Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET
25 JANUARY 2012

JOINT REPORT OF HOUSING AND FINANCE AND ASSET MANAGEMENT PORTFOLIO HOLDERS

A.11 <u>HOUSING REVENUE ACCOUNT BUDGET PROPOSALS, 30 YEAR BUSINESS PLAN, THE SELF FINANCING REFORMS AND ASSOCIATED DEBT SETTLEMENT</u>
(Report prepared by Richard Barrett)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT

To set out and seek approval of:

- A Revised Housing Revenue Account (HRA) budget for 2011/12
- An Original HRA Budget for 2012/13
- The level of rents and fees and charges for 2012/13.
- The five year HRA Capital Programme
- HRA 30 year Business Plan
- Splitting out existing debt between the General Fund (GF) and HRA along with financing the debt settlement associated with the new self financing reforms.

EXECUTIVE SUMMARY

The Localism Act which recently passed through Parliament enacted various HRA self financing reforms and made these effective from 1 April 2012. This Council is required to pay a one-off amount to the Government to effectively 'buy' itself out of the current subsidy arrangements. This settlement figure totals **£36.304m** and is required to be paid to the Government on 28 March 2012.

A 30 year Business Plan has been completed to inform the necessary borrowing decisions to fund the debt settlement figure highlighted above and to demonstrate sustainability and deliverability of the Council's landlord functions over the long term. The first year of this plan is the 2012/13 budget which is set out for approval along with a revised budget for 2011/12.

The allocation of existing debt held by the authority between GF and HRA is also required under the new self financing arrangements. A number of options have been explored with a preferred approach identified that provides for an equitable outcome for both the GF and the HRA.

In terms of undertaking the necessary borrowing to fund the debt settlement of **£36.304m**, a number of principles have been established that aim to achieve the most advantageous loan structure. However officers will work with the Council's treasury advisors to optimise the benefit to HRA which will be reflected in the actual loan structure achieved along with the 2012/13 budget and 30 year Business Plan.

The 30 year business plan, existing HRA balances along with borrowing 'headroom' provide opportunities for significant investment in housing stock and associated services which will be subject to separate decisions in due course.

RECOMMENDATION(S)

That Cabinet:

(a) Approves the 2012/13 Scale of Charges shown in Appendix B and that any amendments required to the charge for Careline Alarm Service following the review being undertaken by Essex County Council, be delegated to the Head of Life Opportunities in consultation with the Housing Portfolio Holder.

(b) Approves the level of rents for 2012/13 in accordance with the Government's formula rent mechanism based on an increase in the average rent of 7.99% with no tenant bearing an increase of more than the limit set out within the Government's rent setting policy of RPI (5.6%) + 0.5% plus £2.00 per week.

(c) Subject to (a) and (b) above, approves the Housing Revenue Account revised estimates for 2011/12 and original estimates for 2012/13 as set out in Appendix A and updated with the final position for 2012/13 that includes the financing of the debt settlement as set out in Appendix G.

(d) Agrees that, in respect of 2011/12, the corporate financial system is amended accordingly to reflect these changes along with any amendments arising from revised financial reporting requirements.

(e) Approves the HRA Capital Programme as set out in Appendix C, and that is amalgamated with the GF Capital Programme set out elsewhere on the agenda for recommending to Council as part of Cabinet's overall budget proposals.

(f) Approves the HRA 30 Year Business Plan set out in Appendix D updated with the final position that includes the financing of the debt settlement as set out in Appendix G.

(g) Gives delegation to the Head of Resource Management and Head of Life Opportunities in consultation with the Finance and Asset Management and Housing Portfolio Holders to update the budgets and Business Plan in the event that changes are required following the receipt of additional information or guidance that may become available and that the use of HRA balances is adjusted to offset any changes accordingly.

That Cabinet recommends to Council:

(h) That Option 1 as set out in Appendix E is approved as the mechanism to allocate the current loans held by the Authority across the GF and HRA.

(i) That the Council's Authorised and Operational Borrowing limits are increased to enable £36.304m of borrowing to be undertaken to finance the debt settlement required to facilitate the move to the new HRA self financing regime.

(j) That subject to (i) above, delegation is given to the Head of Resource Management in consultation with the Finance and Asset Management Portfolio Holder to optimise the structure of loans totalling £36.304m and that officers continue to work with the Council's treasury advisors to maximise any further benefits to the HRA.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

The HRA budget and Business Plan plays a significant role in the delivery of affordable and decent housing in the district and the Council's responsibilities as a landlord has direct implications for the Council's ability to deliver on its objectives and priorities.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

The financial implications are set out in this report and its appendices.

Although the availability of financial resources is a key component in the delivery of HRA services there will also be a need for appropriate input of other resources such as staffing, assets, IT etc.

Risk

There are inherent risks associated with the forecast such as:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

In view of the above it is important that a sufficient level of balances / reserves is available to support the HRA. HRA Balances are currently forecast to remain in excess of **£5m** which although required to support the business plan and HRA investment in future years, provide a 'buffer' to the 30 year Business Plan if for example some of the items highlighted above emerge or are required to deal with changing financial and service demand issues.

In mitigating the transfer of risk from Government to the Council under the new self financing reform, the modelling undertaken takes into account a number of assumptions and sensitivity testing. The outcome of this work confirms the sustainability and resilience of the HRA within a self financing environment and the ability to provide opportunities for investment in the housing stock and associated housing services.

LEGAL

It is a statutory requirement on a local authority to determine its Housing Revenue Account budget before the upcoming financial year and to ensure that its implementation will not result in an overall debit balance on the Account.

The Localism Act 2011 provides for the new self financing regime for the Housing Revenue Account.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

In carrying out its functions as a social landlord, the Council has regard to the need to reduce the potential for criminal activity by improving the security of dwellings as part of maintenance and repair programmes and for combating anti-social behaviour through effective management procedures.

Although there are no direct equality and diversity issues, the overall HRA and associated financial planning processes aim to recognise and include such issues where appropriate and relevant.

PART 3 – SUPPORTING INFORMATION

THE HRA SELF FINANCING REGIME

The Localism Act introduces a fundamental change to the operation of the Housing Revenue Account and the overall landlord function of a Local Authority from the 1 April 2012. The previous Government made a commitment to HRA self financing and this commitment has been carried over and implemented by the current Coalition Government. Over the last couple of years various consultations and reviews have been undertaken to enable the new self financing regime to be delivered in time for the 2012/13 financial year.

Cabinet considered a report on 16 June 2010 that introduced the concept of HRA self financing, set out the Communities and Local Government's prospectus and associated consultation, highlighted the problems with the current subsidy arrangements along with setting out the debt settlement model that would be required to move to a self financing regime. The benefits to moving to a self financing regime were also included along with a validation exercise of the viability and resilience of the Council's HRA within the new self financing environment that was undertaken by external advisors.

The basic principle of the current subsidy arrangements involves the Council paying over to the Government its rental income each year and in return receiving allowances for management, maintenance and debt costs. For this Council, the result was a net contribution or 'negative subsidy' of **£2.200m** that was payable to the government each year. With rent increasing each year this 'negative subsidy' was forecast to increase in future and therefore the self financing proposals provide for an improved financial future over the current arrangements.

The self financing reforms set out the alternative where Local Authorities 'buy' themselves out of the subsidy arrangements and can then retain all rent collected locally for investment in its own housing stock and associated services for the benefit of Tenants and other users of its services. 'Negative subsidy' would therefore no longer be payable.

Early in 2011 and following the review of the consultation responses, the Government published draft 'buy out' or debt settlement figures as they are referred to throughout this report. The calculations undertaken are based on a model or forecast of the excess of rental income over and above assumed management and maintenance costs i.e. how much debt could be supported by the annual net surpluses on the HRA. Although there have been uplifts to the management and maintenance allowances built into the model, the early draft settlement figure for this Council was **£33.000m.**

The figures have recently been updated with revised inflationary factors etc. and the debt settlement has subsequently been increased to **£36.304m.** One of the contributory factors to this increase is the relatively high RPI that is currently being experienced nationally. This has resulted in a higher rent increase for 2012/13 via the government's formula rent model which has the knock on effect of enabling a higher level of debt to be supported by increased rental income over the 30 year life of the HRA business plan.

The various issues and assumptions concerning rent setting and the debt settlement, including the various options to finance the settlement figure of **£36.304m** are set out in detail later on in this report.

It is also worth noting that as the self financing reforms have been legislated for via the Localism Act, the **£36.304m** must be paid to the Government as there is no opt out or local discretion about the settlement process. The settlement date or the date that the Council needs to make the payment to the Government is 28 March 2012. The main issue therefore revolves around how best to finance this transaction and structure the inevitable borrowing requirement in such a way as to maximise any benefits to the HRA and the Council in future years.

Against this background, the following sections of the report set out:

- The HRA revised budget for 2011/12 and original budget for 2012/13.
- The HRA 30 year Business Plan. Year one of this plan is the 2012/13 budget which therefore has a significant influence on the position in future years.
- Splitting existing debt between the GF and HRA
- The approach undertaken to facilitate the necessary borrowing to finance the settlement figure of **£36.304m**
- Putting it all together and finalising the HRA budget for 2012/13 and Business Plan following inclusion of the cost of financing the debt settlement.

Notwithstanding the above, it is also worth highlighting the more general concept of the HRA before the detailed budgets are discussed in more detail. The HRA is the Council's landlord account and it is 'ring fenced' for this purpose. Comprehensive rules and requirements surround the HRA such as specific accounting treatment and what items can or cannot be charged to the account. Authorities are required to set a balanced HRA budget each year and agree the level of rents it wishes to charge, although it should be noted that Government rent setting policy which continues to work towards convergence of cross sector rent levels still greatly influences the level of local discretion in this area. Other fees and charges along with the HRA Capital Programme are also set out for approval.

