

Housing Revenue Account Subsidy (HRAS) System Exit

Background

Up to 1 April 2015, eleven Welsh landlord authorities operated within a centralised HRA Subsidy system which was deemed complex, outdated and where a “negative subsidy” was paid to the UK Treasury each year.

The UK Government and Welsh Government reached a final agreement at the end of March 2015 to allow all Councils with housing stock in Wales to leave the centralised HRA Subsidy system. Councils would become responsible for financing their landlord services and housing investment from their income. This is referred to as “self financing”. English Authorities moved to self financing in April 2012.

The agreement required authorities to buy their way out of the HRA Subsidy system through a one off payment that is referred to as the ‘settlement figure’ and also imposed a limit on HRA borrowing or an ‘indebtedness cap’.

The move to self financing provides the opportunity for Authorities to use their role as a landlord to help achieve their wider priorities and ambitions within the context of the ring-fenced HRA. These could include economic regeneration, improving health and well being, improving community safety and helping vulnerable people to live independently in the community.

The 11 stock retaining authorities, WLGA and WG worked closely in developing the proposals, documents and guidance of Housing Reform in Wales. Council has been updated on Housing reform by various means including:-

- Audit Committee Report - June 2014
- Community and Adult Services Scrutiny Report – June 2014
- Cabinet Report 17 July 2014
- Cabinet Report 20 Nov 2014
- Council Report 27 Nov 2014, included pre member presentation.
- Budget Proposals 2015/16 Report – February 2015

An approved delegation was in place to enter into a voluntary agreement in accordance with Full Council and Cabinet approval:-

‘agree to enter into a voluntary agreement to exit the subsidy system and delegate authority to the Director of Communities, Housing and Customer Services in consultation with the Director Corporate Resources and the Cabinet Members for Health, Housing and Wellbeing and for Corporate Services and Performance to conclude the appropriate detail within the voluntary agreement and sign on behalf of the City of Cardiff Council.’

The voluntary agreement was signed by the Council and Welsh Minister.

Issues

Details of the final settlement at an all Wales level are shown in the table below:-

| | (A) LA HRAS payments 13/14 | (B) LA Share of settlement debt | (C) Absolute minimum interest requirement for 1st 5 years | (D) LA Capital Financing charge (2%) | (E) Total annual settlement cost C+D | (F) Better off A-E | Better off % |
|-------------------|-------------------------------------|------------------------------------------|-----------------------------------------------------------------------------|--------------------------------------------------|-----------------------------------------------------|--------------------------|-----------------|
| Anglesey | 1,683,063 | 21,168,714 | 881,677 | 423,374 | 1,305,051 | 378,012 | 22% |
| Caerphilly | 6,042,229 | 75,996,095 | 3,165,237 | 1,519,922 | 4,685,159 | 1,357,070 | 22% |
| Cardiff | 14,898,985 | 187,391,886 | 7,804,872 | 3,747,838 | 11,552,710 | 3,346,275 | 22% |
| Carmarthenshire | 6,278,600 | 78,969,050 | 3,289,061 | 1,579,381 | 4,868,442 | 1,410,158 | 22% |
| Denbighshire | 3,183,872 | 40,045,129 | 1,667,880 | 800,903 | 2,468,782 | 715,090 | 22% |
| Flintshire | 6,300,786 | 79,248,094 | 3,300,683 | 1,584,962 | 4,885,645 | 1,415,141 | 22% |
| Pembrokeshire | 6,418,905 | 80,733,735 | 3,362,560 | 1,614,675 | 4,977,235 | 1,441,670 | 22% |
| Powys | 5,758,131 | 72,422,855 | 3,016,412 | 1,448,457 | 4,464,869 | 1,293,262 | 22% |
| Swansea | 5,850,103 | 73,579,632 | 3,064,592 | 1,471,593 | 4,536,184 | 1,313,919 | 22% |
| Vale of Glamorgan | 5,021,342 | 63,155,896 | 2,630,443 | 1,263,118 | 3,893,561 | 1,127,781 | 22% |
| Wrexham | 11,631,007 | 146,288,914 | 6,092,933 | 2,925,778 | 9,018,712 | 2,612,295 | 22% |
| | 73,067,023 | 919,000,000 | 38,276,350 | 18,380,000 | 56,656,350 | 16,410,673 | 22% |

