



# **Housing Revenue Account Reform: Self-Financing in Wales**

## **Introductory Guide for Councillors**

**November 2014**

# Contact

## **Welsh Local Government Association**

The WLGA's primary purposes are to promote a better local government, its reputation and to support authorities in the development of policies and priorities which will improve public service and democracy.

It represents the 22 local authorities in Wales with the 3 fire and rescue authorities and 3 national park authorities as associate members.

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## Introduction

Bringing the HRA subsidy system to an end in Wales, particularly the annual payment from Wales to HM Treasury of over £70 million, has been a goal of the WLGA, the Welsh Government and landlord Local Authorities for many years, and something that the WLGA has consistently lobbied for.

After lengthy negotiations the Welsh Government and HM Treasury have reached an agreement that will allow the eleven Authorities in Wales with council housing stock to exit from the Housing Revenue Account (HRA) subsidy system and become self-financing from April 2015.

The agreement has two parts; firstly authorities will be required to buy their way out of the current HRA subsidy system with payment of a one off settlement figure to HM Treasury, and secondly Authorities will be subject to a cap on HRA borrowing.

The introduction of self financing from April 2015 will give authorities the resources, incentives and opportunity to provide good quality, well managed

council homes and plan for the long term with certainty.

Authorities will be able to:

- accelerate Welsh Housing Quality Standard (WHQS) work, to ensure achievement by 2020, and sustain it into the future
- increase investment in existing homes and in regenerating neighbourhoods over the short, medium and longer term
- ensure tenants benefit from more efficient and effective housing services
- increase the supply of new affordable homes
- increase investment in a range of other local priorities which could include increasing the energy efficiency of council homes, estate regeneration, remodelling general needs or sheltered housing, and purchase of existing homes to increase supply
- take a much longer term and business - like view of the housing

stock and associated assets such as garages, commercial properties and land

- create jobs and training opportunities, and increase investment in the local economy

This short guide is intended to help councillors and others understand the main principles of the reform of the HRA Subsidy system, the opportunities that self financing offers and the preparations needed to ensure the Authority is ready for self financing in April 2015.

The new self-financing arrangements which will be in place from April 2015 will increase revenue year on year for the eleven landlord authorities. This is because the annual negative subsidy payment of £73m from the eleven landlord Authorities in Wales to the HM UK Treasury will be replaced from April 2015 by an payment of £40million of interest charges on loans from the Public Works Loan Board (PWLB).

The move to self financing offers 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.

## **2. A Brief Outline of the Housing Revenue Account subsidy system**

The Housing Revenue Account (HRA) subsidy system which will come to an end in Wales on 31<sup>st</sup> March 2015 2015 was originally designed as a national pooling system for council rents in England and Wales.

Allowances for management and maintenance to council homes were originally set by national Government and if rents exceeded allowances, authorities paid into the 'pool' (called negative subsidy), and vice versa where allowances were greater than rents.

The subsidy system has resulted in every Welsh landlord Authority paying 'negative subsidy' each year to the UK Treasury which totals £73m. This has diverted rental income away from investment in homes and has under funded council housing over many years.

The subsidy system also offers no incentives to landlord Authorities to make services more efficient or to ensure that rents and service charges fully cover costs,

as any increase in revenue merely increases the negative subsidy payments to the UK Treasury.

The annually determined allowances of the HRA subsidy system are also unpredictable and volatile and have prevented authorities from being able to plan for the long term with any certainty.

### **3. Overview of HRA Reform in Wales**

In July 2013 the UK Government and the Welsh Government reached agreement on the terms under which Authorities with housing stock in Wales could exit from the HRA subsidy system and become self financing. The agreement requires authorities to buy their way out of the HRA Subsidy system through a one off payment that is referred to as the 'settlement figure'. The agreement also imposes a limit on HRA borrowing.

The move to self-financing in April 2015 will mean that Authorities for the first time be in a position where they can support their landlord activities from their own income. In addition Authorities can to continue to apply for Major Repairs Allowance (MRA). This is an annual capital grant from the Welsh Government to Authorities with housing stock. Only authorities that submit an 'acceptable' business plan to Welsh Government which demonstrates that WHQS will be achieved by 2020 can receive MRA. There are no current proposals to change the MRA arrangements.

Self-financing Authorities must continue to maintain a statutory, ring fenced Housing Revenue Account and to account for income and expenditure on council housing separately from Council Fund income and expenditure.

#### **3.1 The Settlement figure**

The eleven landlord Authorities currently make annual HRA negative subsidy payments to the HM Treasury. The settlement will effectively buy Authorities out of the requirement to make these payments from April 2015.

HM Treasury requires that the settlement is 'fiscally neutral over the long term'. This will require the eleven Authorities to take out loans from the Public Works Loans Board (PWLB) to fund their share of the settlement figure. Under the terms of the agreement with the Treasury the agreed £40million interest will be converted to a total settlement value using the PWLB 30 year maturity rate.

The settlement figure has been estimated to be £920 million, but the precise figure will depend on the interest rate for PWLB loans on 31 March 2015 when the loans are requested.

These new arrangements will increase HRA resources for every Authority as the annual negative subsidy payments which currently total £73 million for the eleven Authorities will be replaced with £40 million of interest payments on PWLB loans. After Minimum Revenue Provision (MRP) payments (estimated to be 2%) are taken into account, the eleven Authorities are expected to be better off each year.

### **3.2 Distribution of the settlement figure between Authorities**

HM Treasury has agreed that the distribution of the aggregate settlement figure of approximately £920 million between the eleven authorities is a decision for Welsh Ministers. There is broad consensus that the distribution of the settlement should not result in any Authority being worse off and following consultation with the eleven authorities on distribution of the settlement figure the former Minister for Housing and Regeneration agreed that it will be distributed between the eleven authorities so all benefit by an equal percentage of their current negative subsidy payment. At a WLGA HRA Reform seminar and a subsequent meeting of the

WLGA Co-ordinating Committee in May 2014, all eleven authorities supported this approach. A table of illustrative figures is included in Appendix 1.

### **3.3 Borrowing Cap**

The HRA exit agreement with HM Treasury will impose an aggregate HRA borrowing cap of £1.85 billion on the eleven Authorities in Wales. This figure is based on the planned borrowing that Authorities included in the housing business plans submitted to Welsh Government with their applications for Major Repairs Allowance (MRA) in December 2012-13.

The HRA borrowing limit of £1.85 billion includes existing borrowing, investment to bring council owned homes up to WHQS by 2020 and the cost of the settlement figure. Some Authorities also included plans to build new homes.

The remaining borrowing headroom of approximately £112 million will be available to fund local investment priorities, for example new build, regeneration, remodelling of existing homes or improvement of housing services.

HM Treasury has agreed that the settlement value is a component part of the borrowing cap calculation. Therefore the £1.85 billion will change to reflect the final settlement value.

The illustrative figures below indicate the borrowing that, at the point in times of the consultation, would be included within the borrowing cap of £1.85 billion.

• Existing HRA borrowing by authorities	<b>£460 m</b>
• Estimated borrowing required to bring all council owned homes up to WHQS by 2020	<b>£358 m</b>
• Estimated borrowing for the cost of the settlement with HM Treasury	<b>£920 m</b>
• Borrowing capacity remaining for other HRA priorities for example New build, regeneration and re modelling	<b>£112 m</b>
<b>TOTAL</b>	<b>£1.85 Billion</b>

The figures above are illustrative and relate to the time of the consultation. These will be revised to reflect the PWLB interest on 31 March 2015 which is the

day that the final settlement value will be known.

Appendix 5 provides the latest draft figures for the breakdown of the Limit on Indebtedness (usually referred to within this document as the "borrowing cap").

### **3.4 Distribution of the Borrowing Cap**

HM Treasury has also agreed that Welsh Ministers can decide how the borrowing cap is distributed between Authorities in Wales. The UK Government is in the process of passing the necessary legislation to make this possible.