It is also worth highlighting that there are no changes proposed to the current capital receipts pooling arrangements. The existing arrangements allow the Council to keep 25% from the sale proceeds following the disposal of council houses under the right to buy regulations and 50% from all other sales. It was hoped that under self financing, authorities would be able to keep all of the sale proceeds but the Government have currently made the commitment to maintain the status quo. However it is assumed that authorities will be able to keep 100% of the sale proceeds from the disposal of any properties built via new investment following the introduction of self financing. This is the subject of a consultation paper the government published at the end of December 2011.

HOUSING REVENUE ACCOUNT BUDGETS

HRA Revised Budget 2011/12 and Original Budget 2012/13

A high level summary for each of the two years along with the HRA balances position is set out below. Additional information for significant items is provided below with detailed information set out in **Appendix A.**

Housing Revenue Account	2011/12 Original £m	2011/12 Revised £m	2012/13 Original £m
Direct Expenditure	6.643	6.655	4.442
Direct Income	(12.452)	(12.420)	(13.362)
Indirect Income / Expenditure	5.429	5.386	6.181
NET SURPLUS (Contrib. to Reserves)	**0.380**	**0.379**	**2.739**

The surplus for the year for 2012/13 is after the removal of the 'negative subsidy' that was previously due to the Government, but is before the financing of the debt settlement of ***£36.304m.***

REVISED ESTIMATE 2011/12
The revised position is broadly in line with the original estimate. Items have been updated to reflect a more up to date position with no overall fundamental changes to highlight over and above any comments included in **Appendix A.**

ORIGINAL ESTIMATE 2012/13
As previously mentioned the 2012/13 budget is in effect the first year of the 30 year HRA Business Plan so its robustness and resilience significantly influences the remaining years of the plan.

Similarly to the GF, no underlying inflationary uplifts have been provided but against this overall backcloth, significant items have been subject to separate and comprehensive review where appropriate.

Although comments have been set out in **Appendix A**, comments against significant items within the overall position are set out below:

- **Premises Related Expenditure - Utility Costs**
  In terms of electricity and gas costs, volatility continues in these wholesale markets with prices available to the Council under a collaborative contract being increased in excess of 30%. The budget has been reviewed against these levels of increase and has been adjusted accordingly. Further assumptions have also been made in respect of the 30 year Business Plan which are set out in the next section of this report.

- **Premises Related Expenditure – Depreciation and the Funding of the Capital Programme**
  Under existing rules, depreciation that was charged to the HRA was a 'technical' charge and was reversed out with no net effect on the HRA. It was replaced by a Major Repairs Contribution that was an allowance calculated and receivable from the Government via the subsidy system to fund HRA capital investment such as refurbishment and decent homes work.

  Under the new self financing guidance, depreciation is now a real charge to the HRA and so will not be reversed out. It will be required to be set aside to fund the capital programme as was the case with the previous Major Repairs Allowance.

  The 'new' depreciation charge will in itself be subject to separate guidance on how it should be calculated. This will be based on the concept of componentisation so different components of a property or asset will be subject to different rates of depreciation. Final guidance from CIPFA is still awaited. There is a five year transitional period where authorities can continue along the same principles as the current Major Repairs Allowance.

For the purpose of setting an appropriate charge for depreciation for inclusion in the budget, a number of assumptions have been made which may need to be revisited as additional informational becomes available. The result is a depreciation charge of **£1.617m** being included in the budget which reflects depreciation being calculated across a range of components such as windows, doors, roofs and bathrooms.

Although depreciation is deemed to be a good indicator of future capital spending requirements, it could be argued that stock condition surveys and the forecast of work emerging from this, provides a more local and informed position. Therefore regardless of the depreciation amount, the HRA needs to be in a position to sustain the appropriate level of annual revenue contributions to support the future cost of capital works. The Capital Programme set out below includes the first years of this forecasted position, with the 30 year Business Plan reflecting the later years.

The outcome of this is the requirement for a revenue ‘top up’ to the amount set aside as depreciation to ensure the Capital Programme is fully funded over the life of the Business Plan. This ‘top up’ amount of **£1.624m** has been included in the budgets.

As one of the most significant expenditure figures in the HRA, this will need to be kept under review over the life of the Business Plan.

It is also proposed that impairment will be chargeable to the HRA in future years that will have an impact on the annual HRA surplus rather than being a technical item that is reversed out as is currently the case. Impairment can arise from a change in condition to a reduction in market value and has been a significant charge in recent years with the figure running into millions of pounds. This issue remains under review by CIPFA who will need to recognise the potential impact this may have in future years as the HRA can clearly not sustain a significant impairment charge in future.

- **Rental Income**

Although moving to a self financing regime provides a number of local flexibilities including the ability for Local Authorities to retain the rents collected for investment in their own stock and associated services, rent setting, which was introduced in 2002, is still greatly influenced by the Government through the continuation of the current rent restructuring policy that has been reflected in the calculation of the debt settlement figure of **£36.304m.**

Therefore it could be argued that there is reduced local discretion when reviewing the level of rent increase for 2012/13. The rent restructuring formula is based on RPI + 0.5% plus an amount to converge with target rents (an average rent across the whole social housing sector) Applying this rent setting formula, the average weekly increase across the Council’s 3,000+ housing properties is **7.99%,** with the average weekly rent being **£73.28** for 2012/13. The main factor behind this level of increase is the current rate of Inflation with RPI taken at September 2011 being 5.6%.

It is accepted that a lower or higher increase could be implemented. However it is acknowledged that there could be significant consequences of implementing a higher increase due to housing benefit subsidy consequences and very significant consequences of increases below the formula rent levels which are highlighted below and the effect would be magnified given it is the first year of the 30 year Business Plan:

- The level of rent increases used by the Government to calculate the debt settlement is based on the same rent setting formula. If the actual rent increases were lower than this, the Council would in effect have taken on debt that is not supported by a matching rental income stream. This would put pressure on other areas of the Business Plan to close this 'gap' between income and debt such as reducing maintenance and improvement works.
- Rent increases below the formula based rent increases would be income lost to the HRA on an on-going basis, which would have an adverse impact on the Business Plan over a 30 year period. For every 1% below the proposed increase, the 'lost' income would be an average of **£0.120m** per year or **£3.450m** over 30 years.

Within this overall framework 'caps' and 'limits' are continued to be applied at a local level for individual properties to arrive at the specific rent chargeable for each property.

The average rent proposed for 2012/13 is below a 'limit rent' which is a Government set level above which the Council would incur deductions from the subsidy it receives for rent rebates paid to eligible housing tenants.

<u>HRA Fees and Charges</u>

Further details are set out in **Appendix B.**

Apart from charges for pumping and sewerage stations which have been increased to reflect the cost incurred in providing these services, all other charges are proposed to remain at the same level as for 2011/12.

These are subject to more local flexibility than the rent figures above and are proposed to be 'frozen' for 2012/13 in acknowledgment of the proposed level of increases to rents above.

In respect of the charge for the Careline Alarm Service, this remains under review by Essex County Council (ECC) and the outcome from this is still awaited.

<u>HRA Capital Programme</u>

The detailed HRA Capital Programme is set out in **Appendix C.**

The 2011/12 revised budget includes carry forwards from 2010/11 which reflects the difference compared to the original 2011/12 estimates.

In respect of the 2012/13 and future years budgets, these reflect the estimated level of capital works based on the current stock condition survey outcomes. An additional **£0.187m** has been included in the budgets from 2012/13. This approach is a response to the proposed average rent increases of 7.99%, where income from rents is being put back into tenant's properties early in the Business Plan with decent homes and refurbishment work being brought forward as soon as practical.

As set out in the Appendix, the principle source of funding is now the annual contribution from the HRA made up of depreciation and the revenue 'top up' previously described.

Although capital receipts from Right to Buy sales is receivable each year, they have not been included in the funding of the Capital Programme. This assumption provides a margin of safety over and above the annual funding contributions allowed for in the HRA

Business Plan.

HRA Balances

- **2011/12 –** The proposed revised budget results in an estimated surplus of **£0.379m** remaining within the HRA at the end of the financial year which would increase the HRA general balance to an estimated **£5.734m** by the end of March 2012.

- **2012/13 -** The proposed budget for 2012/13 results in an estimated surplus of **£2.739m.** However this is before financing the debt settlement figure of **£36.304m**. The borrowing options along with the overall outcome and effect on the HRA budget are set out further on in this report.

The forecast position of balances at 31 March 2012 and 31 March 2013 will vary over time depending on the outturn positions for 2011/12 and 2012/13 as well as the emergence of other unexpected or unplanned matters that could occur in or across these years.

HRA 30 YEAR BUSINESS PLAN

Using the 2012/13 budget set out above as the base or first year, the 30 year HRA Business Plan is set out in **Appendix D** that is required to inform the borrowing decision set out further on in this report and to demonstrate the sustainability of the HRA under the new self financing reforms.

Before financing the debt settlement of **£36.304m,** the estimated annual HRA surpluses total **£118.810m** over the 30 years of the Business Plan.

The main assumptions at arriving at this estimated position along with other significant elements of the plan are set out below:

- **Inflation**
  No inflation has been assumed for the purpose of finalising the plan. Ordinarily inflation would be a key risk in forecasting future expenditure and income. However in the case of finalising the Business Plan, a nil assumption on future inflation provides for a worst case scenario position. This is due to the structure of the rent setting framework.

