

## SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

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**REPORT TO:** Leader and Cabinet

8 September 2011

**AUTHOR/S:** Executive Director, Corporate Services / Corporate Manager, Affordable Homes

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### HOUSING REVENUE ACCOUNT (HRA) SELF-FINANCING: CONSEQUENTIAL ACTIONS

#### Purpose

1. To provide Cabinet with an update on the progress towards the new financing regime for the HRA.
2. To invite Cabinet to consider proposals to demolish or dispose of a number of properties within the HRA so that they can be discounted from the self-financing settlement figure.
3. This is a key decision because:
  - it is likely to result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates.
  - it is likely to be significant in terms of its effects on communities living or working in an area of the District comprising two or more wards.
  - it requires the acquisition or disposal of any land or interest in land with a value in excess of Level 4 (£120,000).

and it was first published in the September 2011 Forward Plan.

#### Recommendations

4. That Cabinet approve:
  - (a) the transfer of the hostel site and nearby properties at Robson Court, Waterbeach, as listed in **Appendix 1** to this report, to Sanctuary Carr-Gomm at nil value,
  - (b) the demolition of the properties at Robinson Court, Grays Road, Gamlingay and Fairview, Longstanton before 31 March 2017, as listed in **Appendix 2** to this report, and
  - (c) the appointment of a specialist financial advisor to develop options for the raising of the funds required for the Council's self-financing settlement commitment.

#### Reasons for Recommendations

5. The transfer of the Robson Court site, scheduled at Appendix 1, will enable the redevelopment and modernisation of the temporary accommodation available to the Council.

6. The demolition of the obsolete and unpopular properties, listed in Appendix 2, will enable re-provision of affordable housing on the sites. A decision is required now so that these properties can be discounted from the Government's calculations of the final HRA self-financing settlement figure.
7. Should Council in November wish to raise funds through a public or private bond placement there are a number of steps the Council will need to have progressed by that stage. The appointment of a specialist advisor will facilitate the development of these options and will allow the Council to put in place the necessary initial arrangements.

### **Background**

8. The Government have requested that all stock retaining local authorities identify those properties that they are intending to transfer out of their ownership before the end of March 2012 or intend to demolish within the next five years.
9. The properties so identified, subject to certification by the Council's auditors, will not be included within the debt settlement figure for the establishment of the self-financing regime to replace the HRA subsidy system in April 2012. This sum is anticipated to be around £35,000 per property.
10. Where demolition is proposed, there will be further and more extensive consultation on the options once the properties have been accepted by the Government as due for demolition. The Council will have up to 5 years to carry out the demolition otherwise the debt settlement figure will be recalculated in respect of these properties.
11. Council in November will be asked to approve a revised Treasury Management Strategy for 2011/12. This Strategy will detail how the Council will finance the settlement figure demanded by the Government. At this stage it is anticipated that the Council will be required to pay more than £200 million on the 28 March 2012.

### **Considerations**

12. The properties identified for transfer or demolition and exclusion from the HRA debt settlement are as follows:
  - (a) **Robson Court Site, Waterbeach** (for transfer)

This site consists of 16 flats, a detached house (scheduled at Appendix 1) and a hostel, which is currently leased to and managed on behalf of the Council by Sanctuary Carr-Gomm. The site is becoming increasingly expensive to maintain. The Housing Portfolio Holder on 20 July 2011 made an in principle decision to transfer this site to the housing association for demolition and the re-provision of improved hostel facilities for use by the Council. The transfer needs to occur before the end of March 2012 and the housing association has agreed to meet this deadline. Consultation has been carried out with the current residents and the local elected Members.

Disposal of the land on the open market is not recommended and it is anticipated that the value of the land will be negligible as a result of the covenant requiring the provision of temporary accommodation for homeless households to be re-provided at the site.
  - (b) **Robinson Court, Gamlingay** (for demolition)

This is a block of 23 flats (scheduled at Appendix 2), formerly part of a sheltered housing scheme, now let to general needs tenants. Several of the

properties are bedsit flats and are of an obsolete and unpopular design that cannot be successfully remodelled. Consultation has been carried out with the current residents and the local elected Members. The Council is exploring different options for the reprovion of affordable housing on the site.

