment thereafter.
- There is no significant increase in borrowing interest over the single 50 year loan option.

Internal borrowing

5.7 The Council does hold some substantial balances, both General Fund and Housing Revenue Account, which are invested on a daily basis on the money markets. Potentially the cash backing these balances could be used in the relatively short term to reduce the amount of borrowing required to finance the debt settlement. However, the available General Fund balances are relatively small e.g. £5m and are available for only a few years after which they would have to be repaid by the HRA to the General Fund. This would result in the HRA having to borrow to replace this money at higher rates than obtainable on the

28th March or forego part of its new build programme. The case is similar for the HRA balances in that the available balances are relatively slight e.g. £6m and this may need to be retained to meet capital expenditure outside of the Business Plan e.g. solar panels or to cover any early financing problems in the Business Plan although the latter is unlikely.

5.8 The Council will need to arrange its borrowing from the PWLB on the 26th March with the actual debt transactions taking place on the 28th. The final structure of the debt portfolio will be finalised between now and the 26th March but the current working hypothesis is to take loans of equal principal maturing on a yearly basis from year 41.

5.9 In terms of the General Fund there should be no impact upon the Council's finances from the introduction of Self Financing. The debt needed to be secured will be ring fenced to the HRA.

Rent Policy

5.10 The Business Plan currently assumes rents continue to follow Central Governments Rent Restructuring Guidance, that is 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 rents 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 Each year the latest 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. It should also be noted that 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.

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.