  As previously discussed, rent increases are based on RPI + 0.5%. Therefore if inflation was broadly reflected in the Business Plan, rent increases would always be running at 0.5% above inflation and therefore would be in excess of any expenditure inflation. If inflation is applied, the annual surpluses on the HRA Business Plan would increase, which provides for a further 'buffer' against other risks associated with forecasting ahead 30 years.

  However to further provide confidence around this issue, additional sensitivity testing has been undertaken. Although unlikely, testing the sustainability of the Business Plan has included assumptions where expenditure inflation is in excess of income inflation. Even if expenditure inflation was running at 1% above income inflation across the whole life of the plan, it would still be sustainable with the HRA remaining in surplus at the end of the 30 year period.

- **Maintenance, Depreciation and Revenue Contributions to the Capital Programme.**
  Maintenance refers to the on-going commitment to keep properties in good order and react to issues that may emerge during the year such as tenant requests for repairs for

example. The proposed budget for this activity totals **£3.300m.** This reflects both historic trends and future need and with properties being brought up to the decent homes standard, it would be feasible to assume that there will be less pressure on responsive type work as the plan moves forward.

Depreciation and the revenue ‘top up’ have been discussed in detail above. No changes have been reflected outside of the approach taken where the HRA Business Plan provides sufficient funding though the annual revenue account process to meet the forecasted cost of works emerging from the stock condition survey.

- **Provision for Bad Debts**
  The Council has a good record in recovering rental income and other charges with an end of year arrears position being in the region of 2.5%. This level of performance has limited the annual contributions to the provision for bad debts to a budgeted figure of **£0.050m.**

  However the Government’s welfare reform intentions include a move to Universal Credit to replace the existing benefit regime. Although this is likely to bring about a number of significant changes, the issue that will potentially have an adverse impact on the HRA is proposal to pay housing related benefits directly to eligible tenants rather than being paid directly into the HRA by the Council’s Benefits Service. This introduces the significant risk that tenants will not use their payment received under the new Universal Credit system to pay their rent when it is due. Assumptions have been made around the impact this may have including an increase in annual arrears from 2.5% to 10%. This testing has identified an increase in the contribution to the bad debt provision of **£0.265m** from year four of the Business Plan. Although it is assumed that recovery and compliance will improve over time, significant contributions to the provision for bad debts will remain over the life of the Business Plan. This issue will be reviewed on an annual basis and will reflect any changes to welfare reforms that may include the introduction of Universal Credit payments being made direct to the HRA in the event of significant arrears accumulating against a particular tenant’s account.

- **Income from Rents**
  Up until 2015/16, rent increases still include an element to converge to formula rents as previously explained. This will be over and above the annual RPI + 0.5% increase that is built into the rent setting formula. This results in average rent increase excluding RPI of 2.55% up until 2015/16 following which only the 0.5% increase has been assumed.

  A stock reduction factor has also been assumed totalling on average 3 properties per year to recognise the potential ‘Right to Buy’ sales that may occur over the life of the plan.

  Following a recent announcement by the Government concerning an increase to the discount provided to tenants if they wish to purchase their council property under the Right to Buy rules, it is likely that there will be increased sales which could have an impact on the Business Plan. The Government’s thinking behind this change is to release money from existing properties to provide for the building of additional properties on a one for one basis to support the Government in achieving its housing targets. The risk of higher sales is to some degree offset by a low base position in terms of sales with on average only two to three properties sold each year. The Government have also stated that they would allow Authorities to retain an amount from future sales to pay off the debt associated with an individual property if it was sold. This would ensure that there was no overhanging debt following the sale of a property. However it is recognised that there would be a point where management and maintenance costs would have to be rationalised if a critical mass of sales was reached. This issue will be kept under review and further guidance from the Government is awaited following the consultation paper mentioned earlier in the report.

- **Borrowing Costs for Existing Debt**
  Historic borrowing associated with the HRA totals **£18.941m**. The HRA will continue to incur the costs associated with servicing this level of debt which is over and above the **£36.304m** debt settlement figure.

  The HRA currently provides for interest payments on this level of debt, but historically there has been no policy to make principal payments or to set aside money each year to enable it to repaid when due. The outcome of this would be that when the loans that make up the total amount are due to be repaid, then without any change in approach, the default position would be that the loans would need to be refinanced.

  This historic approach has assumed to continue for the purposes of finalising the Business Plan. However it would be practical to review this approach once the self financing reforms are embedded as it may be possible to make annual provision for the repayment of historic borrowing over the life of the Business Plan.

  Based on a continuation of the current approach, an annual cost of **£0.817m** has been built into the plan. However a decision is required on how to allocate the HRA share of historic loans held by the Authority. This is set out in more detail in the next section of the report.

Although the 30 year plan is subject to a range of risks such as changes to forecasts, interest rates, Government announcements and changing burdens, the HRA 30 year Business Plan has reflected a balanced but robust position across the range of expenditure items and income streams.

Modest ‘safety net’ or ‘buffers’ have been taken into account via the various assumptions taken. The difficulties and risks that are inherent in forecasting across 30 years will be subject to on-going review, especially as part of the annual HRA budget setting process, where it may be appropriate to review the Business Plan based on the same annual frequency.

APPORTIONMENT OF EXISTING AUTHORITY DEBT

The Council’s current level of borrowing taking into account the repayments due over the remainder of this year, totals **£26.651m.** This is made up of the following which is in accordance with the Council’s Treasury Strategy:

- Maturity loans – interest is repayable over the life of the loan with the total amount of principal repayable at the maturity date which could be in 30 to 50 years time.
- Annuity / Equal Instalment of Principal loans (EIP) – Interest and principal are ‘rolled’ up together in the half yearly repayment amounts.
- Internal borrowing – this is where internal cash flow advantages such as earmarked reserves are used to fund capital investment. These amounts are repayable as the original purpose of the money is reached e.g. reserves set aside are now required to be spent on the specific purpose they were intended for.

Existing external loans are on fixed interest rate terms so there is certainty over the cost of financing this borrowing over the life of the loans.

The Council currently operates a 'one pool' approach where all loans are loans of the authority as a whole and not attributable to the GF or HRA but the financing costs are allocated between the two funds via a formula that forms part of the current HRA subsidy arrangements. In reality the GF meets the initial cost and then recharges the HRA for its appropriate share. The result is that based on current figures, the HRA is charged **£0.804m** per year by the GF for its share of the Council's total borrowing costs. This is based on the HRA's borrowing requirement of **£18.941m,** which is identified from historic HRA capital investment that has not been met by other contributions such as grants, capital receipts and other revenue contributions.

CIPFA guidance has been received setting out the various approaches to allocating out historic debt across the GF and HRA. Further details along with the options to 'split' the debt are set out in **Appendix E**

<u>The 'One Pool' Approach</u>

The first option is to continue with the 'one pool' approach. However the guidance goes on to say that internal borrowing 'belongs' to the GF and therefore only the cost of external loans should be allocated to the HRA. **Appendix E** sets out the calculations required if a 'one pool' approach is maintained. This results in a charge to the HRA of **£0.928m,** an increase of **£0.124m** compared to what is currently charged. This is mainly due to the external loans attracting a higher interest rate than that assumed to be applied to internal borrowing that would not be attributable to the HRA.

<u>The 'Two Pool' Approach</u>

The alternative approach is a 'two pool' approach where individual loans are actually allocated to the GF or HRA. All external loans are with the PWLB who have stated that they would be willing to 'split' loans at source.

The advantages of such an approach is greater transparency between the GF and HRA and future borrowing decisions by both the GF and HRA can be made independently without the potential of affecting the allocation that would be undertaken on a pro rata basis under the 'one pool' approach.

Two options have been set out in **Appendix E**. As the HRA does not currently set aside money for principal repayment, only interest only loans (maturity loans) have been 'split' to better reflect the current position.

Option 1 allocates existing loans to the HRA until the level of existing HRA borrowing of **£18.941m** is reached. This approach has allocated the longest maturity loans first working towards the shorter dated ones. This results in interest costs totalling **£0.817m** being charged to the HRA each year. This would require only one loan being 'split' at source by the PWLB.

Option 2 'splits' all maturity loans pro rata to the level of HRA Borrowing of **£18.941m.** The total cost of interest under this approach would be **£0.865m** per year.

Further alternatives such as a 'three pool' approach have been set out in various consultations and guidance which enables the current approach to be continued for historic debt, with all new debt being allocated to either the GF or HRA.

Based on the options explored and the fact that the interest costs would remain similar to that charged now and so presents an equitable solution, the ‘two pool’ Option 1 approach has been recommended as the preferred option. This would also be more administratively efficient as only one existing PWLB loan would need to be ‘split’ at source’. This has been included in the recommendations to Full Council that are set out earlier on in this report

FUNDING THE DEBT SETTLEMENT OF £36.304m

Under the ‘two pool’ approach recommended above any new borrowing would be specifically attributable to the HRA. Therefore the borrowing required to finance the debt settlement of **£36.304m** would be recognised as HRA debt and held in the HRA ‘pool’.

Taking into account the existing HRA debt of **£18.941m**, the total level of HRA debt would be **£55.245m**. This assumes that the full **£36.304m** is financed through borrowing which is considered further on in this report.