The new arrangements mean that from April 2015, the City of Cardiff Council will no longer have to pay c £15m from tenant rents to the Welsh Government then UK Treasury each year. Instead, we have made a one off settlement payment as a “buy out” to the Welsh Government / UK Treasury on 2 April 2015. The overriding principle of the subsidy reform is that no Welsh Authority will be worse off under the new Self Financing Scheme and they would be equally better off.

All eleven local authorities signed their respective agreements and made their required payments.

Key items / extracts from the voluntary agreement are shown below:-

The Settlement

The fixed settlement value agreed by WG and HM Treasury at an all Wales level is £919 million. Audited returns from the 11 Welsh authorities of Housing Revenue Account Subsidy (HRAS payments for 2013/14 showed that the net payment to WG / Treasury from authorities was £73.067 million in 2013/14, of which Cardiff's £14.899 million represented 20.39% of the total. Accordingly Cardiff's share of the all Wales settlement debt value was to be this proportion of £919 million i.e. £187.392 million. The Council borrowed this sum from the PWLB on 31 March 2015 and made a payment of this sum to WG on 2 April 2015 when funds were received.

Details of the amount, period, special rate applicable to the loans and annual interest cost are included in the table below.

| Loan Amount £ | Maturity Date | Interest Rate % | Annual Interest £ |
|--------------------------|--------------------------|----------------------------|------------------------------|
| 3,213,661.00 | 28/05/2027 | 3.76 | 120,833.65 |
| 5,000,000.00 | 28/05/2029 | 3.88 | 194,000.00 |
| 10,194,360.00 | 28/05/2030 | 3.94 | 401,657.78 |
| 10,000,000.00 | 28/05/2031 | 3.99 | 399,000.00 |
| 10,000,000.00 | 28/05/2032 | 4.03 | 403,000.00 |
| 1,000,000.00 | 28/05/2033 | 4.07 | 40,700.00 |
| 7,000,000.00 | 28/05/2034 | 4.11 | 287,700.00 |
| 7,105,347.00 | 28/05/2035 | 4.14 | 294,161.37 |
| 8,500,000.00 | 28/05/2036 | 4.17 | 354,450.00 |
| 6,792,378.00 | 28/05/2037 | 4.19 | 284,600.64 |
| 6,000,000.00 | 28/05/2038 | 4.21 | 252,600.00 |
| 9,000,000.00 | 28/06/2039 | 4.23 | 380,700.00 |
| 9,000,000.00 | 28/06/2040 | 4.24 | 381,600.00 |
| 4,000,000.00 | 28/06/2041 | 4.24 | 169,600.00 |
| 10,000,000.00 | 28/06/2042 | 4.25 | 425,000.00 |
| 11,000,000.00 | 28/06/2043 | 4.25 | 467,500.00 |
| 8,000,000.00 | 28/06/2044 | 4.25 | 340,000.00 |
| 8,000,000.00 | 28/07/2045 | 4.25 | 340,000.00 |
| 8,000,000.00 | 28/07/2046 | 4.25 | 340,000.00 |
| 11,000,000.00 | 28/08/2047 | 4.25 | 467,500.00 |
| 1,105,640.00 | 28/08/2048 | 4.25 | 46,989.70 |
| 4,000,000.00 | 26/09/2049 | 4.24 | 169,600.00 |
| 8,500,000.00 | 26/09/2050 | 4.24 | 360,400.00 |
| 6,000,000.00 | 28/04/2058 | 4.21 | 252,600.00 |
| 2,000,000.00 | 28/04/2059 | 4.21 | 84,200.00 |
| 4,000,000.00 | 28/04/2060 | 4.21 | 168,400.00 |
| 6,000,000.00 | 28/04/2061 | 4.21 | 252,600.00 |
| 2,980,500.00 | 28/04/2062 | 4.21 | 125,479.05 |
| 187,391,886.00 | | | 7,804,872.19 |