As the figures above illustrate, most of the borrowing capacity will be taken up by existing borrowing, borrowing required to bring all stock up to WHQS by 2020 and the settlement figure. This leaves approximately £112 million of borrowing headroom to be distributed to Authorities for other HRA investment priorities.

The WLGA and representatives from the eleven authorities have worked with the Welsh Government to identify credible distribution options for the borrowing capacity and three options were included

in the Welsh Government consultation paper (Appendix 3).

The three distribution options for the £112 million of borrowing capacity were considered at a WLGA HRA Reform seminar in May 2014, and subsequently at the WLGA co-ordinating committee. The WLGA agreed to support option 3, (see Appendix 2), as this is the distribution option that all eleven authorities could 'live with', although not necessarily the preferred option for some.

This option distributes some borrowing capacity to every authority, with a greater amount being allocated to those authorities that indicated a need for borrowing for new build in their housing 2012-13 business plans.

The WLGA co-ordinating committee also endorsed the prioritisation of borrowing required to achieve WHQS, but rejected the Welsh Government proposal to hold back £5million of borrowing capacity as a contingency. This was on the basis that the maximum level of borrowing capacity should be distributed to authorities to achieve the shared objectives of improving the quality of council housing and increasing supply.

In August 2014 the former Minister confirmed that the borrowing headroom would be distributed to the eleven authorities using the approach that all eleven authorities could 'live with' (Illustrative figures are included in Appendix 2), and no contingency sum would be held by the Welsh Government.

As part of the Welsh Government consultation on the new arrangements, all eleven Authorities supported the need for flexibility in the distribution of the borrowing capacity. The eleven authorities proposed that Authorities which do not wish to use all their borrowing capacity in the short or medium term are able to trade their capacity to borrow for a fixed period of time with another Authority that has reached its borrowing cap for a fixed period of time, to allow the borrowing cap to be used most effectively. Authorities did not support a 'use it or lose it' approach to redistribution of borrowing capacity by Welsh Government.

The former Minister agreed that the Welsh Government will not impose any sanctions or put in place any 'use it or lose it' arrangements in relation to the

borrowing headroom, with a review of arrangements in 2018/19. The former Minister also asked the Project Steering Group to consider the details of how the Welsh Government could facilitate the trading or swapping of borrowing headroom. A letter from the former Minister for Housing and Regeneration announcing his decision on the distribution of the settlement value and borrowing cap, and flexibility arrangements is attached at Appendix 4.

The borrowing capacity distributed to each stock retaining authority represents a limit to the Authority's HRA borrowing over the coming 30 years. The extent to which Authorities wish to use some or all of their borrowing capacity will depend on whether it is affordable (i.e. whether revenue is able to support interest payments), and on local priorities.

Over the medium to long term it is expected that authorities will be in a position to create their own additional borrowing headroom by paying off existing debt.

Imposition of an HRA borrowing cap on Welsh Authorities requires UK Government legislation and this is being

put in place via the Wales Bill which is progressing through the UK Parliamentary process. However it is uncertain whether the legislation and necessary arrangements will be in place before April 2015. This will make it necessary for the eleven authorities to sign individual voluntary agreements with Welsh Government, agreeing to their individual borrowing cap.

The voluntary agreements must be signed by all eleven authorities otherwise HM Treasury will not allow authorities to exit and the duty for each authority to pay negative HRAS will remain until the Wales Act comes into force.

### **3.5 Legislative Changes in the UK and Wales**

Exit from the HRA subsidy system requires changes to both UK and Welsh legislation.

Changes to Welsh legislation are included in part 4 of the Housing (Wales) Act 2014. The Act also places a statutory duty on landlord Local Authorities to bring their stock up to the Welsh Housing Quality Standard by 2020. It also includes new powers of entry, inspection and

intervention if Authorities fail to meet the standard. The Act also includes new powers for Welsh Ministers to set standards for rents and service charges which relate to homes provided by the authority. Local Authorities will be required to comply with the standards.

Part 5 of the Housing (Wales) Act 2014 makes the legislative changes needed to introduce self financing in Wales and gives powers to Welsh Ministers to decide on the distribution of the settlement figure between Authorities.

Ministers also have new powers to set the timescales and processes that Authorities will need to follow in order to exit from the HRAS system and to require Authorities to respond to requests for information in relation to the HRA.

Changes to UK legislation are required to impose the borrowing cap on authorities in Wales. The Wales Bill was introduced in March 2014 and includes provision for UK Ministers to set the maximum amount of housing debt that can be held in aggregate by authorities with housing stock in Wales. It also allows Welsh Ministers to determine the amount of

housing debt to be held by individual housing authorities.

## **4. Introduction of the new self-financing arrangements**

### **4.1 The HRAS Reform Project**

The Welsh Government established an HRAS Reform Project in February 2014 following the agreement between Welsh Government and the UK Treasury on the terms of the exit from the HRA subsidy system.

The purpose of the project is to develop the new self-financing arrangements in Wales and support implementation of the changes at a local level.

A steering group and four work-streams have been formed with the involvement of officials from all eleven authorities with housing stock, along with Welsh Government, WLGA, Welsh Tenants, Wales Audit Office and CIPFA.

### **4.2 Timetable for the introduction of new national arrangements**

The HRAS Reform project has identified a number of key milestones for the introduction of the new national arrangements. These are included in the table below along with approximate dates

<b>HRAS Reform Milestones</b>	<b>Estimated Dates</b>
The Welsh Government Consultation on the distribution of the settlement value and borrowing cap ended	10 <sup>th</sup> July 2014
Welsh Government issued interim business planning guidance which includes agreed way forward on key accounting matters of interest charges, minimum revenue provision (MRP) & capital receipts	15th August 2014
Welsh Minister confirms his decision on the distribution of the settlement and the borrowing cap, as well as the flexibility arrangements	15 <sup>th</sup> August 2014
Housing (Wales) Act gains royal assent, and introduces powers for Welsh Ministers to introduce the new self-financing arrangements and a new Local Government duty to comply with standards for Rents, Service Charges and	17 <sup>th</sup> September 2014

Quality of Accommodation.	
Authorities develop <b>first draft</b> of their self financing business plans for submission by 29th September 2014	July – September 2014
Welsh Government engages with Authorities on the draft voluntary agreement	October 2014
Welsh Government issues the new policy for social housing rents and tables, including target rent bands for implementation by authorities in 2015/16	End October 2014
Welsh Government issues final Housing Revenue Account (HRA) Business Planning Guidance for self financing	end November 2014
Authorities to ensure that the Audited Final HRAS Claim for 2013/14 is agreed and signed off by Wales Audit Office, or their contracted Auditor, and submitted to Welsh Government by the absolute deadline of 28 November 2014.	November 2014
Welsh Government issues final version of the voluntary agreement	December 2014
Welsh Government issues the draft settlement determination for consultation	December 2014
Authorities apply for MRA and submit <b>final version</b> of their HRA business plan	7 January 2015
Authorities consider the impact of borrowing for self financing on the HRA budget and Treasury Management strategy and obtain delegated approval to sign voluntary agreement	October 2014 – mid January 2015
Authorities to sign the voluntary agreement	19 January 2015
Welsh Government converts the £40m of interest payments into the settlement figure and issues the Settlement Determination to authorities.	31st March 2015
Authorities to request loans from PWLB	31 <sup>st</sup> March 2015
New national rent policy is introduced	1 <sup>st</sup> April 2015
Authorities pay their proportion of the settlement figure to Welsh Government.	2 <sup>nd</sup> April 2015

## **5. Preparing for the introduction of Self-Financing in your Authority**

The move to self-financing in April 2015 will bring a fundamental change to the funding regime for council housing in Wales. The new arrangements will offer opportunities to improve council owned homes and landlord services if the Authority actively manages the risks and use the freedoms and opportunities self financing offers.