The Government’s debt settlement calculations identify a ‘debt cap’ for each authority. This is arrived at by default via their calculations that identify the total level of borrowing that could be supported by rental income after deducting for management and maintenance costs discounted over the 30 life of the Business Plan. The ‘debt cap’ for TDC is **£60.609m** with further details set out in **Appendix F.**

Taking into account the total actual HRA debt of **£55.245m** highlighted above, there would be borrowing ‘headroom’ of **£5.364m.** This could be applied to fund future HRA investment which is discussed in more detail later on in this report.

In terms of the level of borrowing per property, based on the **£55.245m** above, this would equate to an average debt per property of **£0.017m.**

A number of principles have been established in reviewing the various options of how to structure the new borrowing requirement of **£36.304m** as follows:

Principle 1 – Fund Debt Settlement through External Borrowing
Before reviewing in more detail the options to financing the debt settlement it is worth highlighting an underlying principle that has been applied. As has been previously highlighted, the HRA currently has forecasted general balances in excess of **£5.700m.** These could be used to reduce the level of external borrowing entered into. However they are relatively modest in terms of the overall debt settlement and it would be prudent to maintain this level of balances to support the Business Plan over its 30 year life. This would also provide a safeguard against the risks that are inherent within the forecasting process along with other associated risks highlighted elsewhere in the report. Therefore the current proposal is to finance the **£36.304m** debt settlement figure through external borrowing.

Principle 2 – Borrow from the PWLB
Early in the self financing process, various options were considered in terms of whom the Council could borrow this level of money from. Following a previous announcement by the PWLB that rates would be increased to 1% above gilt yields, the wider financial markets become interested in supporting Local Authorities in financing the debt settlement using instruments such as bonds. (Gilt yields reflect the cost of borrowing by the Government and reflect the demand for treasury gilts that the Government issue to meet their own borrowing requirement). The wider financial markets have historically accepted that it is not possible to compete with the PWLB rates but following the recent PWLB rate increase, the markets felt that they could offer a credible alternative and more economical solution.

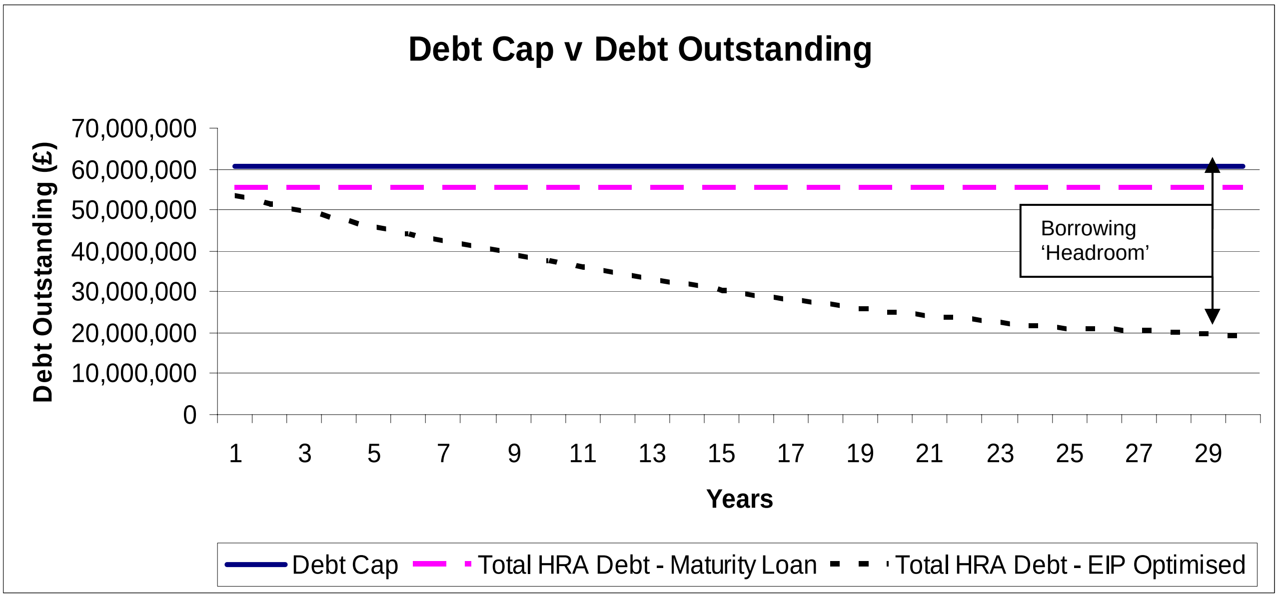
However the Government have recently reviewed this position and have announced that PWLB rates would be returning to a position where rates would be about 0.11% to 0.15% above gilt yields rather than the 1% previously announced. These preferential rates will only be available to fund the HRA debt settlement and only for borrowing on 28th March 2011/12, so will not be available for any additional borrowing. Based on the above it is proposed that the required borrowing to finance the debt settlement of **£36.403m** will be drawn down from the PWLB. Actual interest rates achievable will not be known until the settlement date so the calculations undertaken include PWLB rates at 0.2% over forecasted gilt yields to provide a margin of safety. Further sensitivity testing has also been undertaken as set out further on in this section.

Principle 3 – Repayment of Principal

The ability to borrow at reduced rates also sets a further underlying principle to financing the debt settlement. With interest rates being at relatively low levels along with the offer of reduced rates from the PWLB, it would be prudent to limit the HRA's exposure to having to refinance any loans in future years. If maturity loans were obtained without any set aside for repayment, then when the debt matured the HRA would be exposed to the market rates in force at the time which would likely to be significantly more than the current reduced rates offered.

Therefore to progress the options for structuring the debt, the approach of repaying the total debt of **£36.304m** over the life of the Business Plan has been adopted. This will also provide the flexibility of having a reduced long term debt burden hanging over the HRA which would 'free' up funding to reinvest in properties and HRA services in future years. This approach also reduces the overall interest cost over the 30 year Business Plan as set out in **Appendix F.**

The graph below highlights this approach and the borrowing headroom that would increase over the Business Plan as principal is repaid. (An EIP based comparison has been used which has been identified as the preferred approach below)



Principle 4 – Loan Structure

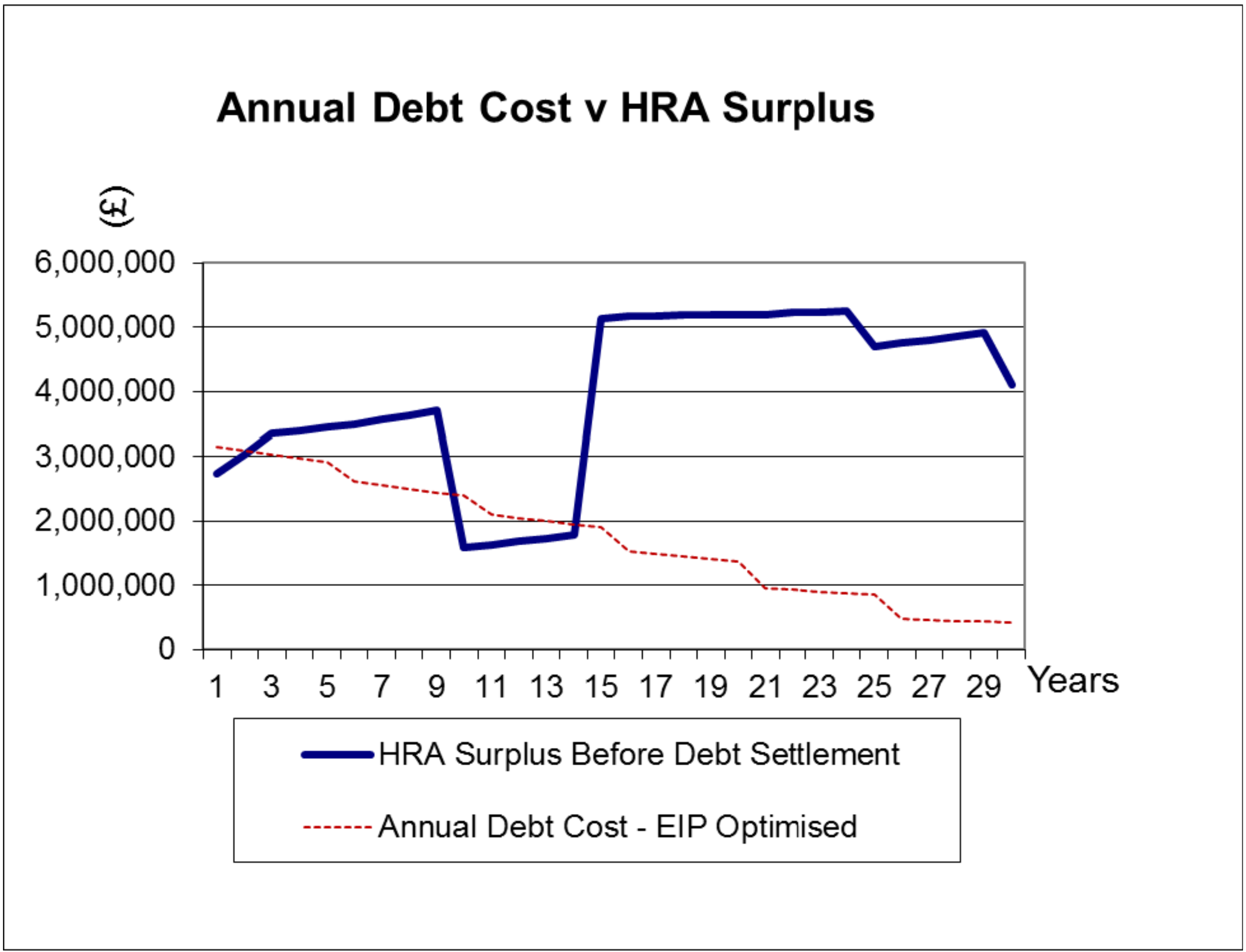
Two primary considerations have been undertaken with the aim of identifing the most beneficial loan structure.

