

CAB2323 (HSG)
FOR DECISION
WARD(S): ALL

CABINET (HOUSING) COMMITTEE

4 APRIL 2012

HOUSING REVENUE ACCOUNT REFORM – CONFIRMATION OF BORROWING ARRANGEMENTS

REPORT OF HEAD OF LANDLORD SERVICES

Contact Officer: Richard Botham Tel No: 01962 848421

RECENT REFERENCES:

CAB2287 (HSG) – Housing Revenue Account Budget 2012/13 and Business Plan 2012/13 to 2042/43 dated 1 February 2012

CAB2284 – Treasury Management Strategy 2012/13 and 2011/12 Revision

EXECUTIVE SUMMARY:

Government proposals for Housing Revenue Account (HRA) Reform take effect from April 2012. CAB2287 (HSG) set out plans for the HRA Business Plan post reform and also gave an indication of how borrowing could be structured. The Plan assumed average borrowing costs of 3.62%, although it was accepted that borrowing rates on 26 March would determine exact borrowing costs, as this was the date when the Government was offering specific discounted rates to councils as part of the reform process.

The borrowing has now been arranged and details of the loan profile is set out in the appendix to this report. Overall, debt has been structured similarly to the example included in CAB2287 (HSG), although some debt has been taken out over 50 years rather than 27 years as projected in the report, as interest rates were broadly the same and the longer dated debt provides increased flexibility for the Council.

The overall net impact of the final borrowing arrangements is a reduction in annual interest costs to the HRA of £830,887. One of the general principles for the budget was that any additional resource, once the maintenance programme was fully funded, should be added to the “New Build” programme. At this stage, it is not clear if the Council will have capacity to commit this sum in the current year and it is proposed to bring revised budget proposals to this committee later in the year.

Loan arrangement fees of £54,853 have been incurred and these will be charged to the 2011/12 HRA budget. Provision had not been included in the budget for this as it was not clear when the budget was revised in November 2011 how such charges should be treated. However, projected surpluses for the year will be sufficient to more than cover this unbudgeted sum.

One concern to note is the paragraph included in the Government's recent budget statement which said:

***1.223** The Government is also implementing reform of the Housing Revenue Account subsidy system to give local authorities responsibility for managing their own council housing businesses. The Office for Budget Responsibility (OBR) currently forecasts that this reform will increase public borrowing more than originally estimated. These estimates are very uncertain but if they do not change then the Government will take action to address the increase in public debt.*

The Local Government Association is currently seeking clarification from the Department for Communities and Local Government and the Treasury. However, in light of this, it is recommended that any final decisions on committing the additional resource achieved through final borrowing arrangements be deferred until this situation has been clarified.

RECOMMENDATIONS:

- 1 That the final borrowing arrangements detailed in the appendix be noted.
- 2 That proposals for revising the HRA budget for 2012/13 be reported to this Committee in September 2012.
- 3 That transaction fees of £54,853 be met from the 2011/12 HRA budget.

OTHER CONSIDERATIONS:

1 SUSTAINABLE COMMUNITY STRATEGY AND CHANGE PLANS
(RELEVANCE TO):

- 1.1 This project has taken full account of the priorities set out in the Active Communities and Efficient and Effective Council sections of the Change Plan.

2 RESOURCE IMPLICATIONS:

- 2.1 As set out in the Executive Summary and appendix.

3 TACT COMMENT

- 3.1 As it was only possible to prepare this paper on the day of dispatch for this Committee (the day the borrowing was confirmed), it was not possible for TACT to comment, although TACT would like the opportunity to comment verbally at the meeting.

Appendix: HRA Borrowing Summary

Winchester City Council							
Housing Revenue Account Financial Reform							
Public Works Loan Board Fixed Rate Maturity Borrowing 26 March 2012							
CAB2284 Treasury Strategy Lower Limit of Fixed Term Debt	CAB2284 Treasury Strategy Upper Limit of Fixed Term Debt	Years	CAB2287 Original Business Plan	Final Settlement	Actual Borrowing	Interest Rate	Treasury Strategy Upper Limit Headroom
£	£		£	£	£		£
0	120,000,000	11	5,000,000	5,000,000	5,000,000	2.56%	55,000,000
		12	5,000,000	5,000,000	5,000,000	2.70%	
		13	5,000,000	5,000,000	5,000,000	2.82%	
		14	5,000,000	5,000,000	5,000,000	2.92%	
		15	10,000,000	10,000,000	10,000,000	3.01%	
		16	10,000,000	10,000,000	10,000,000	3.08%	
		17	0	0	0		
		18	0	0	0		
		19	10,000,000	10,000,000	10,000,000	3.26%	
0	177,300,000	20	15,000,000	15,000,000	15,000,000	3.30%	77,300,000
		21	0	0	0		
		22	0	0	0		
		23	15,000,000	15,000,000	15,000,000	3.40%	
		24	0	0	0		
		25	20,000,000	20,000,000	10,000,000	3.44%	
		26	0	0	0		
0	177,300,000	27	67,407,000	56,722,000	0		57,300,000
		30	0	0	10,000,000	3.50%	
		35	0	0	10,000,000	3.52%	
0	177,300,000	40	0	0	10,000,000	3.52%	20,578,000
0	177,300,000	45	0	0	10,000,000	3.50%	
		50	0	0	26,722,000	3.48%	
			167,407,000	156,722,000	156,722,000		
Revenue Costs			2011-12 Budget	2011-12 Forecast	2011-12 Variance		
Loan Arrangement Fees				54,853	(54,853)		
PWLB Interest Charges			56,180	57,196	(1,016)		
			56,180	112,049	(55,869)		(Adverse)
			2012-13 Budget	2012-13 Forecast	2012-13 Variance		
PWLB Interest Charges				5,167,926			
Interpool loan charges				65,520			
Total Interest Charges			6,064,333	5,233,446	830,887		Favourable