From the start Authorities will have an increase in retained revenue to invest in housing services and in improving homes and neighbourhoods. There will also be opportunities and incentives to increase revenue from efficiencies and increase investment in local priorities such as regeneration. Preparing for self-financing and putting the right policies and processes in place for April 2015 is therefore extremely important.

It will be necessary to make some changes to the way in which the Authority undertakes the landlord role. Some current strategies, policies and processes will need to be reviewed and adjusted, and some will need to be developed for the first time.

Many of the new self-financing arrangements in Wales such as new accounting practices are being put in place, but it is inevitable that some minor uncertainties will remain up until the end of March 2015. There is a great deal to do and it is important that these uncertainties do not unnecessarily delay preparations.

### **5.1 Putting the Self-Financing Project team in place**

Every landlord Authority will need to co-ordinate a significant programme of work in order to put the new arrangements in place by April 2015.

The most effective way of doing this is to establish a project team that includes key authority officers responsible for housing

services, housing strategy, accounting, treasury management and asset management. Leadership from a senior officer, your Chief Executive or portfolio leader is important. This may already be in place in your Authority.

A project work plan will be needed which identifies tasks, responsibility and timescales, and ensures that the necessary key political decisions are made at the appropriate time. There is a significant level of interdependency in many of the necessary changes and although some activities can be undertaken by individual departments, many will need the involvement of the whole project team.

The work plan will need to consider the key areas listed in this section (Section 5). Some policies and procedures may only need a change in emphasis, while others may need more fundamental revision. A detailed checklist of all of actions Authorities need to take to be ready for self financing is available on the WLGA website [HERE](#).

## **5.2 Resources needed for Self-Financing**

In the past the HRA subsidy system has limited the freedom of the authority to proactively plan and undertake the landlord role. It has also limited the risks to the Authority. Making full use of the opportunities and managing the risks will require capacity and resources.

While the HRA subsidy system will be coming to an end, the Housing Revenue Account which is the landlord account and ring fenced under primary legislation will remain in place.

After April 2015 self-financed council housing will need to operate much more like a housing association and be more integrated with the wider corporate strategic planning. The HRA will remain ring fenced, but there will be opportunities for council housing and landlord services to address wider corporate priorities including jobs growth, economic regeneration and increasing the supply of affordable housing within the legislative framework.

It is important that the preparations for self-financing and the Authority's future

landlord activities have the expertise and staffing resources to ensure that opportunities are fully exploited and any risks mitigated.

The settlement will result in an increase in retained HRA resources for every landlord Authority from April 2015. This will allow authorities to improve the quality of homes and housing services, and increasing staffing resources will play an important role in achieving these improvements and efficiencies.

### **5.3 The Self-Financing HRA Business Plan**

In essence the business plan is a financial model of income, expenditure and debt for the next 30 years, with more detailed modelling for the first 5 years. It provides a strategic planning framework and will be much more central to financial and service planning, monitoring progress and managing risk when self-financing is introduced.

The self-financing HRA business plan will need to be much more actively managed by the authority, rather than passively reported as might have been the case under the HRA subsidy system.

It has a key role as:

- A management tool to financially manage landlord services
- A source of financial advice to assist with planning
- A key aspect of the Authority's strategic housing role
- A tool to inform, and be informed by the asset management strategy
- A management tool for performance and accountability to tenants, the authority and other key stakeholders
- Incorporates HRA investment priorities and the balance between them

Whatever the format of the document, the housing business plan should focus on the next five year period, within a wider 30 year context. Members will need to be able to approve plans for the next five years, in the context of costs being covered over 30 years. The benefits of a detailed five year plan will be in delivering predictable resources over the medium term, enabling better planning and procurement and more certainty for tenants and residents on what investment is going where and when.

Self-financing will provide a much more stable financial environment for council housing and the business plan will be able to provide much better reassurance about the long term financial viability of the authority's landlord activities.

Generally, there will also be more revenue available for investment from three sources:

- negative subsidies of £73m will end and be exchanged for £40m of interest payments on PWLB loans
- authorities will keep all future rental income, rather than a proportion going to HM Treasury in negative subsidy
- Authorities will be able to retain the benefit of more efficient services

#### **5.4 Governance arrangements**

Authorities will need to consider whether the current governance arrangements for the HRA will need to be strengthened to respond to the significant changes that self-financing will bring.

For example authorities may wish to consider whether it is appropriate to designate a small group of members to sit as a Strategic Panel or 'Board' to oversee the HRA business plan and recommend it for approval to cabinet/executive and the council.

Tenants are key stakeholders of the authority's self financing housing activities as they will provide the primary source of revenue. It is important that they are involved in some way in scrutinising the business plan.

There are a number of options including the involvement of tenant representatives as members of a HRA Strategic Board, as members of an expert tenant panel or as members of the authority's scrutiny committee. Tenants can make a valuable contribution to effective scrutiny, and support will be needed to help to build the necessary knowledge, skills and capacity.

The move to self-financing in April 2015 will not mean that the HRA is less accountable to the Authority and Elected Members. The council will continue to be responsible for ensuring that:

- the HRA remains viable and is able to service and repay HRA debt
- all council homes are brought up to WHQS by 2020 and are maintained at that standard. This will be a statutory duty from April 2015
- services are provided to tenants and leaseholders in an appropriate way and to an agreed standard
- complying with legislation including the new rent and service charge standards
- the statutory ring fencing of the HRA is maintained thus ensuring that tenant's rents are not used to support activities that should be funded by the Council Fund and vice versa

Authorities may wish to review the effectiveness of current scrutiny arrangements, particularly in the early years of self-financing. Many authorities are currently expanding the remit of their scrutiny panels and consideration may need to be given to setting up specific

scrutiny arrangements which focus on the HRA.

The monitoring arrangements for the HRA will also need to be reviewed in recognition of the potential for higher levels of risk involved in self-financing. For example monitoring might need to take place on a quarterly or monthly basis in the early years.

The process of developing and reviewing the business plan may also need to be reviewed and consideration given to a more formal approach to engaging with tenants, leaseholders, council services and Elected Members.

## **5.5 The Treasury Management Strategy**

The Authority will already have a treasury management strategy which is agreed annually by full council as part of the budget setting processes. The move to self-financing will require some changes to be incorporated within the strategy, including borrowing to fund the Authority's share of the settlement figure and any additional borrowing for WHQS and other priorities. Authorities are required by the HRA exit agreement with

HM Treasury to take out PWLB loans to fund the settlement figure, but will have freedom to decide where to source any additional HRA borrowing.

An aggregate cap of £1.85 billion on HRA borrowing has been imposed on authorities by HM Treasury. Following consultation with the eleven Authorities and the WLGA the Welsh Government has agreed how to distribute the borrowing capacity between the eleven Authorities. The cap includes existing borrowing, the borrowing required for any future WHQS work, the settlement figure and for local priorities such as new build and regeneration.

Decisions on HRA debt including how it is funded and investments are the responsibility of the Authority. It is very important that the debt is affordable and the debt portfolio actively managed. The HRAS reform steering group is currently considering options for how Authorities should deal with debt (whether Authorities should pool or separate HRA debt and Council Fund debt) under the new self-financing arrangements. Welsh Government guidance will be made available on de-pooling options.

A central theme of all self-financing business plans is the way in which the debt profile moves over time. For a majority of authorities, income exceeds the need to spend over the long term and if desired, debt can be brought down to zero within 30 years. Self-financing debt requires management but does not necessarily require repayment because income rises over time, and will continue to rise if the housing stock is maintained.

Often business plan models are set to reduce debt when possible so as to indicate the viability of the plan. If debt can be reduced to zero within 30 years, this makes a plan viable. Practically however, the business plan will be continually refreshed and several versions developed during the 30 years. In reality therefore, the approach to debt management needs to be flexible enough to cope with changes to the plan over time.

## **5.6 HRA Asset Management Strategy**

The HRA asset management strategy is the foundation of the self-financing business plan. Authorities will already have a corporate asset management

strategy and an asset based investment programme for achieving WHQS. It is important that the self-financing HRA asset management strategy is proactive and includes a focus on land and commercial assets of the HRA, as well as the housing stock.

