

# APPENDIX C

## WAVERLEY BOROUGH COUNCIL

EXECUTIVE – 4 OCTOBER 2011

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**Title:**

### **HRA FINANCING STRATEGY UPDATE**

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

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

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**Summary and purpose:**

The purpose of this report is to update Members on the preparations for the implementation of the new HRA self-financing framework and to request an increase in the Council's statutory borrowing limit to enable officers to respond quickly to funding opportunities when the legislation is enacted.

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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 based on initial Government estimates. The framework will be enacted when the Localism Bill achieves Royal Ascent which is currently scheduled for October. This report provides an update on the last report to the Executive in July 2011 and is based on the assumption that the Government's timetable will be achieved.

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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 a number of reports which explain the potential impact for Waverley. The key financial headline is that Waverley will have to take around £189million of external debt under the new requirements. Members have been alerted to the need to adequately resource the initial debt acquisition and the ongoing management of the 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.
3. In July the Council approved the procurement of treasury and debt management advisors to support the implementation of the self-financing framework and the ongoing management of Waverley's investment and debt activity. The Council also approved the creation of a new treasury management and housing accountancy post.

### **Update on Actions Since July**

4. An officer project team has been created to oversee the preparation of the 30-year HRA Business Plan. This document is critical to the determination of the borrowing needs throughout the period.
5. Three companies that provide treasury/debt advice to local authorities were invited to submit proposals and, following interviews with each one, Arlingclose has been appointed. More detail about Arlingclose's workplan is included later in the report.
6. The details of the treasury and housing accountant post have been prepared and an advertisement placed. We are hoping to make an appointment later in October.

### **Self-Financing timetable**

7. Late in July, the Government issued further guidance on planning the transition to self-financing including clarification to the key milestones which are summarised below:

End August 2011	Submit property data for self-financing which will inform determination of debt level
End October 2011	Auditors submit report on Waverley's data
November 2011	Consultation on self-financing determinations
January 2012	Final determination published
February 2012	Set budgets and agree borrowing
28 March 2012	Payment to Government – currently estimated to be £189million
1 April 2012	Self-financing goes live

### **The Role of Waverley's Advisors**

8. Arlingclose were appointed as Waverley's treasury management advisors primarily on the strength of their proposed work coverage, their understanding of Waverley's needs and their knowledge of the appropriate technical aspects of treasury activity. Arlingclose will also be advising the Council on the implementation of HRA self-financing framework and, critically, the raising of the required debt. The support that Arlingclose will be providing is summarised in Annexe 1.

## Financing Strategy

9. The HRA Financing Strategy will need to include:
- The type of debt and choice of lenders, including internal borrowing
  - The duration of debt and flexibility to restructure
  - Matching debt requirements to key cashflows over Business Plan period
  - The appropriate interest basis of the debt
10. Officers will be working with Arlingclose to develop the Financing Strategy and this will be reported to Members for approval in November.
11. The Financing Strategy will need to be partly driven by the 30-year Business Plan. This is currently being prepared and will be reported to Members in the coming months. The Business Plan will identify the critical cashflows and profile of capital investment required to maintain and operate Waverley's 4,900 dwellings.

## Borrowing Limit

12. In order for Waverley to implement its borrowing Strategy when the Localism Act is passed, the Council must increase its legal borrowing limit. In approving this limit, the Council is approving the limit as required under section 3(1) of the Local Government Act 2003. This limit is normally set each February as part of the Prudential Indicators at a relatively low level to give officers the ability to borrow small amounts for short periods as part of day to day treasury activity. As the General Fund currently has no long-term borrowing requirements, there is no need to set a different operational boundary figure from the authorised limit. The following changes are proposed:

### Indicator 4 - Authorised limit for external debt

	<b>2011-12 Current</b>	<b>2011-12 Revised</b>	<b>2012-13 Estimate</b>	<b>2013-14 Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£3.2m	£189m*	£189m*	£189m*
<b>Total</b>	<b>£8.2m</b>	<b>£194m</b>	<b>£194m</b>	<b>£194m</b>

### Indicator 5 - Operational boundary for external debt

	<b>2011-12 Current</b>	<b>2011-12 Revised</b>	<b>2012-13 Estimate</b>	<b>2013-14 Estimate</b>
General Fund	£5m	£5m	£5m	£5m
HRA	£3.2m	£189m*	£189m*	£189m*
<b>Total</b>	<b>£8.2m</b>	<b>£194m</b>	<b>£194m</b>	<b>£194m</b>

\* If the final determination shows a different figure, the Council will be requested to revise the limit accordingly

## **Recommendation**

That the Executive:

1. recommends to Council that the revised borrowing limit set out in paragraph 12 be approved;
2. requests officers in conjunction with Waverley's advisors to prepare a detailed HRA Financing Strategy alongside the 30-year HRA Business Plan and to report back to the Executive; and
3. notes the timetable and the actions to date to prepare for the implementation of the HRA self-financing framework.

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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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## Arlingclose work programme

### **1) HRA Self-Financing Advice**

- a) Review of current Balance Sheet, CFR position over recent years and projection of HRA/GF – CFRs for this year
- b) Review our Base Data Return before end of August 2011
- c) Pre Settlement Debt Tendering Options & Advice
  - ◆ Source of funding and transaction costs
  - ◆ Maturity profile and loan type
  - ◆ Interest rate exposure
  - ◆ An assessment of whether a local authority credit rating is appropriate (and how we would go about it if required).
  - ◆ Risk strategy – sensitivity analysis
- d) Identify and introduce appropriate funders and funding options and products which match the HRA Strategy
  - ◆ Comparison of products
  - ◆ Options appraisal – interest duration , refinancing opportunities etc – to identify optimum mix
- e) Advice and comment on the financial impact of Funding decisions on HRA Business Plan
- f) Plus any suggested areas not covered by the above

### **2) Ongoing Treasury Management Advice**

General advice provided through:

- a) Quarterly meetings in Waverley
- b) Regular telephone contact
- c) A nominated contact for Waverley

- d) A help desk facility
- e) Regular email updates
- f) Regular client seminars

Advice to help develop the Council's:

- a) Strategic Financial Plans
- b) Borrowing strategy
- c) Investment Strategy and Policies
- d) Counterparty list
- e) Performance monitoring processes including benchmarking

Investment advice on:

- a) Credit Ratings
- b) Appropriate investment vehicles

Technical Advice on:

- a) Local authority treasury management guidance including compliance with CIPFA Codes
- b) Financial Investments etc.
- c) General Debt Management Advice: identifying broad trends and opportunities