(c) **The Fairview, Longstanton** (for demolition)

This is a group of 5 older properties (scheduled at Appendix 2) of solid wall construction with poor insulation and large gardens that now require too much investment to retain. Consultation has been carried out with the current residents and the local elected Members. The Council is exploring different options for reprovion of affordable housing on the site.

### **Debt Finance**

13. The Council has a number of potential ways it could raise the finance required to make the payment of over £200 million to the Government in March 2012. These include:
  - (a) The Council's own resources (balances)
  - (b) Borrowing from other local authorities
  - (c) Borrowing from the Public Works Loans Board (PWLB)
  - (d) Borrowing on the money market
  - (e) A bond issue through either a public or private placement
14. While utilising the Council's own balances is likely to be the most cost effective source of finance there is not sufficient quantum of cash available to finance this transaction, so this can only be a partial solution. Likewise it appears that direct borrowing from other local authorities or the money markets will not be a long-term solution as funds are unlikely to be available in the quantity or the periods necessary to fund the business plan on a long term basis.
15. The Public Works Loans Board offers a ready supply of loan finance to local authorities and is making specific provision to make funds available to local authorities that need to raise loans to fund this transaction. Funds can be borrowed on a range of terms at both variable and fixed rates of interest at periods of up to 50 years. The interest rates chargeable are set in line with the cost (or yield) of equivalent Government bonds (more properly called gilts) although the PWLB charges local authorities an additional 1.0 to 1.2% above the prevailing gilt rate.
16. The Council could issue a bond, or bonds, in its own name through a public or private placement. These financial instruments are attractive to pension funds and insurance companies. A public placement will entail the Council obtaining a credit rating, drawing up the relevant specialist legal documentation and securing the services of a number of financial institutions (or book-runners) to place the bonds and manage their ongoing trading positions. The initial costs of a bond placement are likely to be up to £450,000, to which must be added the ongoing costs of maintaining the Council's credit rating (circa £20,000 per annum). The Council's research suggests that the servicing cost of a bond placement could be up to 0.4% lower than the equivalent PWLB rate. On a like for like basis this could represent a saving of between £400,000 and £700,000 per annum to the HRA.
17. The Local Authority sector has little experience of raising bond finance; indeed even across the market this is a very specialist activity reserved to large corporate bodies.

If the Council wishes to pursue this option the most expeditious route would appear to be securing the services of a specialist advisor in this field who can assist the Council in making the relevant decisions, including leading the Council through the selection of book-runners and legal support and securing a credit rating. It is anticipated that the cost of such a service, which would be subject to an open tender process, could be met from existing resources.

**Options**

**Robson Court, Waterbeach**

- 18. The Council could decide not to transfer the properties and retain the buildings in their existing format with similar management arrangements in place. This option will not address any physical problems associated with an aging building and the general needs units will become more difficult to let over time and require additional maintenance expenditure.

**Robinson Court, Grays Road, Gamlingay and Fairview, Longstanton**

- 19. The Council could decide to retain the current properties but this would require disproportionate investment to bring them up to standard and may result in increased level of voids as unpopular units remain unlet.

**Debt**

- 20. The Council could approach financial institutions directly over the raising of bond finance. Confidence is a critical factor in the success of this type of transaction, however. Lack of confidence in counterparties, i.e. in this case the Council, or a badly framed approach to the market would be seen as a higher risk for lenders and could be reflected in higher costs. Working with a knowledgeable, independent third party has been shown to reduce the costs to bond issuers and helps to deliver a successful outcome.
- 21. Council in November, or even at a later stage in the process, might conclude that the Public Works Loan Board offers a better funding solution over a bond placement. The appointment of a specialist financial advisor now will allow these options to be comprehensively benchmarked against each other in the light of the emerging HRA Business Plan.