Interest and the Provision for Debt Repayment

The deal negotiated by WG with HM Treasury had a requirement to ensure that any agreement was 'fiscally neutral' to the Treasury. In order to minimise the overall level of borrowing to £919 million following local authority concerns and following clarification of the proposal by WG, HM Treasury required interest payments to total £38.3 million at least in the first 5 years. Cardiff's share of interest at 20.39% is £7.805 million.

In order to achieve this, the PWLB / Treasury issued specific Welsh HRA interest rates which were above existing interest rates and which were to apply to the borrowing. The requirement to meet the required level of interest for at least five

years, meant the Council needed to borrow longer term loans in order to make the settlement payment. Whilst these may not normally be the periods of borrowing that would be undertaken, the period for which loans were taken were those required in accordance with the requirements of WG and HM Treasury to exit the subsidy system.

The minimum capital financing charge required by WG guidance at 2% would be £3.7million as shown in the table above. A prudent approach will be adopted to debt repayment following consideration of WG guidance.

With the annual costs of the settlement at £11.553 million, the Council considered the overall proposal put forward was in line with that originally consulted on by WG in June 2014. The annual revenue benefit to the HRA is circa £3.3 million, based on the Council's HRAS payment in 2013/14.

Limit on Indebtedness

All impacted councils agreed that, following payment of the Settlement Payment, its HRA Capital Financing Requirement (CFR) shall not exceed an Indebtedness Limit at the 31 March each year. The CFR is an authority's underlying need to borrow for capital expenditure. It measures historic capital expenditure incurred but not yet paid for receipt of grants, contributions and charges to the revenue account via a prudent minimum revenue provision.

The Indebtedness Limit for all councils retaining a landlord function and the detailed approach to its allocation was agreed collectively by WG, WLGA and Local authorities. The specifics for Cardiff will be sufficient to cover the following:-

- (a) Existing borrowing (CFR) at 31 March 2014. £96,360,476.
- (b) Borrowing requirements, if any, to meet the Welsh Housing Quality Standard – judged to be nil as WHQS has been reached.
- (c) 50 per cent of the borrowing identified for new housing supply - provided by the Local Authority in support of its HRA Business Plan and 2014-15. £20,000,000.
- (d) Share of borrowing headroom. £12,801,703.
- (e) Settlement Payment as per a determination issued by WG in accordance with Section 132 of the Housing (Wales) Act 2014. £187,391,886

The Indebtedness Limit for Cardiff can, therefore, be summarised as follows:

Indebtedness Limit = £96,360,476 + Nil + £20,000,000 + £12,801,703 + £187,391,886

Indebtedness Limit = £316,554,065

Welsh Ministers will use the HRA CFR at the 31 March each year to monitor the Local Authority's compliance with its Indebtedness Limit.

In the event that a Local Housing Authority is found to be in breach of their Indebtedness Limit as at 31 March each year, then the Welsh Government reserves

the right to use any funding mechanisms available to pass on any penalty the Welsh Government receives from HM Treasury to the appropriate authority, and require immediate action by the authority to reduce its HRA CFR to within their Indebtedness Limit. The Welsh Government will engage directly with the offending authority to identify the appropriate recovery mechanism.

The Council expects the allocation of any borrowing headroom to be reviewed periodically by WG to ensure its effective utilisation across Wales, particular post achievement of the Welsh Housing Quality Standards by 2020. The Council will continue to work with WG and other partners to improve the delivery of affordable housing in the City.