Reasonably good information is available in every authority on the condition of the housing stock which is based on stock condition surveys. This provides a useful basis for a self-financing asset management strategy.

Information on commercial properties, garages and land may not be so comprehensive and may need to be added. The HRA asset management strategy for self financing must be based on a good understanding of all of the assets (land, homes and other buildings) and support a comprehensive, strategic, long term approach to investing in and fully utilising all the HRA assets.

The strategy will need to set out the long term plans for investing in and renewing the asset base, analysed into the different categories of assets and the Authority's long term strategy. For example:

- these homes will be refurbished to x standard and maintained over 30 years
- these homes will result in a net cost over the longer term and will be redeveloped when major improvements are due
- these homes have a very significant backlog of disrepair and improvement is not economically viable
- these are sheltered housing schemes which require remodelling to extra care schemes
- this HRA land is not in an area of housing demand and could be appropriated from the HRA to the Council Fund and vice versa (subject to legal consent) for land in areas where there is high housing demand
- this HRA land is in an area of high housing demand and can be used to develop new homes

The strategy will also need to link closely with a wide range of other policies and

strategies including property and service standards, investment priorities and treasury management.

## **5.7 Risk Management Strategy**

Self-financing will lead to many changes including the transfer of risk from the national subsidy system to the Authority.

In future the housing business will more closely resemble the finances of a housing association with very similar associated risks. The Authority will therefore need to have similar risk management strategies in place. These will need to be robust enough to ensure the HRA business plan can be delivered without any unforeseen costs to the General Fund.

Key areas of risk will be interest rates, inflation, performance and income recovery. A very high proportion of these risks can be managed and mitigated through effective monitoring and basic good management of services and agreed policies and procedures.

Some UK Government policies will also present some potential for risk, particularly the welfare reforms.

Authorities are already undertaking work to support tenants who are adversely affected by welfare reforms and further work may be needed in preparation for the introduction of Universal Credit to mitigate the risks to the income stream of the Authority.

In relation to the impact of the right to buy, Authorities have the power to suspend the right to buy for 5 years, subject to consent of Welsh Ministers, and this may be an area for consideration in the new context of self financing and council building.

It is important to recognise that operating a self-financing business plan can never be risk free and innovation will sometimes require risks to be taken. The key is to ensure that the risks are understood and mitigating action taken.

## **5.8 Investment priorities**

The first priority for investment should be bringing existing council homes up to Welsh Housing Quality Standard (WHQS) and maintaining the standard. This will require authorities to make assumptions, based on good information about the housing stock, about the long term

renewal needs of the existing housing stock and other assets.

A growing number of Authorities will achieve WHQS in the lead up to 2020 and there will opportunities to use revenue or borrowing to invest in other HRA priorities. Decisions will therefore need to be taken on what the Authorities' future investment priorities will be. It will be important that council tenants are involved in discussions about future priorities.

If it is well managed the self-financing HRA will generate a steady increase in revenue over time. Broadly, there are four ways councils can target additional investment and the balance of priorities are likely to be different in different authorities:

- ***Accelerating or increasing levels of refurbishment***

If the council's houses have not yet been brought up to WHQS, the Authority could decide to accelerate the refurbishment programme so the standard is reached sooner. Consideration could also be given to bringing properties up to a higher

standard, for example with higher levels of energy efficiency.

- ***Investing in Services***

Authorities could decide to improve or enhance housing services for their tenants. This could involve enhancing current service standards, for example repair response times. It could also include providing additional services to address the impact of welfare reform and cut backs or closure of public services, for example providing debt and benefits advice or assisting to tenants who are downsizing.

The Authority will need to consider where to strike the balance between improving service standards for existing tenants on one hand, and on investing in additional housing supply or regeneration to meet housing need in the wider community. Both types of investment are legitimate investments for the ring fenced HRA

- ***Regenerating estates***

The term regeneration is used here to describe any investment to address difficult or challenging stock or estates and replace or redevelop it with new or different housing. For example this might include demolition and redevelopment of

obsolete stock or remodelling general needs housing or sheltered housing.

The Authority may also wish to consider environmental improvements that enhance council owned estates.

Self financing will offer opportunities to bring forward schemes that would have been difficult to fund under the HRA subsidy system but Authorities still need to be mindful of the ring fenced HRA.

- Increasing the supply of affordable homes***

A significant number of the eleven landlord authorities have indicated an interest in building new homes in the future, be that on small infill sites or more extensive developments.

Development could take place on HRA owned land or on land appropriated from the Council Fund.

There may also be opportunities to acquire existing properties in poor condition (for example Right to Buy properties) and improve them to provide affordable homes.

## **5.9 Housing Service Efficiencies**

Self-financing from April 2015 will ensure that Authorities can invest all their HRA revenue in landlord activities. This will mean that any revenue from service efficiencies, for example in reduced void periods, reductions in rent arrears or more efficient procurement can be retained and used to increase investment in homes and services.

Service standards may already be in place, but the Authority may wish to review these in the context of self financing. An important aspect of operating a successful and accountable self financing HRA will be to set and monitor performance standards across a wide range of the landlord's services. This will support service improvement and help to improve efficiency.

## **5.10 The New Rent Policy**

The Housing (Wales) Act 2014 introduces new powers for Welsh Ministers to set a rent standard and to issue guidance which amplifies the standard. The Welsh Government will work collaboratively with the Local Authorities and Housing

Associations to develop the rent standard and guidance.

The Welsh Government issued a new policy for social housing rents which was introduced for Housing Associations in April 2014 and will apply to Local Authorities from April 2015. It is expected that this rent policy will become the guidance on the rent standard. The policy will set a target rent band for each Authority and if the **average** weekly rent (excluding service charges) is below the target rent, the authority will have to increase **average** rents, and if the **average** is above the target rent, **average** rents will increase at a lower rate. Authorities will be responsible for setting the rents of individual properties.

If an Authority needs to increase their average weekly rent so that it falls within the target rent band, transitional protection for tenants will apply so the rent for an individual tenant cannot be increased by more than £2 per week, in addition to the agreed annual rate of rent increases for the sector as a whole.

Between 2015-16 and 2018-19 the maximum increase for any individual tenant is limited to CPI + 1.5% plus £2 per week.

When authorities become self-financing, rental income and the local rent setting policy will be a major factor in the viability of the business plan. As from April 2015 all rental income will be retained by the Authority and used to fund expenditure, service debt and create borrowing headroom for investment in homes and services. Limiting rent increases will restrict the improvements that can be made to homes and services.

A decision on rent increases in any one year will not only affect financial viability of the business for that year, it will continue to affect viability in the long term as well.

## 5.11 Service Charges

The Housing (Wales) Act 2014 introduces new powers for Welsh Ministers to set a service charge standard and to issue guidance which amplifies the standard. The Welsh Government will work collaboratively with the Local Authorities and Housing Associations to develop the service charge standard and guidance.

Every landlord authority provides some additional services for their tenants and leaseholders, whether this is grass cutting, CCTV or lighting to communal

areas. Until recently most Local Authorities have pooled service charges and often paid for services out of rental income. This has resulted in many authorities losing revenue on the services they provide or unfair charging for services in that some tenants have been paying for services they do not receive.

The Welsh Government has not yet set a date when de-pooling has to be completed, but the expectation is that the process should be well underway in April 2015, with completion over the following 18 months – 2 years.

consider every opportunity to inform tenants about the changes that self-financing will bring and consult on the self-financing business plan.

## **5.12 Tenant Engagement**

Ending the HRA subsidy system will mean that rental income will become the primary source of income for the HRA. Engagement with tenants on the use of rental income, the standard of housing services and the priorities for investment will become much more important than in the past.