**Implications**

22.	Financial	<p>The Council will pay the Government an anticipated £205 million in March 2012, but will then leave the current funding system under which it currently pays over £12 million a year to support housing authorities elsewhere in the country.</p> <p>Securing loan finance on the most advantageous terms is a key objective of the project and will ensure the HRA is able to sustain a comprehensive 30 year Business Plan.</p> <p>No provision has been made in the 2011/12 HRA business plan for the costs of raising the loan finance. Council in November will be invited to consider any relevant financial impacts that follow from its decisions then. It is anticipated that the costs of the financial advisor proposed in this report could be met from within existing budgets and virement delegations.</p>
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Legal	Land transfer deeds and associated covenants will need to be in place for the transfer of the Robson Court site. The implementation of the HRA self-financing scheme is subject to Royal Assent being given to the Localism Bill, expected in November 2011, and the issue of relevant regulations by the Secretary of State.
Staffing	No staffing implications have been identified in regard to the proposed transfer or demolition of the properties scheduled in this report. The report sets out the requirement for additional specialist advice to facilitate the most effective debt financing solution.
Risk Management	The current volatility in the money markets is a key risk to the Council's ability to secure loan finance at an affordable level. Working with specialist advisors will help the Council to mitigate that risk to a degree. If it is not possible to demolish or transfer the properties listed in the appendices by 31 March 2017 or 31 March 2012 respectively, the Council will be required to make an additional payment to the Government equivalent to the opening settlement figure (circa £35,000 per property).
Equality and Diversity	No specific equality and diversity issues have been identified.
Equality Impact Assessment completed	Not applicable
Climate Change	The report sets out options to redevelop properties that have poor energy efficiency levels.

### Consultations

23. Residents of the affected properties together with local members have been consulted on the proposals to transfer or demolish the properties scheduled at Appendices 1 and 2. Further consultations will take place with residents of the properties scheduled for demolition once more detailed plans have been developed.
24. A communication strategy has been developed to inform tenants and other stakeholders of the implications of the self-financing regime. There will be opportunities to take tenants views into account once options are developed further.

### Consultation with Children and Young People

25. No specific consultations have been undertaken with children or young people except as members of the families resident in the affected properties.

### Effect on Strategic Aims

26. The establishment of an effective 30-year business plan for the HRA and meeting the funding requirements of it are key contributors to meeting the affordable housing requirements of the District's residents.

### Conclusions / Summary

27. The approval of the schedules of properties listed for transfer and demolition will allow the Government to discount these properties from the final settlement figure payable by the Council in March 2012.

28. There are a number of options to be actively pursued in drafting the Council's new Treasury Management Strategy. The appointment of a specialist advisor will facilitate the development of these options so that Council in November 2011 can make an informed decision on the financing of what is likely to be a more than £200 million settlement payment to the Government.

**Background Papers:** the following background papers were used in the preparation of this report:

Report to Housing Portfolio Holder 20 July 2011 "Options for Robson Court Waterbeach"

Report to Housing Portfolio Holder 15 June 2011 "Update on HRA Reform" including project initiation document.

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## APPENDIX 1

### SCHEDULE OF PROPERTIES PROPOSED FOR TRANSFER BEFORE 31 MARCH 2012

<u>Address</u>		<u>Description</u>		
Hostel (9-26)	Robson Court	Waterbeach	CB25 9LE	Hostel
Flat 1	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 2	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 3	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 4	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 5	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 6	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 7	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 8	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 27	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 28	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 29	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 30	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 31	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 32	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 33	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
Flat 34	Robson Court	Waterbeach	CB25 9LE	Flat Bedsit 1945-1974
35	Robson Court	Waterbeach	CB25 9LE	3 Bedroom House

## SCHEDULE OF PROPERTIES PROPOSED FOR DEMOLITION BEFORE 31 MARCH 2017

Address		Description		
<b>Robinson Court</b>				
Flat 15	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 16	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 17	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 18	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 19	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 20	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 21	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 22	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 23	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 24	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 25	Grays Road	Gamlingay	SG19 3EL	Conventional 2bf 1945-74
Flat 26	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 27	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 28	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 29	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 30	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 31	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 32	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 33	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 34	Grays Road	Gamlingay	SG19 3EL	Flat 1 Bed 1945-1974
Flat 35	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 36	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
Flat 37	Grays Road	Gamlingay	SG19 3EL	Flat Bedsit 1945-1974
10	Fairview	Longstanton	CB24 3EB	House 3 Beds Semi-detached Pre 1945
Flat 11	Fairview	Longstanton	CB24 3EB	Flat 1 beds Pre 45
Flat 12	Fairview	Longstanton	CB24 3EB	Flat 1 beds Pre 45
13	Fairview	Longstanton	CB24 3EB	House 3 Beds Semi-detached Pre 1945
14	Fairview	Longstanton	CB24 3EB	House 3 Beds Semi-detached Pre 1945