The first relates to the level of interest rates. Based on PWLB's current interest rates, the rates for EIP loans are marginally lower than annuity loans which are in turn lower than rates for maturity loans. Therefore an EIP loan structure has been identified as the most advantageous at this stage. This would also enable a quicker repayment of principal as each repayment has an equal amount of principal, unlike annuity loans which include a greater proportion of interest in the early years.

The second consideration is based on the profile of the loans. A simple approach would be to borrow a single amount of **£36.304m** over 30 years. However shorter term loans are currently providing lower interest rates so it would seem economically beneficial to structure part of the overall loan amount over the shorter term. However the more that is borrowed over the shorter term the greater allowance for the repayment of principal is required to be reflected in the early years of Business Plan. A balance therefore needs to be struck between maximising the benefit of short term rates, ability to repay the loan early whilst maintaining the ability to keep the Business Plan sustainable. The test of affordability applied is based on using HRA forecasted surpluses to meet the cost of servicing the loan repayments rather than any significant call on HRA Balances.

This has resulted in Option 7 (EIP Optimised) as set out in **Appendix F** being identified as the preferred option for the purposes of finalising the Business Plan. This highlights that lower value loans are profiled over the early years of the plan with progressively increasing amounts over the longer term.

The following graph highlights the annual cost of debt financing based on this preferred option compared with the annual HRA surplus position:



As shown on the graph above there is a need to use a limited amount of HRA general balances in the first 2 years as the annual debt cost is greater than the annual HRA surplus. However from year 3 onwards the annual HRA surplus is more than the cost of financing debt so it is affordable. In later years the position switches around again which is primarily due to the forecasted capital spend in those years. However this can be reviewed in future to identify opportunities to ‘smooth’ out the level of HRA surpluses that would address this potential issue.

The graph also highlights that the ‘debt burden’ against the HRA reduces as principal is repaid with a greater level of surpluses emerging over and above the annual cost of financing the debt settlement in the later years of the plan.

Interest rates will not be known until the settlement date of 28 March 2012. However it is worth highlighting that as they will be at the preferential rates recently announced by the PWLB, there would unlikely be any credible alternative to fund the borrowing requirement elsewhere within the financial markets. Therefore the rates will be the best obtainable on that day. It is understood that the Government may consider basing the rates on an average over a longer period rather than being tied to what the markets determine on the day which will hopefully become clearer nearer the settlement date.

As borrowing will need to be undertaken and effective from the 28 March 2012, there will be four days of interest chargeable to the 2011/12 budgets. The Government have recognised this and have made the commitment to meet the cost of this via the outgoing subsidy arrangements.

Rates are forecast to remain low but there always remains the risk that rates could increase due to a range of issues such as further economic adjustments in the Euro Zone which could have a knock on effect on the UK gilt market which the PWLB rates are based on.

As highlighted via the various considerations above, there are numerous permutations of how the new borrowing can be structured. However based on the principles above which includes the approach of repaying debt as early as affordable within the 30 year Business Plan, officers plan on continuing to work with the Council’s Treasury Advisors up until the settlement date of 28 March 2012, to optimise the loan structure to provide the most advantageous debt financing position within the principles set out in this report. An appropriate delegation is reflected in the recommendations above to enable officers to facilitate this.

To enable the borrowing of **£36.304m** to be undertaken, the Council’s authorised and operational limits, that form part of the Council’s Treasury Strategy, will need to be increased with an associated recommendation to Full Council included above.

HRA BUDGET 2012/13 AND 30 YEAR BUSINESS PLAN INCLUDING FINANCING THE DEBT SETTLEMENT OF £36.304m

The outcome of bringing the HRA budget for 2012/13 and the Business Plan together with the proposed approach to borrowing is set out in **Appendix G.**

As previously mentioned there would be a modest deficit in the context of the 30 year plan in 2012/13 of **£0.415m** based on the EIP borrowing option identified and based on current interest rates. This would be met from general HRA balances which are forecast to be **£5.734m** at the end of 2011/12.

Appendix G also sets out the 30 Year Business Plan after taking into account the financing of the debt settlement. This highlights that the total of HRA surpluses across the 30 years of the plan are estimated to be **£67.219m.**

Some additional sensitivity testing has also been summarised in **Appendix G** which reflect the possible changes to interest rates between now and the settlement date of 28 March 2012. This demonstrates that based on current forecasts, a robust and sustainable 30 year Business Plan would still be deliverable if interest rates increased by 0.5% and 1% with total surpluses across the 30 years forecast at **£65.116m** and **£63.013m** respectively. This also indicates that in reality a higher increase in interest rates could be borne by the forecasted HRA Business Plan whilst still remaining sustainable and able to support investment in future years.

As set out in the section immediately above, interest rates are forecast to remain relatively low between now and the settlement date of 28 March 2012 so it is hoped that the HRA can borrow **£36.304m** from the PWLB at significantly beneficial rates which would be fixed over the life of the Business Plan.

It is acknowledged that further guidance is due on a range of issues which may have an impact on the 2012/13 budget and 30 year Business Plan. Amendments may be required to reflect changes that may arise so the recommendations set out in this report provide for a delegation to the Heads of Resource Management and Life Opportunities in consultation with the Finance and Asset Management and Housing Portfolio Holders to undertake any necessary adjustments that may be required.

It is also worth repeating the risks associated with the 12/13 budget and 30 year Business Plan. As previously mentioned there remains a number of risks which include but are not limited to the following:

- Changes in income achieved and future rent setting policy
- Emergence of additional areas of spend
- Emergence of new or revised guidance
- New legislation / burdens
- Changing stock condition requirements
- Adverse changes in interest rates
- National welfare reforms

These will need to be kept under on-going review and any changes reflected in future year's budgets along with the associated changes to the Business Plan. These will form part of both the regular budget monitoring process and the annual budget setting cycle.

Once the move to self financing has been achieved the HRA has the opportunity to review its overall governance arrangements including performance management, financial planning based on a more commercial approach along with developing a long term asset management policy and developing its long term vision and objectives as a landlord and social housing provider.

FUTURE OPPORTUNITIES FOR HRA INVESTMENT

Although subject to change over the life of the Business Plan, the forecasted HRA surpluses over the 30 year life of the plan total **£67.219m.**

Under the new self financing reforms, these surpluses will be available for local investment decisions. The HRA is subject to a ring-fence so these surpluses would only be available for investment in housing or other associated services.

These surpluses would be in addition to:

- Opening HRA General Balances **- £5.000m** after allowing for amounts to cover the modest deficits identified in years 1 and 2 of the plan.
- Opening Major Repairs Reserve - **£1.300m** which has been accumulated across previous years from the contributions made via the current subsidy arrangements.
- Borrowing 'Headroom' **- £5.364m** is available for additional borrowing being the difference between the actual total HRA debt of **£55.245m** (after financing the debt settlement) and the debt 'cap' of **£60.609m.**
- Additional borrowing 'headroom' would also emerge over the life of the Business Plan as any principal repaid would have the knock on effect of having the ability to 're-borrow' money equivalent to the principal repaid up to the level of the debt 'cap'.

The total of the above provides a solid foundation against which future investment decisions can be made. However any additional future borrowing would be subject to the usual prudential / affordability tests to ensure the HRA remains sustainable in the long term.

It may also be valuable to revisit the current approach to the existing HRA debt of **£18.941m** as it may be possible to start to repay or set aside funding to make principal repayments. This would provide increased future flexibility by further reducing the debt burden on the HRA over the long term which would in turn release funding to support wider investment in properties and associated services.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

Each year, information is issued to Local Authorities which provides guidance on the information and presentation required for the Financial Statements the Council publishes on an annual basis. Therefore although not directly affecting the overall financial position of the Council, changes may occur between years but hopefully to a lesser extent to last year which was the first year of preparing accounts under International Financial Reporting Standards (IFRS). Budgets may need to be reviewed and budget transfers undertaken to address any new requirements emerging from the relevant codes of practice that are issued each year.

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A	HRA Budgets 2011/12 Revised and 2012/13 Original (before financing the debt settlement)
Appendix B	HRA Proposed Fees and Charges 2012/13
Appendix C	HRA 5 Year Capital Programme
Appendix D	HRA 30 Year Business Plan (before financing the debt settlement)
Appendix E	Proposed 'Split' of Existing Council Borrowing
Appendix F	Borrowing Headroom and Financing the Debt Settlement
Appendix G	HRA Budget 2012/13 and 30 Year Business Plan after financing the debt settlement