The Authority will need to review current approaches to engaging with tenants and

## 6. Preparing for Self-Financing: Checklist

We hope this introduction to the new self-financing HRA arrangements has highlighted some of the technical and financial issues involved as well as some of the options, opportunities and risks of the new world of HRA self-financing.

The move to self-financing offers significant opportunities, with scope to increase investment in housing services, regeneration and housing supply at a time when other parts of the public sector are under severe pressure. Ensuring that the transition to the new arrangements is well planned and comprehensive these is absolutely central to making a success of the new self-financing arrangements.

Below is a checklist of the main 'key decisions' to be taken prior to implementation of self-financing:

- **Resources and expertise** – Is a self-financing project team in place to plan for the transition, has a work plan been developed?

- Are the right levels of staffing resources and expertise in place to ensure the Authority will be prepared for self-financing in April 2015?
- What staffing resources will an effective and efficient self-financed housing business need in future?
- **Self financing Business plan** – what progress is being made in developing the self-financing business plan?
- **Governance** – what structures need to be in place to ensure good governance? Are these being developed?
- **Efficiency strategy for services** – What are the Authority's plans to improve service efficiencies?
- **Depreciation/ refurbishment policy** – what is the formal policy for renewal and replacement?
- **Does the Authority wish to separate HRA debt from the Council Fund debt?** – are the options being considered?

- **Treasury Management strategy** –  
are plans in place to fund the  
settlement figure and any borrowing  
for WHQS or other investments  
incorporated within the strategy?  
What is the balance between long and  
short term funding?
- the changes to the funding of council  
housing, how will you engage with  
tenants in the future?
- **Is work underway to introduce  
the new national rent policy?**
- **Is work underway to de-pool  
service charges?**
- **Is an active HRA asset  
management strategy being  
developed?**
- **Has the Authority started to  
consider self-financing  
investment priorities?** – a well  
managed self-financing HRA will  
generate an increase in revenue from  
April 2015. This offers opportunities to  
invest in new ways including housing  
services, regeneration and increasing  
the supply of affordable homes.  
What are the priorities of the authority  
and tenants for future investment?
- **Tenant Engagement Strategy** -  
how will you let tenants know about

## 7. Experience of Self-Financing in England

Authorities in Wales will become self-financing in April 2015, but the 164 Local Authorities with housing stock in England exited from the HRA subsidy system three years earlier in April 2012. The LGA undertook a survey (1) of English Authorities a little less than 2 years after the introduction of self-financing and their findings included the following key messages:

- Reaching and sustaining the Decent Homes Standard ( the English Equivalent of WHQS) is the highest investment priority for all Authorities
- 88% of councils are planning to directly fund new housing through the HRA over the next 5 years
- Council investment priorities include the following:
  - Investment in energy efficiency
  - Environmental improvements
- Estate regeneration
- Remodelling general needs housing
- Spot purchase of property
- Remodelling sheltered housing

- The key economic benefits are considered to be support for local businesses and contractors, apprenticeships and training opportunities for local young people and increased inward investment into the local economy
- 98% of councils will be using their own land to bring forward housing development over the next 5 years

## Appendix 1:

### Distribution of the Settlement Figure: Illustrative Figures from the July consultation document

Local Housing Authority	HRAS settlement amounts (1)	Share of annual interest (2)	Reduction	Reduction	Share of estimated settlement value (3)
	£	£	£	%	£
Isle of Anglesey	1,695,873	930,779	765,094	45.12	21,396,292
Caerphilly	5,978,361	3,281,222	2,697,139	45.12	75,427,087
Cardiff	15,095,807	8,285,330	6,810,477	45.12	190,459,015
Carmarthenshire	6,234,522	3,421,816	2,812,706	45.12	78,658,989
Denbighshire	3,105,081	1,704,223	1,400,858	45.12	39,175,823
Flintshire	6,324,826	3,471,379	2,853,447	45.12	79,798,326
Pembrokeshire	6,373,758	3,498,235	2,875,523	45.12	80,415,686
Powys	5,660,823	3,106,941	2,553,882	45.12	71,420,811
Swansea	5,789,100	3,177,346	2,611,754	45.12	73,039,241
The Vale Of Glamorgan	5,011,706	2,750,673	2,261,033	45.12	63,231,107
Wrexham	11,609,836	6,372,055	5,237,781	45.12	146,477,623
	<b>72,879,693</b>	<b>40,000,000</b>	<b>32,879,693</b>		<b>919,500,000</b>

#### Notes:

(1) HRAS settlement amounts obtained from 2013/14 HRAS 2nd estimate claims HRAS 13-02(W)

(2) Interest payments of circa. £40m required as part of the agreement with Treasury

(3) Estimated settlement value based on PWLB 30 year Maturity rate at 12 March 2013 of 4.35%

## Appendix 2:

### Illustrative figures for the distribution of the borrowing cap from the July consultation document

**Distribution of the borrowing headroom on prioritising WHQS, 4 LHAs receiving 50% of their new build request with balance allocated to 11 LHAs on an indicative basis using the modified SHG formula.**

The illustrative figures are broken down into borrowing required to meet WHQS and borrowing available for new build based on 50% of the figures 4 LHAs requested for new build with the balance being distributed across all 11 LHAs. The latter distribution uses official Welsh Government statistics and utilises the most recent data for median incomes and median house prices to create an affordability ratio and combines it with household projections. This data is used to calculate the housing need element of the formula that is used by Welsh Government to distribute SHG to Local Authorities.

Borrowing Cap Allocation					
	WHQS	50% of new build requested	Allocation based on modified SHG <sup>1</sup>	Total borrowing allocation	% share of Borrowing
Authority	£	£		£	
Anglesey	0	10,700,000	2,360,856	13,060,856	2.8
Caerphilly	55,000,000		4,308,047	59,308,047	12.6
Cardiff	0	20,000,000	11,183,046	31,183,046	6.6
Carmarthenshire	14,400,000		4,989,158	19,389,158	4.1
Denbighshire	19,600,000		2,871,128	22,471,128	4.8
Flintshire	25,000,000	10,000,000	4,328,108	39,328,108	8.3
Pembrokeshire	0	13,000,000	4,198,028	17,198,028	3.7
Powys	18,200,000		5,356,877	23,556,877	5.
Swansea	74,000,000		6,793,913	80,793,913	17.2
Vale Of Glamorgan	33,900,000		4,129,355	38,029,355	8.1
Wrexham	118,000,000		3,766,746	121,766,746	25.8
<b>Total</b>	<b>358,100,000</b>	<b>53,700,000</b>	<b>54,285,263</b>	<b>466,085,263</b>	
<b>Contingency to be retained by Welsh Government</b>				<b>5,000,000</b>	<b>1.1</b>
<b>All Wales</b>	<b>358,100,000</b>	<b>107,985,263</b>		<b>471,085,263</b>	<b>100.0</b>

<sup>1</sup> Based on:

2011 Household Projections published by the Welsh Government  
 Median Gross Weekly Pay 2013 Resident Analysis published by ONS and  
 Median House Prices 2011 published by HM Land Registry

## **Appendix 3:**

# **Welsh Government Consultation on the Distribution of the Settlement and the Borrowing Cap**

## **Consultation Paper**

### **New Local Housing Authority Self-Financing System (HRAS Reform)**

#### **The distribution of the Settlement Value of HRAS buy-out and the Housing Related Borrowing Cap for individual Stock Retaining Local Housing Authorities**

#### **Background**

The Welsh Government has been in discussions with HM Treasury since 2010 with a view to agreeing a financial settlement that would enable the eleven stock retaining local housing authorities (LHAs) to exit from the Housing Revenue Account Subsidy (HRAS) system.

The Welsh Ministers were pleased to announce in June 2013 that an agreement had been reached with HM Treasury, which together with the introduction of new self-financing arrangements is expected to generate revenue savings for the eleven LHAs each year. This will allow LHAs to increase their investment in their existing stock and, where possible, support the delivery of additional housing supply. Some LHAs could bring forward improvement works to their properties to meet the Welsh Housing Quality Standard (WHQS) which will bring real and tangible benefits to their tenants.

