

# ***Report to the Council***

**Committee:** Cabinet

**Date:** 26 July 2011

**Portfolio Holder:** Councillor Gagan Mohindra (Finance and Economic Development)  
Councillor Maggie McEwen (Housing)

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## **SUPPLEMENTARY ESTIMATE – SELF FINANCING FOR THE HOUSING REVENUE ACCOUNT**

### **Recommending:**

**That a supplementary Housing Revenue Account revenue estimate in the sum of £50,000 be approved for 2011/12 to cover additional consultancy and treasury management advice in relation to the introduction of self-financing for the HRA and the initial cost of obtaining a credit rating.**

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### **Background**

1. There is a separate report being submitted to the Council by the Cabinet recommending changes to the Treasury Management Strategy to enable the Council to borrow up to £200M in order to proceed with the Housing Revenue Account Self Financing through the Localism Bill.
2. In the expectation that the Council approves changes to the Strategy, we have given further consideration to the Cabinet's previous decision in principle to commence a new affordable house-building programme by the Council once the Housing Revenue Account (HRA) moves to a self-financing basis.
3. Since the Cabinet considered the issue in 2010, due to the mandatory introduction of self-financing for the HRA from April 2012, the detrimental effect on the General Fund may no longer apply. We have, therefore, confirmed that previous decision, subject to financial appraisals confirming the viability of such a programme.
4. In order to proceed, further decisions are required in terms of the potential size of the programme and how the expenditure will be financed.
5. At this stage it is not possible to set out any proposed developments, and the viability of such a programme and how it could be implemented will require further detailed consideration by Officers and Members. Furthermore, each potential scheme would need to be assessed on its own financial merits, with a detailed development appraisal approved, before proceeding. However, in principle decisions at this stage on the concept are needed to allow more detailed financial models to be constructed with a clearer idea of how much will need to be borrowed and the resources that will be available to repay the loan(s).
6. We have asked the Housing Scrutiny Panel to consider these issues at its meeting in October 2011, and to report back to the Cabinet on a proposed way forward. This will be at the same meeting that the Housing Scrutiny Panel will also be considering and recommending to the Cabinet a new 30-Year Financial Plan for the HRA, to take account of the introduction of self-financing from April 2012.

7. Local authority borrowing has traditionally been financed through the Public Works Loans Board (PWLB), as it has been the cheapest source of funds. Going forward it may be possible to obtain funding more cheaply from issuing bonds, either by means of a public bond issue or through a private placement. For any bond to be attractive to the financial markets, and in order to obtain the best possible interest rates, the Council would need to have a credit rating.

### **External Advice**

8. Borrowing £200million and determining the repayment profile, the number of loans the proportion of fixed interest against variable and the other key variables will not be easy. These are large complex transactions and if poor decisions are made the impacts are likely to run over many years and be very costly. For officers to be best placed to make appropriate recommendations to Members it is essential that expert external advice is obtained.
9. The Council uses ConsultCIH to help with the HRA Business Plan and Arlingclose to advise on Treasury Management. As the proposals for self financing have been taken forward discussions with these advisers have been ongoing. ConsultCIH have provided work of a high standard previously and have quoted £10,125 for business planning work to develop the 30-year model incorporating the borrowing implications. Arlingclose were originally appointed to advise on treasury management and investments, although they do provide advice on debt structures and borrowing to their clients who have loan portfolios. Arlingclose have quoted a price of £7,200 for the initial work necessary on creating the loan portfolio and, similarly to ConsultCIH, their work has proven to be of a high quality and represent good value for money.
10. The cost of obtaining the initial credit rating (£20,000) and the business planning and treasury advice (£17,325) would be £37,325. However, it is anticipated that further costs will be incurred in this process and so to provide some head room a supplementary HRA revenue estimate of £50,000 is proposed.
11. Contract Standing Orders (CSO) set out the minimum requirements for the number of quotes that should be obtained for contracts of any given value. The requirements for contracts not exceeding £50,000 are set out in CSO 3 and 4 and contracts with a value between £10,001 and £15,000 require at least two quotes and those between £15,001 and £50,000 require at least three quotes. For the consultancy and treasury management advice, the Cabinet has agreed to continue with our existing advisors, as set out above, subject to Council approving the required Supplementary Estimate. Alternative quotes could have been obtained but this would have delayed the process and any new advisor would have time and costs in familiarising themselves with the Council's position. For the credit rating, it is only proposed to obtain two quotes as whilst there are three credit rating agencies one of them is less well regarded and a rating from them would be unlikely to have the same standing.
12. Accordingly, we have agreed to waive the requirements of Contract Standing Orders C3 and C4 if the Council approves the supplementary estimate.
13. We recommend as set out at the commencement of this report.