

## **Report to the Cabinet**

**Report Reference: C-033-2011/12.**  
**Date of meeting: 24 October 2011.**



**Epping Forest  
District Council**

**Portfolio: Finance & Economic Development  
Housing**

**Subject: Self Financing for the Housing Revenue Account**

**Responsible Officer: Bob Palmer (01992 564279).**

**Democratic Services: Gary Woodhall (01992 564470).**

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### **Recommendations/Decisions Required:**

**(1) To respond to the unexpected reduction in Public Works Loans Board interest charges by reversing the decision made by Cabinet on 18 July 2011 to obtain a credit rating for the Council as part of the borrowing process.**

### **Executive Summary:**

On 18 July 2011 Cabinet decided that a credit rating should be obtained to give the Council the best possible options in reviewing and obtaining external finance for the self financing debt settlement. On 19 September 2011 there was an unexpected reduction in Public Works Loans Board (PWLB) interest rates for HRA self financing which has made market financing less attractive and undermined the case for obtaining a credit rating.

### **Reasons for Proposed Decisions:**

In reducing PWLB interest rates the Government has fundamentally changed the borrowing options facing authorities. A formal decision of Cabinet was taken in July based on the information and advice available at that time, as the situation has now changed it is appropriate to reconsider that decision.

### **Other Options for Action:**

The Council could proceed with the credit rating, although the rating is unlikely to be of any practical use.

### **Report:**

1. The PWLB has historically been the cheapest source of borrowing for local authorities. However, the Chancellor of the Exchequer increased the margin charged by the PWLB in October 2010 and it appeared that cheaper sources of finance may have existed. Indicative pricing for ten year loans showed a PWLB interest rate of 4.4% compared to a ten year bond at 4% and a private placement between 4 and 4.25%.

2. To give the Council the best chance of securing the necessary borrowing at the most favourable rate Cabinet decided on 18 July 2011 to obtain a credit rating. This decision followed informal discussions with several merchant banks and advice from the Council's treasury management advisers, Arlingclose. Following from this decision a Member panel interviewed Moody's and Standard & Poor's and decided to appoint Moody's to provide a credit rating.

3. On 19 September 2011 it was announced, without any prior indication, that for self financing transactions PWLB rates would revert to their pre-October 2010 rates. This reduces the rates by approximately 0.85% to leave the margin over gilts at approximately 0.15%. The largest saving against post-October 2010 PWLB rates that any of the alternative providers of finance had suggested as being possible was approximately 0.4%. This means that the new PWLB rates will undercut private financing opportunities by around 0.5%. Therefore, PWLB clearly offers the cheapest financing and as PWLB offers the same rates regardless of credit ratings there is little to be gained from proceeding with the rating process.

#### **Resource Implications:**

A supplementary HRA revenue estimate of £50,000 was approved to pay for the credit rating and additional consultancy support. The anticipated cost of the credit rating was £20,000. Pending a decision on obtaining a rating, Moody's have been asked to suspend their work.

#### **Legal and Governance Implications:**

The power to dismantle the existing Housing Subsidy system and introduce self financing is included in the Localism Bill which is currently going through Parliament.

#### **Safer, Cleaner, Greener Implications:**

There are no environmental implications.

#### **Consultation Undertaken:**

Consultation is ongoing with other local authorities and DCLG. Discussions have also taken place with Consult CIH, Arlingclose and Barclays Capital.

#### **Background Papers:**

Previous reports on self financing.

#### **Impact Assessments:**

##### Risk Management

If the Council proceeds with the rating it could be criticised for wasting resources.

##### Equality and Diversity

*Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications?* No

*Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken?* No

*What equality implications were identified through the Equality Impact Assessment process?*  
N/A.

*How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?*  
N/A.