Key elements of the agreement are that:

- LHAs are required to buy themselves out of the HRAS;
- The £73m of annual negative subsidy payments will be replaced by interest payments of approximately £40m. This will satisfy HM Treasury's requirement that the agreement is fiscally neutral over the longer term;
- The £40m annual interest payments will be converted to a lump sum settlement value a short period before the agreed implementation date. This will enable LHAs to consider their borrowing requirements in accordance with their local Treasury Management Strategy, to meet current business plan commitments and provide flexibility for LHAs to determine the type and period of loan.
- In order to fund the buy-out, Treasury require LHAs to borrow from the Public Works Loans Board (PWLB). Failure to comply with this will result in sanctions by Treasury. This will mean the Welsh Budget will be reduced and the reduction passed on to each LHA as appropriate. Interest payments made to the PWLB are effectively received by the exchequer;
- HM Treasury requires a housing related borrowing cap to be imposed on each LHA in order to control public sector borrowing.

The Welsh Government has worked closely with HM Treasury to identify timescales for implementation and the appropriate legislative mechanism for the setting of housing related borrowing cap. HM Treasury has advised that the borrowing cap requires UK legislation and is bringing forward provisions within an appropriate UK Bill. If

provisions within the UK primary legislation is not in place HM, Treasury have agreed that Wales can exit from the HRAS system in March 2015 on condition that Welsh Government secures and manages the borrowing cap as part of a voluntary agreement with all eleven LHAs.

## **Legislative Background**

### **Housing (Wales) Bill**

The Minister for Housing and Regeneration introduced the Housing (Wales) Bill to the National Assembly for Wales in November 2013. The Bill is currently at Stage 2 of the scrutiny process during which the Communities, Equality and Local Government (CELG) Committee will consider, and vote upon, both Government and non-Government amendments to the Bill.

The provisions in Part 5, Housing Finance will, subject to scrutiny, provide:

- for the Welsh Ministers to make a determination providing for the calculation of the settlement payment that each LHA will be required to pay in order to exit HRAS.
- for the determination to be revised only in the event that there has been an error or change in any matter that was taken into account in the original calculation or determination.
- for the Welsh Ministers to determine the timescales and processes that LHAs will need to follow in order to exit HRAS;
- for LHAs to be required to respond to requests for information; and
- for the existing legislation which supports HRAS system to be repealed.

The provisions in Part 5 may be amended

The provisions in Part 4, Standards for Social Housing will, subject to scrutiny, provide for the Welsh Ministers to:

- set standards to be met by LHAs in connection with the quality of accommodation provided by LHAs and the rent and service charges for such accommodation.
- to issue guidance that relates to, and amplifies, the standard.
- consult with bodies representing the interests of LHAs, tenants and other persons Welsh Ministers consider appropriate when setting, revising, or withdrawing standards and related guidance; and
- have powers of intervention where a LHA has failed, or is likely to fail, to meet the quality of accommodation standard.

The provisions in Part 4 may be amended

The Housing (Wales) Bill, explanatory memorandum and the record of passage through the National Assembly for Wales can be found at:

<http://www.senedd.assemblywales.org/mglIssueHistoryHome.aspx?Id=8220>

### **Wales Bill**

The Secretary of State for Wales published a draft Wales Bill in December 2013. The draft Bill was subject to pre introduction scrutiny by the Welsh Affairs Committee. The Committee reported in March 2014. The UK Government introduced the Wales Bill (along

with explanatory notes and the Financial Empowerment and Accountability Command Paper) on 20 March 2014. The provisions in clause 23, provide:

- for UK Ministers to set the maximum amount of housing debt that can be held, in aggregate, by LHAs in Wales;
- for Welsh Ministers to determine the amount of housing debt that is to be treated as held by each LHA, and the maximum amount of housing debt that each LHA may hold;
- powers for Welsh Ministers to obtain such information as Welsh Ministers may specify either generally, or in a particular case, from LHAs to enable them to exercise their functions above.

The Wales Bill, explanatory notes and details of progress of the Bill through Parliament can be found at:

<http://services.parliament.uk/bills/2013-14/wales.html>

### **Voluntary Agreement**

As the timescales for UK Legislation were unclear, HM Treasury agreed that the 11 Welsh LHAs could exit the HRAS system in March 2015, subject to the Welsh Government securing and managing a borrowing cap through a voluntary agreement between each of the eleven LHAs and Welsh Ministers.

The powers for Welsh Ministers and a LHA to enter into a voluntary agreement are provided in section 80B of the Local Government and Housing Act 1989.

It is essential that all eleven LHAs agree and sign the voluntary agreement. Failure to do so will result in the HRAS remaining in place in Wales until appropriate UK legislation is passed.. This means that at least £73 million will continue to be paid back to HM Treasury each year.

The voluntary agreement will act as an interim arrangement until the Wales Bill comes into force and as a fall-back position should the Wales Bill fail for whatever reason. Once the Wales Bill receives Royal Assent and the appropriate provisions are commenced Treasury will need to issue a determination to the Welsh Ministers which will set the macro borrowing cap for Wales. This will enable the Welsh Ministers, subject to consultation, to issue a determination to LHAs which will set the borrowing cap for each LA. There is the potential for the legislative process to replace the need for a voluntary agreement.

## Welsh Government Priorities

The Welsh Government believes that everyone in Wales should have the opportunity to live in a good quality home within a safe and secure community.

The Welsh Government is committed to ensuring that all LHAs meet the WHQS by 2020 and has worked closely with LHAs to ensure that their business plans demonstrate that they will meet this target date. LHAs must be able to have access to sufficient borrowing to enable them to meet WHQS by 2020.

The Housing (Wales) Bill will, subject to scrutiny, will enable the existing WHQS guidance to be issued as guidance to the quality of accommodation standard for existing properties. Therefore the Bill will place the requirement for LHAs to meet and maintain the WHQS on a statutory basis for the first time.

The Welsh Government is also committed to increasing housing supply and supporting LHAs that wish to undertake new council house building. However, this should not be to the detriment of meeting WHQS

## Governance Arrangements

The Welsh Government has put in place robust governance arrangements to manage and oversee the reforms. This comprises a steering group and four technical work-streams. One of the key responsibilities of the steering group is to make recommendations to the Minister for Housing and Regeneration on the methodology to be used for the distribution of the settlement value and the borrowing cap. The steering group includes representatives from LHAs, WLGA, Welsh Tenants, Wales Audit Office and Welsh Government.

The WLGA and LHA representatives on the steering group support and agree the inclusion of all the options within this consultation paper but have differing views on whether a preferred option should be identified.

In the interests of both landlords and tenants it is essential that agreement is reached on the distribution methodologies. This is necessary as the finally agreed methodologies will form the basis of the voluntary agreement that will need to be signed by all 11 LHAs. In light of this, the Welsh Government considers that Borrowing Cap Option 3 provides a compromise between those LHAs that have firm plans for new build while enabling the remaining LHAs the opportunity to consider their capacity for new build.

The Welsh Government therefore considers that the Settlement Value Option 1 and the Borrowing Cap Option 3 are the preferred options. The final distribution methodologies will be subject to consultation and agreement by the Minister for Housing and Regeneration.

## Background

Welsh Government officials have worked closely with appropriate officials from LHA's since June to consider the principles that might underpin the distribution of a settlement figure and a borrowing cap.

There was clear consensus that "**every stock retaining authority should be better off than the current position**". This includes not only the financial benefits from exiting HRAS but also the benefits of becoming self-financing. The Welsh Government and the

steering group are committed to maintaining this as a key principle in the distribution arrangements.

The Directors of Housing and Chief Treasurers of the eleven stock retention authorities met and considered options for the distribution of both the settlement value and borrowing limits. They agreed that, although not perfect, the distribution of the settlement value based on negative subsidy values appeared to be the most pragmatic and transparent way forward.