APPENDIX A

HRA Revenue Estimates 2012/13

	2011/12 Original Estimate	2011/12 Revised Estimate	2012/13 Original Estimate
	£	£	£
Analysis by Type of Spend			
Direct Expenditure			
Employee Expenses	408,400	372,080	378,110
Premises Related Expenditure	3,500,930	3,561,300	3,570,880
Supplies & Services	477,890	479,120	475,770
Third Party Payments	0	340	0
Transfer Payments	2,255,580	2,242,460	17,000
Total Direct Expenditure	**6,642,800**	**6,655,300**	**4,441,760**
Direct Income			
Government Grants	(231,530)	(133,930)	(133,930)
Other Grants reimbursements and Contributions	(8,000)	(10,500)	(8,000)
Sales, Fees and Charges	(672,690)	(746,460)	(747,010)
Rents Receivable	(11,471,950)	(11,471,970)	(12,414,600)
Interest Receivable	(68,060)	(58,000)	(58,000)
Total Direct Income	**(12,452,230)**	**(12,420,860)**	**(13,361,540)**
Net Direct Costs	**(5,809,430)**	**(5,765,560)**	**(8,919,780)**
Indirect Income/Expenditure			
FRS17 Pension Costs	(266,400)	(217,850)	(220,250)
Service Unit and Central Costs	2,451,240	2,409,670	2,297,180
Capital Financing Costs	3,276,760	3,274,380	4,123,810
Recharged Income	(32,710)	(79,930)	(20,160)
Total Indirect Income/Expenditure	**5,428,890**	**5,386,270**	**6,180,580**
Contributions to/(from) reserves			
Contributions to/ (from) Reserves	380,540	379,290	2,739,200
Total Contributions to/(from) reserves	**380,540**	**379,290**	**2,739,200**
Net Contribution to/(from) Reserves	**380,540**	**379,290**	**2,739,200**
Total for Housing Revenue Account	**0**	**0**	**0**

	2011/12 Original Estimate	2011/12 Revised Estimate	2012/13 Original Estimate	Notes
	£	£	£	
Analysis by Service/Function				
Policy & Management				
Direct Expenditure	58,000	61,000	58,000	
Direct Income	(1,200)	(1,200)	(1,200)	
Indirect Income/Expenditure	459,830	453,320	428,490	
Net Total	**516,630**	**513,120**	**485,290**	
Rent Collection And Accounting				
Direct Expenditure	89,930	91,660	91,660	
Direct Income	(8,420)	(8,420)	(8,420)	
Indirect Income/Expenditure	309,740	305,370	288,720	
Net Total	**391,250**	**388,610**	**371,960**	
Tenants Rentals				
Direct Income	(11,456,250)	(11,456,270)	(12,398,900)	This reflects the increased rental income from the proposed rent increases based on the Government's rent setting formula
Net Total	**(11,456,250)**	**(11,456,270)**	**(12,398,900)**	
Rents & Other Charges				
Direct Expenditure	22,450	22,450	22,450	
Net Total	**22,450**	**22,450**	**22,450**	
HRA Rent Income				
Direct Income	(15,700)	(15,700)	(15,700)	
Net Total	**(15,700)**	**(15,700)**	**(15,700)**	
Total for Housing Management	**(10,541,620)**	**(10,547,790)**	**(11,534,900)**	

Managing Tenancies				
Direct Expenditure	148,500	148,500	148,500	
Indirect Income/Expenditure	645,310	626,920	596,240	
Net Total	**793,810**	**775,420**	**744,740**	
Right to Buy Administration				
Direct Income	(3,490)	(5,280)	(5,390)	
Indirect Income/Expenditure	13,820	13,660	13,050	
Net Total	**10,330**	**8,380**	**7,660**	
Unapportionable Central Overheads Contribution				
Indirect Income/Expenditure	275,720	275,720	275,720	
Net Total	**275,720**	**275,720**	**275,720**	
Pumping Stations				
Direct Expenditure	3,650	3,650	3,850	
Direct Income	(4,060)	(3,650)	(3,740)	
Indirect Income/Expenditure	18,450	17,810	16,980	
Net Total	**18,040**	**17,810**	**17,090**	
Sewerage Expenses				
Direct Expenditure	19,310	19,310	19,310	
Direct Income	(16,100)	(15,170)	(15,590)	
Indirect Income/Expenditure	30,240	29,810	28,170	
Net Total	**33,450**	**33,950**	**31,890**	
Communal Central Heating				
Direct Expenditure	118,300	106,840	123,770	The 2012/13 budget reflects increased utility costs due to recent price increases
Direct Income	(118,300)	(118,300)	(118,300)	
Net Total	**0**	**(11,460)**	**5,470**	

APPENDIX A

Supporting People re SUs				
Direct Expenditure	78,090	78,090	78,090	Adjustments have been made to the Original 2011/12 Budget following notification of the final 'Supporting People' Grant to be received from ECC in accordance with the delegation agreed by Cabinet 26/01/11 - Minute 116 refers
Direct Income	(381,060)	(261,280)	(261,280)	
Indirect Income/Expenditure	319,570	251,680	240,320	
Net Total	**16,600**	**68,490**	**57,130**	
Sheltered Units				
Direct Expenditure	103,640	104,480	109,750	Adjustments have been made to the Original 2011/12 Budget following notification of the final 'Supporting People' Grant to be received from ECC in accordance with the delegation agreed by Cabinet 26/01/11 - Minute 116 refers
Direct Income	(94,510)	(195,190)	(195,120)	
Indirect Income/Expenditure	27,070	88,580	82,030	
Net Total	**36,200**	**(2,130)**	**(3,340)**	
Colne Housing Soc Shel Units				
Direct Expenditure	8,000	8,350	8,000	
Net Total	**8,000**	**8,350**	**8,000**	
Estate Sweeping				
Direct Expenditure	61,630	61,630	61,630	
Net Total	**61,630**	**61,630**	**61,630**	
Communal Cleaning				
Direct Expenditure	50,510	50,510	50,510	
Direct Income	(50,690)	(50,690)	(50,690)	
Net Total	**(180)**	**(180)**	**(180)**	
Communal Electricity				
Direct Expenditure	120,000	120,000	120,000	
Direct Income	(59,310)	(59,310)	(59,310)	
Net Total	**60,690**	**60,690**	**60,690**	
Estate Lighting				
Direct Expenditure	5,190	5,740	6,370	
Net Total	**5,190**	**5,740**	**6,370**	

Maintenance Of Grounds				
Direct Expenditure	173,530	177,520	177,520	
Direct Income	(93,480)	(93,480)	(93,480)	
Net Total	**80,050**	**84,040**	**84,040**	
Repair & Maintenance				
Direct Expenditure	2,922,000	2,989,610	2,980,140	The 2012/13 budget has been subject to an inflationary uplift to reflect the current costs associated with this function
Direct Income	0	(2,500)	0	
Indirect Income/Expenditure	352,920	288,150	328,860	
Net Total	**3,274,920**	**3,275,260**	**3,309,000**	
Lease Holders Charges				
Direct Income	(81,600)	(76,420)	(76,420)	
Net Total	**(81,600)**	**(76,420)**	**(76,420)**	
General Fund Contribution				
Indirect Income/Expenditure	(32,710)	(20,160)	(20,160)	
Net Total	**(32,710)**	**(20,160)**	**(20,160)**	
HRA Subsidy				
Direct Expenditure	2,238,580	2,225,460	0	A 'negative' subsidy is no longer payable under the new self financing arrangements so this has been removed from 2012/13.
Net Total	**2,238,580**	**2,225,460**	**0**	
HRA Interest				
Direct Income	(68,060)	(58,000)	(58,000)	
Net Total	**(68,060)**	**(58,000)**	**(58,000)**	
Rent Arrears Provision				
Direct Expenditure	60,000	50,000	50,000	
Net Total	**60,000**	**50,000**	**50,000**	

HRA-Capital & Interest Charges				
Indirect Income/Expenditure	4,413,630	3,432,550	4,187,810	The 2012/13 budgets reflects the new charge for depreciation along with a revenue 'top' up required to fund the forecast Capital Programme based on the stock condition survey
Net Total	**4,413,630**	**3,432,550**	**4,187,810**	
Housing Revenue Account Total				
Contributions to/(from) reserves	380,540	379,290	2,739,200	The contribution to reserves in 2012/13 is before allowing for the debt financing costs to fund the debt settlement of £36.304m. This surplus is primarily due to the removal of the 'negative' subsidy set out above.
Net Total	**380,540**	**379,290**	**2,739,200**	
Total for Landlord Services	**11,584,830**	**10,594,430**	**11,488,340**	
SMHRAB Items to be excluded from HRA balance				
Indirect Income/Expenditure	(1,136,870)	(158,170)	(64,000)	
Net Total	**(1,136,870)**	**(158,170)**	**(64,000)**	
SMHRAB HRA - Contributions Payable to the Pension Scheme				
Direct Expenditure	361,490	330,500	332,210	
Net Total	**361,490**	**330,500**	**332,210**	
SMHRAB Total FRS 17 Adjustments				
Indirect Income/Expenditure	(267,830)	(218,970)	(221,650)	
Net Total	**(267,830)**	**(218,970)**	**(221,650)**	
Total for F&P - Financing Items	**(1,043,210)**	**(46,640)**	**46,560**	
Total for Housing Revenue Account	**0**	**0**	**0**	

