

# APPENDIX E

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 5 JULY 2011

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**Title:**

**TREASURY MANAGEMENT – PREPARATION FOR HRA SELF-FINANCING**

**[Portfolio Holder for Finance: Cllr Mike Band]**

**[Wards Affected: N/A]**

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**Summary and purpose:**

The purpose of this report is to inform Members of the technical treasury management support needed to prepare for the implementation of the new HRA self-financing framework and to request a supplementary estimate of £25,000 to enable the support to be acquired.

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**How this report relates to the Council's Corporate Priorities:**

The effective management of Waverley's finances supports the value for money corporate objective. The implementation of the HRA self-financing regime supports the affordable housing priority.

**Equality and Diversity Implications:**

There are no implications arising from this report.

**Resource and legal Implications:**

The HRA self-financing framework will require Waverley to raise £189million of external debt. This report explains why it is critical to acquire the appropriate amount and level of support to implement and manage these changes. There is no provision in the approved HRA budget for this support so a supplementary estimate is requested for 2011/12. In 2010/11 a significant underspend of £303,000 was achieved on the HRA revenue account and this was credited to the HRA working balance. Any ongoing requirements beyond 31 March 2012 will be addressed in the budget process.

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**Introduction and Background**

1. Since the Government launched its HRA self-financing proposals, which will replace the current housing subsidy system, Members have received various reports which explain the potential impact for Waverley. The key financial headline is that Waverley will have to take £189million of external debt under the new requirements. Members have been alerted to the need to adequately resource the initial acquisition and the ongoing management of this debt.

2. The Leader reminded Members of the significance of this issue in his budget speech at the February Council meeting. The Council's external auditors, The Audit Commission, have recognised this as being one of the key challenges going forward.

### **The support necessary**

3. The debt that Waverley must take on is on a scale not seen by the Council before both in terms of value and complexity. It is critical that high quality treasury management advice is acquired both at the outset to help appraise options and inform decisions and on an ongoing basis to keep officers up to date with the latest market position. From initial discussions with potential providers, it is estimated that an annual sum of £15,000 would be prudent to allow for this advice. It is the intention to procure this advice from August 2011 to coincide with the release of more detail on the HRA self-financing framework so that preparations can be made and approvals sought. The 2010/11 cost would therefore be £10,000.
4. Once the Council is in a position to go to the market to enter into the debt transactions specialist debt advisors will be necessary to ensure that the optimum position is secured. This view will need to consider factors such as the type of debt product, duration of the debt, mix of repayment calculations, flexibility to restructure etc. and will need to combine this with the latest market knowledge. It is estimated that this one-off support will cost up to £15,000 in 2010/11.
5. For both types of external support sought, there is a very limited number of providers of this specialist advice to local authorities in the market. This report requests that delegation is given to the Deputy Chief Executive, in conjunction with the Portfolio Holder for Finance to select and appoint the most appropriate providers. Contract Procedure Rule 2.1(g) will apply in this case.
6. Managing such a significant debt portfolio on an ongoing basis will require a dedicated staff resource. Currently Waverley's treasury management function is undertaken as part of a senior accountant role. It will be necessary to create a new post within the accountancy team dedicated to treasury management, including debt management. This post is estimated to cost £50,000 including oncosts in a full year. Subject to Council approval, officers would advertise in July and hope to make an appointment in October. The 2010/11 cost would therefore be £25,000. Officers are expecting some opportunities to restructure the accountancy section to arise soon and it is possible that cost savings can be achieved. More detail will be reported to the Members when proposals can be developed.

### **Risk**

7. The amount of debt and the complexity of the transactions required is significant and will need to be managed appropriately to ensure the best possible deal is achieved for Waverley. The initial specialist debt advice and ongoing treasury management advice is critical for officers and Members to understand the market and the options available to make informed decisions.

The ongoing staff resource is needed to manage a major debt portfolio on a day-to-day basis to ensure that the Council benefits from emerging opportunities and continues to secure good value.

### **Recommendation**

That the Executive:

1. recommend to Council to approve a supplementary estimate of £25,000 in 2011/12 to fund the provision of external treasury management advice and support necessary to undertake and manage the debt required under the new HRA self- financing rules, to be funded from the HRA working balance;
2. delegate authority for the selection and appointment of the advisors to the Deputy Chief Executive in conjunction with the Portfolio Holder for Finance;
3. recommend to Council to approve a new post of Treasury Management Officer with the 2011/12 cost of £25,000 being financed from salary savings in the year; and
4. note that the ongoing cost will be included within the 2012/13 Budget proposals.

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### **Background Papers**

There are no background papers (as defined by Section 100D(5) of the Local Government Act 1972) relating to this report.

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### **CONTACT OFFICER:**

**Name:** Paul Wenham

**Telephone:** 01483 523238

**E-mail:** [paul.wenham@waverley.gov.uk](mailto:paul.wenham@waverley.gov.uk)