Members of the steering group have worked closely together to model and consider a wide range of options for distribution of the borrowing cap. The group identified those options which were most suitable for further consideration and narrowed these down to those that should be subject to consultation.

When considering the options which are set out in the following part of this consultation paper, it should be noted that the accounting work-stream, the transaction and debt work-stream and the capacity building work-stream will jointly be considering a range of financial and accounting matters and related guidance which will inform the development of financially sustainable business plans following the buy-out and implementation of the new self-financing arrangements. These matters include, but are not limited to, depreciation, minimum revenue provision, treatment of capital receipts and loan pooling arrangements. The work-streams will also be developing new business plan guidance and parameters and these will be made available to LHAs in due course.

It should be noted that all figures contained within the options and the statistics within this consultation paper are illustrative and remain subject to change for a number of reasons before the final settlement date.

The final figures and methodology will be subject to agreement by the Minister for Housing and Regeneration.

### **Exiting from the HRAS system: The Agreement with HM Treasury**

The agreement with HM Treasury, which will allow authorities to exit from the HRAS system and become self financing from April 2015 consists of two parts.

Firstly, the eleven stock retaining authorities are required to buy themselves out of the existing HRAS. The agreement is based on £40m interest payments which will replace the existing negative subsidy payment of £73m. The £40m interest will be converted to a buy-out lump-sum (settlement value) a short period before an agreed settlement date and authorities will be required to take out loans with the PWLB to fund the buy-out. This will result in all authorities being better off under self financing.

The second part of the agreement is that HM Treasury require a housing borrowing cap to be set for each of the eleven authorities.

A borrowing cap of £1.85 billion was agreed with HM Treasury in June 2013. The cap includes the estimated Housing Revenue Account capital finance requirement (HRA CFR) and the estimated settlement value. This leaves potential borrowing headroom of £471 million for authorities to meet their business plan commitments. All estimated figures are subject to change as the HRA CFR will need to be updated<sup>2</sup> and the settlement value will be based on prevailing interest rates when the £40 million is converted to a settlement buy-out value.

Should the figures change significantly it is possible that the headroom will be reduced below £471 million. In the event that the borrowing required by LHAs exceeds the headroom, in order to protect investment in WHQS, the first call will be to reduce the borrowing available for new build.

This consultation considers how the settlement value and the potential borrowing headroom should be distributed given that LHAs need to be able to access sufficient borrowing to enable them to meet WHQS by 2020.

## Key Information

The information in Table 1 below has been obtained from each LHA as part of their application for Major Repairs Allowance for 2014/15 and from their Housing Revenue Account (HRA) Business Plan which was submitted to Welsh Government in December 2013. The Welsh Government carried out a further exercise to obtain confirmation from each LHA on the accuracy of the figures below.

**Table 1: Stock numbers, WHQS status and estimated borrowing requirement:**

Local Housing Authority	Stock at Dec <sup>3</sup> 2013	Met WHQS	Expected to achieve WHQS		Estimated Borrowing Requirement		
			Month	Year	To meet WHQS	For New Build	Total
					£m	£m	£m
Cardiff	13,730	Yes				40.0	40.0
Anglesey	3,802	Yes				21.4	21.4
Pembrokeshire	5,663	Yes				26.0	26.0
Denbighshire	3,454		December	2014	19.6		19.6
Carmarthenshire	9,009		March	2015	14.4		14.4
Vale of Glamorgan	3,940		March	2017	33.9		33.9
Powys	5,419		March	2018	18.2		18.2
Caerphilly	10,900		March	2020	55.0		55.0
Wrexham	11,292		December	2020	118.0		118.0
Swansea	13,590		December	2020	74.0		74.0
Flintshire	7,236		December	2020	25.0	20.0	45.0
<b>All Wales Borrowing Requirement</b>					<b>358.1</b>	<b>107.4</b>	<b>465.5</b>

## The Settlement Value and its Distribution

<sup>2</sup> The proposed date of the HRA CFR will be considered by the accounting work-stream, be subject to discussion with Wales Audit Office and approved by the Minister for Housing and Regeneration.

<sup>3</sup> Stock numbers for tenanted properties obtained from HRA Business Plan submitted December 2013

In order to allow Wales to exit the HRAS system, HM Treasury required LHAs to “buy-out” of the system at a settlement figure that is fiscally neutral to the UK Government. The agreement is based on £40m interest payments which will be converted to a lump-sum (settlement value) a short period before an agreed settlement date. The estimated settlement value is considered to be in the region of £919.5 million, which has been used for modelling purposes. HM Treasury requires local authorities to fund the “buy-out” by borrowing from the Public Works Loans Board (PWLB).

## Options for distribution of the Settlement Value

### Settlement Value Option 1 - To distribute the settlement value based on negative HRA subsidy amounts

Local Housing Authority	HRAS settlement amounts (1)	Share of annual interest (2)	Reduction	Reduction	Share of estimated settlement value (3)
	£	£	£	%	£
Isle of Anglesey	1,695,873	930,779	765,094	45.12	21,396,292
Caerphilly	5,978,361	3,281,222	2,697,139	45.12	75,427,087
Cardiff	15,095,807	8,285,330	6,810,477	45.12	190,459,015
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Powys	5,660,823	3,106,941	2,553,882	45.12	71,420,811
Swansea	5,789,100	3,177,346	2,611,754	45.12	73,039,241
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Wrexham	11,609,836	6,372,055	5,237,781	45.12	146,477,623
	<b>72,879,693</b>	<b>40,000,000</b>	<b>32,879,693</b>		<b>919,500,000</b>

#### Notes:

(1) HRAS settlement amounts obtained from 2013/14 HRAS 2nd estimate claims HRAS 13-02(W)

(2) Interest payments of circa. £40m required as part of the agreement with Treasury

(3) Estimated settlement value based on PWLB 30 year Maturity rate at 12 March 2013 of 4.35%

## Advantages

- Every LHA would be better off in revenue terms when compared to the existing HRAS subsidy payments
- The method is as transparent and simple as possible given the inherent complexities of the existing HRAS system
- Each LHA has the same percentage reduction when comparing their existing HRAS amount to their share of the £40m

- Would be relatively straightforward to explain to tenants and members
- Would not replace one complex formula with another

### **Disadvantages**

- Reflects the current and complex HRA subsidy system but some might argue that the current system is not fair
- There is no link to the current condition of the housing stock
- There is no link to the resources required to meet and maintain WHQS
- There is no link to housing supply or demand

### **Other Options Considered**

The other option considered for the distribution of the settlement value was to base it on the stock numbers for each LHA. While this appeared to be a simple and transparent methodology, the results of the modelling showed that two authorities would be expected to pay more in annual interest payments than they currently pay in negative subsidy payments. This option was therefore disregarded on the basis it did not result in every stock retaining authority being better off than within the subsidy system.

### **Summary**

The Welsh Government considers that Settlement Value Option 1 is the preferred option. The final decision will be subject to consultation and agreement by the Minister for Housing and Regeneration.

## Options for distributing the Borrowing Cap

**Borrowing Cap Option 1 - To distribute the borrowing headroom based on information submitted by each LHA to the Welsh Government in support of their HRA Business Plan for their 2014/15 application for MRA**

	Borrowing Cap Allocation			% share of Borrowing
	WHQS	New Build	Total borrowing allocation	
<b>Authority</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
Anglesey	0	21,400,000	21,400,000	4.5
Caerphilly	55,000,000	0	55,000,000	11.7
Cardiff	0	40,000,000	40,000,000	8.5
Carmarthenshire	14,400,000	0	14,400,000	3.1
Denbighshire	19,600,000	0	19,600,000	4.2
Flintshire	25,000,000	20,000,000	45,000,000	9.6
Pembrokeshire	0	26,000,000	26,000,000	5.5
Powys	18,200,000	0	18,200,000	3.9
Swansea	74,000,000	0	74,000,000	15.7
Vale Of Glamorgan	33,900,000	0	33,900,000	7.2
Wrexham	118,000,000	0	118,000,000	25.0
	<b>358,100,000</b>	<b>107,400,000</b>	<b>465,500,000</b>	
<b>Contingency to be retained by Welsh Government</b>			<b>5,585,263</b>	<b>1.2</b>
<b>All Wales</b>	<b>363,685,263</b>	<b>107,400,000</b>	<b>471,085,263</b>	<b>100.0</b>

It is assumed that the information submitted by each LHA reflects what each can “afford” to borrow.