HOUSING REVENUE ACCOUNT

SCALE OF CHARGES 2012/13

	Date last revised	(A) 2011/12 Charge Exclusive of VAT	(B) 2011/12 Charge Inclusive of VAT where applicable @ 20%	(C) 2012/13 Charge Exclusive of VAT	(D) 2012/13 Charge Inclusive of VAT where applicable @ 20%	VAT Ind
Effective from		01/04/2011 £	01/04/2011 £	01/04/2012 £	01/04/2012 £	
GARAGE RENTS AND ACCOMMODATION CHARGES						
Guest room accommodation at sheltered units per night:						
With en-suite facilities (St Marys Court, Groom House, Greenfields, Ironside Walk, Belmans Court)	Apr-10	10.03	12.04	10.03	12.04	V
Without en-suite facilities (Vyntoner House, Kate Daniels House, Mead House, Spendells House, Crooked Elms, Honeycroft)	Apr-10	7.63	9.16	7.63	9.16	V
Garage rents HRA (not subject to VAT unless separately let to non-council tenants)	Apr-10	7.39	8.87	7.39	8.87	V
PROVISION OF INFORMATION ON TENANCY CHANGES						
Supply of tenancy changes to Veolia Water UK, per copy (Formerly Tendring Hundred Waterworks Company)	Apr-10	420.00	504.00	420.00	504.00	V
QUESTIONNAIRES						
Second mortgage enquiries (per enquiry)	Apr-10	69.97	83.96	69.97	83.96	V
Solicitors enquiries on resale of council flats	Apr-10	63.17	75.80	63.17	75.80	V
SERVICE CHARGES (per week)						
Sewerage charges (not subject to VAT) (See Note 1):						
Treatment Works:						
Goose Green, Tendring	Apr-10	6.49	6.49	6.75	6.75	Z
Coronation Villas, Beaumont	Apr-10	6.42	6.42	6.68	6.68	Z
Whitehall Lane, Thorpe	Apr-10	4.38	4.38	4.56	4.56	Z
Shop Road, Little Bromley	Apr-10	7.50	7.50	7.80	7.80	Z
Horsley Cross, Mistley	Apr-08	9.00	9.00	9.00	9.00	Z
Bio Systems	Apr-10	6.42	6.42	6.68	6.68	Z
Septic Tanks	Apr-10	2.31	2.31	2.40	2.40	Z
Pumping Stations (not subject to VAT)	Apr-10	4.23	4.23	4.40	4.40	Z
Sewerage charge cap where tenant in receipt of benefit	Apr-08	5.00	5.00	5.00	5.00	Z
Communal central heating charges (not subject to VAT) (See Note 2):						
Heating and hot water:						
Single units	Apr-10	9.34	9.34	9.34	9.34	N
Double units	Apr-10	11.00	11.00	11.00	11.00	N
Sheltered Scheme Manager units	Apr-10	13.23	13.23	13.23	13.23	N
Hot water only (St Marys Court)	Apr-10	3.43	3.43	3.43	3.43	N
Other Service Charges (not subject to VAT):						
Sheltered Housing:						
Grounds Maintenance	Apr-10	1.78	1.78	1.78	1.78	X
Communal Electricity	Apr-10	2.49	2.49	2.49	2.49	N
Non Sheltered Housing						

HOUSING REVENUE ACCOUNT

SCALE OF CHARGES 2012/13

	Date last revised	(A) 2011/12 Charge Exclusive of VAT	(B) 2011/12 Charge Inclusive of VAT where applicable @ 20%	(C) 2012/13 Charge Exclusive of VAT	(D) 2012/13 Charge Inclusive of VAT where applicable @ 20%	VAT Ind
Effective from		01/04/2011	01/04/2011	01/04/2012	01/04/2012	
		£	£	£	£	
Grounds Maintenance	Apr-10	1.15	1.15	1.15	1.15	N
Communal Electricity	Apr-10	0.47	0.47	0.47	0.47	N
Communal Cleaning (not subject to VAT) :						
Langham Drive, Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Nayland Drive, Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Boxted Ave (3 Storey) , Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Boxted Ave (2 Storey), Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Polstead Way, Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Porter Way, Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Tanner Close, Clacton	Apr-10	2.99	2.99	2.99	2.99	N
Mason Road, Clacton	Apr-10	3.20	3.20	3.20	3.20	N
Groom Park, Clacton	Apr-10	1.88	1.88	1.88	1.88	N
Leas Road , Clacton	Apr-10	1.88	1.88	1.88	1.88	N
Rivers House, Walton	Apr-10	2.04	2.04	2.04	2.04	N
Rochford House, Walton	Apr-10	2.04	2.04	2.04	2.04	N
D'arcy House , Walton	Apr-10	2.04	2.04	2.04	2.04	N
Churchill Court, Dovercourt	Apr-10	2.41	2.41	2.41	2.41	N
Cliff Court, Dovercourt	Apr-10	1.88	1.88	1.88	1.88	N
Grove Avenue Walton	Apr-10	2.88	2.88	2.88	2.88	N
SHELTERED UNITS SERVICE CHARGES (Not subject to VAT) (see Note 3):						
Supporting People Costs	Apr-11	15.55	15.55	15.55	15.55	X
Landlord Costs	Apr-11	13.31	13.31	13.31	13.31	X
Careline Alarm	Apr-08	2.94	2.94	2.94	2.94	X

Notes

(1) Sewerage charges etc

The charging policy whereby the charges are reviewed annually against the costs of each of the five sites has continued for 2012-13 with the previously agreed general cap of £9.00 per week being applied or £5.00 where the tenant is in receipt of benefit.

(2) Communal central heating charges

The charges for central heating are based on the principal of recovering costs in full. Although the energy costs have risen sharply during 2011/12 this is not being passed on in 2012/13 and will subject to review in future years.

(3) General service charge for sheltered units

The support service provided in sheltered units by scheme managers comes under the Supporting People scheme and is subject to the terms of a contract with Essex County Council, who reimburse the Council in respect of tenants who are on benefit and eligible for SP grant funding. In respect of the Careline alarm charge, this service is currently under review by ECC with no change being proposed at this stage whilst awaiting the outcome of their review.

** Garage Rent - VAT:

Parking:		Storage:	
Council Tenant	N	Homeless persons goods	N
Non-Council Tenant	V	Premises suitable for parking	V
		Premises unsuitable for parking	X

APPENDIX C

HRA Capital Programme

	Original 2011/12 Budget £000	Revised 2011/12 Budget £000	2012/13 Budget £000	2013/14 Budget £000	2014/15 Budget £000	2015/16 Budget £000	2016/17 Budget £000
EXPENDITURE							
Improvements, enhancement & adaptation of the Council's housing stock	2,600	3,349	2,762	2,762	2,762	2,762	2,783
Disabled adaptations for Council tenants	375	403	400	400	400	400	400
Information Technology upgrade and replacement	20	23	20	20	20	20	20
Cash Incentive Scheme	60	60	60	60	60	60	60
	3,055	**3,835**	**3,242**	**3,242**	**3,242**	**3,242**	**3,263**
FINANCING							
Major Repairs Reserve (depreciation and revenue 'top up')	2,367	3,810	3,242	3,242	3,242	3,242	3,263
Capital Receipts	0	0	0	0	0	0	0
External Contributions	0	25	0	0	0	0	0
Supported Borrowing	688	0	0	0	0	0	0
	3,055	**3,835**	**3,242**	**3,242**	**3,242**	**3,242**	**3,263**

APPENDIX D

HRA 30 YEAR BUSINESS PLAN

Assumptions	(excl. Infl.)
Expenditure	0.0%
Utilities Inflation above RPI	1.0%
Income	0.0%
Dwelling Rents to 2012/13	7.99%
Dwelling Rents to 2015/16	2.55%
Dwelling Rents 2016/17 onwards	0.5%
Stock reduction factor	-0.10%

	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30	Totals
Expenditure	£	£	£	£	£	£	£
Maintenance of Properties	15,012,250	15,012,250	15,012,250	15,012,250	15,012,250	15,012,250	90,073,500
Depreciation	8,415,316	9,291,289	10,258,334	11,326,029	12,504,851	13,806,366	65,602,185
Revenue Contribution to Capital Programme	7,812,946	9,187,144	13,588,028	0	542,786	2,768,735	33,899,639
Management Costs (incl Sweeping and Grounds Maint)	3,437,850	3,437,850	3,437,850	3,437,850	3,437,850	3,437,850	20,627,100
Utilities	1,331,311	1,399,222	1,470,596	1,545,611	1,624,453	1,707,316	9,078,509
Provision for Bad Debts	750,241	1,248,919	1,144,006	1,000,346	884,174	867,573	5,895,259
Council Tax In Empty Properties	112,250	112,250	112,250	112,250	112,250	112,250	673,500
Debt Management Expenses	328,750	328,750	328,750	328,750	328,750	328,750	1,972,500
Borrowing Costs on Existing Debt (split of PWLB Loans)	4,085,300	4,085,300	4,085,300	4,085,300	4,085,300	4,085,300	24,511,800
Recharges	11,113,700	11,113,700	11,113,700	11,113,700	11,113,700	11,113,700	66,682,200
Insurances	372,200	372,200	372,200	372,200	372,200	372,200	2,233,200
Pension Costs (over and above recharges) (share of deficit)	559,800	559,800	559,800	559,800	559,800	559,800	3,358,800
	53,331,914	**56,148,673**	**61,483,064**	**48,894,086**	**50,578,364**	**54,172,090**	**324,608,191**
Income							
Dwelling Rents (incl.stock reduction factor)	(63,888,724)	(66,749,889)	(68,095,609)	(69,468,460)	(70,868,989)	(72,297,753)	(411,369,424)
Service Charges (incl.stock reduction factor)	(3,219,554)	(3,203,489)	(3,187,503)	(3,171,598)	(3,155,771)	(3,140,024)	(19,077,940)
Garage Rents (incl.stock reduction factor)	(663,671)	(660,360)	(657,064)	(653,786)	(650,523)	(647,277)	(3,932,681)
Non Dwelling Rents	(317,600)	(317,600)	(317,600)	(317,600)	(317,600)	(317,600)	(1,905,600)
Other Income	(192,452)	(192,452)	(192,452)	(192,452)	(192,452)	(192,452)	(1,154,712)
Investment Income (income on cash balances and mortgages)	(298,000)	(300,000)	(300,000)	(300,000)	(300,000)	(300,000)	(1,798,000)
Capital Receipts (to meet Administration Costs of RTB's)	(26,950)	(26,950)	(26,950)	(26,950)	(26,950)	(26,950)	(161,700)
Supporting People Block Grant from ECC	(669,650)	(669,650)	(669,650)	(669,650)	(669,650)	(669,650)	(4,017,900)
	(69,276,602)	**(72,120,389)**	**(73,446,829)**	**(74,800,496)**	**(76,181,936)**	**(77,591,706)**	**(443,417,957)**
HRA Deficit / (Surplus) before Debt Settlement Financing	**(15,944,688)**	**(15,971,716)**	**(11,963,765)**	**(25,906,409)**	**(25,603,572)**	**(23,419,616)**	**(118,809,766)**

