

HRA SUBSIDY BUYOUT
REPORT OF DEPUTY CHIEF EXECUTIVE (CORPORATE
DIRECTION)



Hinckley & Bosworth
Borough Council

A Borough to be proud of

WARDS AFFECTED: ALL WARDS

1. **PURPOSE OF REPORT**

To seek Council approval to make a payment of £67.652m to Department of Communities and Local Government on 28 March in order for the Authority to buy itself out of the Housing Revenue Account Subsidy Regime and to approve the borrowing of £67.652m to fund this payment.

To approve the delegation of the decisions regarding the structure of the debt to nominated members and officers. .

2. **RECOMMENDATION**

That Council approves:

- a) That the authority buys itself out of the current Housing Revenue Account Subsidy system at a cost of £67.652m as per the Communities and Local Government (CLG) HRA Self Financing Determination on 28 March 2012
- b) That the authority borrows up to £67.652m from the Public Works Loan Board (PWLB) to finance the buy out payment on 26 March 2012 (the loan being advanced on 28 March 2012)
- c) The determination of the structure of the borrowing is delegated to the Deputy Chief Executive (Corporate Direction), Deputy Chief Executive (Community Direction), Lead Executive member for Finance and Lead Executive member for Housing.
- d) That the debt be repaid over a maximum period of 25 years

3. **BACKGROUND TO THE REPORT**

Members will be aware that Central Government has operated a system of subsidy to authorities' Housing Revenue Accounts for many years. Under the current subsidy system authorities whose deemed rental income is in excess of their deemed expenditure needs pay into the system (negative subsidy) and those whose deemed rental income is less than their deemed expenditure needs receive money (positive subsidy). Over the years more and more authorities have moved into negative subsidy including this authority.

The subsidy system was considered to be restrictive and relying as it did on annual determinations did not give authorities the ability to plan ahead with any degree of certainty with one of the major items of their HRA accounts.

Discussions have taken place over a number of years as to methods of reforming the system and giving authorities some degree of certainty over their HRA.

A scheme has been devised and passed into law in the recent Localism Act whereby authorities who are in negative subsidy will buy themselves out of the system and those who are currently receiving subsidy will receive a payment (which will in effect be used to reduce their debt level).

The amounts that are to be paid or received by authorities have been determined by calculating the net present value of the notional net income stream generated by the existing subsidy system over a 30 year period less the authority's notional capital financing requirement from the subsidy system. For Hinckley and Bosworth Borough Council the sum to be paid works out at £67.652m

As regards the financing of this payment, CLG regard it as Capital Expenditure and therefore it could be financed by any form of capital financing instrument but given the size of the payment borrowing is the only feasible option.

As regards the source of the borrowing the most advantageous source appears to be the Public Works Loan Board (PWLB) which is a branch of Central Government's Debt Management Office. In September the Chief Secretary to the Treasury announced that for money borrowed from the PWLB for the purposes of the HRA subsidy buyout payments the PWLB would revert to the margins over gilt rates that applied before they were increased in the Comprehensive Spending Review Statement in October 2010. This equates to a saving of approximately 0.85% on the normal PWLB rates (or £577,600 per annum). However this offer will only be available on 26 March 2012 and as PWLB rates vary twice daily it is considered that the exact amounts and maturities of the loans can only be decided nearer the time to ensure the best fit given market conditions. It is therefore recommended that delegated authority be given to the Deputy Chief Executive (Corporate Direction), Deputy Chief Executive (Community Direction), the Lead Executive member for Finance and the Lead Executive member for Housing to determine the exact structure of the borrowing.

Under the terms of the self financing settlement it is up to the individual authority whether or not it repays the debt over time (there is no legal requirement to repay the debt). By setting aside money for debt repayment but not physically repaying the loan could enable the council to undertake capital works on its stock or to build new council dwellings using some low cost capital. If members are minded to repay the debt it is suggested that it is done so over a maximum period of 25 years by equal installment of principal.

4. **FINANCIAL IMPLICATIONS [DB]**

There are significant financial implications arising from this change. The Council will cease to pay Negative Subsidy to Central Government, which amounted to £4.2m in 2011/12 and was estimated to be £5.2m in 2012/13. This amount would increase over time. This will be replaced by the payment of interest which is estimated to be £1.808m in 2012/13 and repayment of principal debt which is estimated to be £2.720m in 2012/13 (assuming an equal instalment of principal debt for years). This would generate a saving of £672,000 which could be used to invest in the housing stock either by way of improvements to the existing stock or new build. Whilst these amounts may change in future years there is a greater degree of certainty which would allow for better planning of the service.

5. **LEGAL IMPLICATIONS (AB)**

Contained in the body of the report

6. **CORPORATE PLAN IMPLICATIONS**

This report contributes to the Council's Corporate Objective

7. **CONSULTATION**

None

8. **RISK IMPLICATIONS**

It is the Council's policy to proactively identify and manage significant risks which may prevent delivery of business objectives.

It is not possible to eliminate or manage all risks all of the time and risks will remain which have not been identified. However, it is the officer's opinion based on the information available, that the significant risks associated with this decision / project have been identified, assessed and that controls are in place to manage them effectively.

The following significant risks associated with this report / decisions were identified from this assessment:

Management of significant (Net Red) Risks		
Risk Description	Mitigating actions	Owner
None		

9. **KNOWING YOUR COMMUNITY – EQUALITY AND RURAL IMPLICATIONS**

There are none

10. **CORPORATE IMPLICATIONS**

By submitting this report, the report author has taken the following into account: [if you require assistance in assessing these implications, please contact the person noted in parenthesis beside the item]

- Community Safety implications
- Environmental implications
- ICT implications
- Asset Management implications
- Human Resources implications
- Planning Implications
- Voluntary Sector

Background Papers HRA Self Financing Determination

Contact Officer – David Bunker, Accountancy Manager

Executive Member : Councillor K W P Lynch