Debt Management and Financing for Housing

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Why the Panic?

Abolition of the housing subsidy system

- Borrow to buy out of the subsidy system
- Given lump sum to repay borrowing
- £28bn of debt on1/4/12
- Consolidated Rate of Interest going
- HRA Business Valuation allows little room for manoeuvre
- Major Repairs Allowance disappearing

CIPFA/CLG Working Group

- Management of Debt
  - Impacts of taking on Additional Debt
  - Big changes in LA's debt positions
  - LA's locked into 30 year business plan
- Accounting Changes
  - No Major Repairs Allowance
  - What to do with Major Repairs Reserve
  - Depreciation

Debt Management Principles

- No detriment to the GF
- Broadly equitable between HRA and GF
- Future HRA borrowing charges not to be influenced by GF decisions
- Resources that allow borrowing to be below Capital Financing Requirement are properly identified between GF and HRA.

So what do we have to do?

- Depends on LA settlement
- If Taking on Debt
  - Decide how much you need to borrow
  - When you need to borrow it
- If Repaying Debt
  - Split GF and HRA Loans in loans pool
  - Decide loans to be repaid
- Managing Debt going forward - choices

How Many Loans Pools?

- Two - GF and HRA
  - Clarity, no cross subsidy, 30 year HRA view
- One – as now
  - Ease of management, use CRI equivalent
- Three – old debt, new debt split GF / HRA
  - No break of past, problems over interest rate
- CIPFA leaning to 2 pool method

Accounting for Depreciation

- Consistency with IFRS
  - Split into components
  - Is Impairment an issue?
- Need to ensure sufficient resources for long term maintenance
- Maintain the Major Repairs Reserve
- Ensure Reserve used to maintain assets