Options to Split Existing Debt Portfolio Between GF and HRA

Existing Loans Held under 'one pool' approach	£
External Maturity Loans	20,000,000
External Annuity / EIP Loans	1,927,689
Internal Loans	4,723,451
Total Amount Borrowed	**26,651,140**
Existing HRA Capital Financing Requirement	18,941,154
Current Borrowing Costs Charged by GF to HRA	**804,000**

Maintain 'One Pool' Approach	£
HRA Capital Financing Requirement	18,941,154
Average Interest Rate on External Borrowing	4.90%
Borrowing Costs Charged by GF to HRA	**928,117**

Move to 'Two Pool' Approach
Current Position

Loan Amount (£)	Maturity Date	Interest Rate
5,000,000	15.1.2052	4.10%
2,000,000	15.2.2052	4.15%
2,000,000	15.2.2053	4.15%
2,000,000	15.2.2054	4.15%
2,000,000	15.2.2055	4.15%
2,000,000	15.2.2056	4.15%
800,000	15.9.2022	5%
1,200,000	15.9.2024	5%
1,000,000	15.9.2025	5%
1,000,000	15.9.2026	5%
1,000,000	25.3.14	9%
20,000,000		

Option 1 - Split External Maturity Debt by Allocating Loans until HRA Capital Financing Requirement Reached

Loan Amount (£)	Maturity Date	Interest Rate	Allocation of Loans	Annual Interest to HRA (£)
5,000,000	15.1.2052	4.10%	HRA	205,000
2,000,000	15.2.2052	4.15%	HRA	83,000
2,000,000	15.2.2053	4.15%	HRA	83,000
2,000,000	15.2.2054	4.15%	HRA	83,000
2,000,000	15.2.2055	4.15%	HRA	83,000
2,000,000	15.2.2056	4.15%	HRA	83,000
800,000	15.9.2022	5%	HRA	40,000
1,200,000	15.9.2024	5%	HRA	60,000
1,000,000	15.9.2025	5%	HRA	50,000
941,154	15.9.2026	5%	Loan Split to HRA	47,058
58,846	15.9.2026	5%	Loan Split to GF	0
1,000,000	25.3.14	9%	GF	0
20,000,000				**817,058**

Option 2 - Split each maturity loan pro rata to Capital Financing Requirements

Debt Portfolio Maturity Loan Amount (£)	Maturity Date	Interest Rate	Allocation of Loans HRA (£)	GF (£)	Annual Interest to HRA (£)
5,000,000	15.1.2052	4.10%	4,735,289	264,712	194,147
2,000,000	15.2.2052	4.15%	1,894,115	105,885	78,606
2,000,000	15.2.2053	4.15%	1,894,115	105,885	78,606
2,000,000	15.2.2054	4.15%	1,894,115	105,885	78,606
2,000,000	15.2.2055	4.15%	1,894,115	105,885	78,606
2,000,000	15.2.2056	4.15%	1,894,115	105,885	78,606
800,000	15.9.2022	5%	757,646	42,354	37,882
1,200,000	15.9.2024	5%	1,136,469	63,531	56,823
1,000,000	15.9.2025	5%	947,058	52,942	47,353
1,000,000	15.9.2026	5%	947,058	52,942	47,353
1,000,000	25.3.14	9%	947,058	52,942	88,787
20,000,000			**18,941,154**	**1,058,846**	**865,374**

DEBT CAP AND OPTIONS TO FUND £36.304m TO FUND THE DEBT SETTLEMENT

DEBT CAP AND BORROWING HEADROOM

Total Debt	**£**
HRA Debt at end of 2011/12	18,941,154
Debt Settlement	36,303,902
Total HRA Debt HCFR	**55,245,056**
Average Debt per Unit	17,040

Debt Cap	**£**
Capital financing Requirement as per Model	24,305,319
Debt Settlement	36,303,902
HRA Debt Cap	**60,609,221**
Average Debt per Unit	18,695

Borrowing 'Headroom'	**5,364,165**

OPTIONS TO STRUCTURE BORROWING REQUIREMENT

		Loan Profiles									
Option	**Type**	**5 Year (£)**	**10 Year (£)**	**15 Year (£)**	**20 Year (£)**	**25 Year (£)**	**30 Year (£)**	**Total Borrowed (£)**	**Interest Cost (£)**	**Total Cost to HRA (£)**	***Affordable**
Option 1	Maturity**						36,303,902	36,303,902	48,030,062	84,333,964	Yes
Option 2	Maturity**	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	36,303,902	25,939,138	62,243,040	Yes
Option 3	Annuity						36,303,902	36,303,902	26,967,810	63,271,712	Yes
Option 4	Annuity	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	36,303,902	12,904,654	49,208,556	No
Option 5	EIP						36,303,902	36,303,902	21,868,563	58,172,465	Yes
Option 6	EIP	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	6,050,650	36,303,902	11,004,318	47,308,220	No
Option 7	EIP (Optimised) Current Rates	1,210,100	2,420,300	4,840,500	7,260,800	8,470,900	12,101,302	36,303,902	15,286,727	51,590,629	Yes
Option 7	EIP (Optimised) 0.5% Inc in Rates	1,210,100	2,420,300	4,840,500	7,260,800	8,470,900	12,101,302	36,303,902	17,389,329	53,693,231	Yes
Option 7	EIP (Optimised) 1.0% Inc in Rates	1,210,100	2,420,300	4,840,500	7,260,800	8,470,900	12,101,302	36,303,902	15,286,727	51,590,629	Yes

** Based on Surpluses on HRA BP e.g. not using significant HRA balances in the early years of the plan.*

*** Assumes set aside of principal each year to repay debt at maturity with no refinancing requirement*

APPENDIX G

HRA Budget 2012/13 and 30 Year Business Plan Including Financing of Debt Settlement of £36.304m

HRA Budget 2012/13	
	£
HRA Surplus Before financing the Debt Settlement (as per Appendix A)	(2,739,198)
Debt Settlement Financing 12/13 (Based on EIP Optimised Option)	3,154,579
HRA Deficit 2012/13	**415,381**
Estimated Opening HRA Balances 2012/13	**(5,734,238)**
Applied to fund 2012/13 deficit	415,381
Estimated Closing HRA Balances 2012/13	**(5,318,857)**

HRA BUSINESS PLAN	30 Yr Totals	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30
	£	£	£	£	£	£	£
Expenditure	324,608,191	53,331,914	56,148,673	61,483,064	48,894,086	50,578,364	54,172,090
Income	(443,417,957)	(69,276,602)	(72,120,389)	(73,446,829)	(74,800,496)	(76,181,936)	(77,591,706)
HRA Deficit / (Surplus) before Debt Settlement Financing	**(118,809,766)**	**(15,944,688)**	**(15,971,716)**	**(11,963,765)**	**(25,906,409)**	**(25,603,572)**	**(23,419,616)**
Borrowing Costs for £36m EIP Optimised Option 7 (Current Rates)	51,590,629	15,173,270	12,510,660	9,966,986	7,201,483	4,502,263	2,235,968
HRA Deficit / (Surplus) After Debt Settlement Financing	**(67,219,137)**	**(771,418)**	**(3,461,056)**	**(1,996,778)**	**(18,704,927)**	**(21,101,309)**	**(21,183,649)**
Opening HRA Balances	(5,734,238)						
(Surplus) / Deficit for year*	**(67,219,137)**						
Closing HRA Balances	(72,953,375)						

** Includes deficit in first 2 years of plan that would be met from HRA Balances*

Additional Sensitivity Testing to reflect the impact of Increases to Interest Rates

	30 Yr Totals	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30
Borrowing Costs for £36m EIP Optimised Option 7 (0.5% Inc in Rates)	53,693,231	15,973,317	13,085,321	10,346,513	7,420,668	4,603,712	2,263,700
HRA Deficit / (Surplus) After Debt Settlement Financing	**(65,116,535)**	**28,629**	**(2,886,396)**	**(1,617,251)**	**(18,485,742)**	**(20,999,860)**	**(21,155,916)**
Opening HRA Balances	(5,734,238)						
(Surplus) / Deficit for year	**(65,116,535)**						
Closing HRA Balances	(70,850,773)						

** Includes deficit in first 2 years of plan that would be met from HRA Balances*

	30 Yr Totals	Years 1 to 5	Years 6 to 10	Years 11 to 15	Years 16 to 20	Years 21 to 25	Years 26 to 30
Borrowing Costs for £36m EIP Optimised Option 7 (1.0% Inc in Rates)	55,795,832	16,773,364	13,659,982	10,726,040	7,639,853	4,705,161	2,291,432
HRA Deficit / (Surplus) After Debt Settlement Financing	**(63,013,934)**	**828,677**	**(2,311,735)**	**(1,237,724)**	**(18,266,557)**	**(20,898,411)**	**(21,128,184)**
Opening HRA Balances	(5,734,238)						
(Surplus) / Deficit for year	**(63,013,934)**						
Closing HRA Balances	(68,748,172)						

** Includes deficit in first 3 years of plan that would be met from HRA Balances*