It is further proposed that any balance, between the borrowing requirement identified by authorities and the total borrowing cap, should be retained by the Welsh Government as a contingency (see section on Flexibility below).

### Advantages

- Prioritises WHQS by ensuring that LHAs have access to sufficient borrowing to enable them to meet WHQS by 2020.
- Provides access to sufficient borrowing to those LHAs that have included proposals for new build within their existing business plans.

## Disadvantages

- Does not reflect housing need or demand.
- Does not allocate any borrowing headroom to the 7 authorities who have not included new build proposals in their latest business plan.

### **Borrowing Cap Option 2 - To base the distribution of the borrowing headroom on prioritising WHQS and applying a modified Social Housing Grant (SHG) formula using household projections and affordability index**

The illustrative figures are broken down into borrowing required to meet WHQS and borrowing available for new build. This approach uses official Welsh Government statistics and utilises the most recent data for median incomes and median house prices to create an affordability ratio and combines it with household projections. This data is used to calculate the housing need element of the formula that is used by Welsh Government to distribute SHG to Local Authorities.

	<b>Borrowing Cap Allocation</b>			
	<b>WHQS</b>	<b>Allocation based on modified SHG<sup>4</sup></b>	<b>Total borrowing allocation</b>	
<b>Authority</b>	<b>£</b>	<b>£</b>	<b>£</b>	
Anglesey	0	4,696,259	4,696,259	1.0
Caerphilly	55,000,000	8,569,648	63,569,648	13.5
Cardiff	0	22,245,524	22,245,524	4.7
Carmarthenshire	14,400,000	9,924,527	24,324,527	5.2
Denbighshire	19,600,000	5,711,302	25,311,302	5.4
Flintshire	25,000,000	8,609,555	33,609,555	7.1
Pembrokeshire	0	8,350,797	8,350,797	1.8
Powys	18,200,000	10,655,999	28,855,999	6.1
Swansea	74,000,000	13,514,579	87,514,579	18.6
Vale Of Glamorgan	33,900,000	8,214,191	42,114,191	8.9
Wrexham	118,000,000	7,492,881	125,492,881	26.6
<b>Total</b>	<b>358,100,000</b>	<b>107,985,263</b>	<b>466,085,263</b>	
<b>Contingency to be retained by Welsh Government</b>	<b>5,000,000</b>		<b>5,000,000</b>	<b>1.1</b>
<b>All Wales</b>	<b>363,100,000</b>	<b>107,985,263</b>	<b>471,085,263</b>	<b>100.0</b>

<sup>4</sup> Based on:

2011 Household Projections published by the Welsh Government  
 Median Gross Weekly Pay 2013 Resident Analysis published by ONS and  
 Median House Prices 2011 published by HM Land Registry

## Advantages

- Prioritises WHQS by ensuring that LHAs have access to sufficient borrowing to enable them to meet WHQS by 2020.
- Provides all LHAs with “notional borrowing headroom” to enable them to consider proposals for new build, if affordable within their business plans.
- Distributes borrowing cap headroom after WHQS by an objective measure that is a reasonable proxy for housing need.
- This formula could be applied as and when Treasury agree an uplift to the macro borrowing cap for Wales.

## Disadvantages

- Does not provide for the level of new build that is currently included within the business plans for four LHAs.
- Could be perceived to disadvantage those that have met WHQS.
- LHA may not be able to use full borrowing capacity to build by 2018.

**Borrowing Cap Option 3 - To base the distribution of the borrowing headroom on prioritising WHQS, 4 LHAs receiving 50% of their new build request with balance allocated to 11 LHAs on an indicative basis using the modified SHG formula.**

The illustrative figures are broken down into borrowing required to meet WHQS and borrowing available for new build based on 50% of the figures 4 LHAs requested for new build with the balance being distributed across all 11 LHAs. The latter distribution uses official Welsh Government statistics and utilises the most recent data for median incomes and median house prices to create an affordability ratio and combines it with household projections. This data is used to calculate the housing need element of the formula that is used by Welsh Government to distribute SHG to Local Authorities.

Borrowing Cap Allocation					
	WHQS	50% of new build requested	Allocation based on modified SHG <sup>5</sup>	Total borrowing allocation	% share of Borrowing
Authority	£	£		£	
Anglesey	0	10,700,000	2,360,856	13,060,856	2.8
Caerphilly	55,000,000		4,308,047	59,308,047	12.6
Cardiff	0	20,000,000	11,183,046	31,183,046	6.6
Carmarthenshire	14,400,000		4,989,158	19,389,158	4.1
Denbighshire	19,600,000		2,871,128	22,471,128	4.8
Flintshire	25,000,000	10,000,000	4,328,108	39,328,108	8.3
Pembrokeshire	0	13,000,000	4,198,028	17,198,028	3.7
Powys	18,200,000		5,356,877	23,556,877	5.
Swansea	74,000,000		6,793,913	80,793,913	17.2
Vale Of Glamorgan	33,900,000		4,129,355	38,029,355	8.1
Wrexham	118,000,000		3,766,746	121,766,746	25.8
<b>Total</b>	<b>358,100,000</b>	<b>53,700,000</b>	<b>54,285,263</b>	<b>466,085,263</b>	
<b>Contingency to be retained by Welsh Government</b>				<b>5,000,000</b>	<b>1.1</b>
<b>All Wales</b>	<b>358,100,000</b>	<b>107,985,263</b>		<b>471,085,263</b>	<b>100.0</b>

## Advantages

- Prioritises WHQS by ensuring that LHAs have access to sufficient borrowing to enable them to meet WHQS by 2020.
- Provides those LHAs with a percentage share of the borrowing capacity they requested for new build to ensure part of their new build plans are deliverable.
- Provides all LHAs with an “indicative allocation” of borrowing headroom for new build, if affordable within their business plans.
- Distributes remaining borrowing cap headroom after WHQS and initial proportion for new build by an objective measure that is a reasonable proxy for housing need.
- This latter formula could be applied as and when Treasury agree to uplift to the macro borrowing cap for Wales.

## Disadvantages

<sup>5</sup> Based on:

2011 Household Projections published by the Welsh Government  
Median Gross Weekly Pay 2013 Resident Analysis published by ONS and  
Median House Prices 2011 published by HM Land Registry

- Does not provide for the level of new build that is currently included within the business plans for four LHAs.
- Could be perceived to disadvantage those that have met WHQS.
- LHA may not be able to use full borrowing capacity to build by 2018.

## Summary

A summary of the borrowing capacity that each LHA would obtain from each of the options and the difference between the borrowing capacity each LHA requested and the outcome of options 2 and 3 are shown below:

	Outcome Option 1	Outcome Option 2	Difference between Options 1 and 2	Outcome Option 3	Difference between Options 1 and 3
Authority	£	£	£	£	£
Anglesey	21,400,000	4,696,259	-16,703,741	13,060,856	-8,339,144
Caerphilly	55,000,000	63,569,648	8,569,648	59,308,047	4,308,047
Cardiff	40,000,000	22,245,524	-17,754,476	31,183,046	-8,816,954
Carmarthenshire	14,400,000	24,324,527	9,924,527	19,389,158	4,989,158
Denbighshire	19,600,000	25,311,302	5,711,302	22,471,128	2,871,128
Flintshire	45,000,000	33,609,555	-11,390,445	39,328,108	-5,671,892
Pembrokeshire	26,000,000	8,350,797	-17,649,203	17,198,028	-8,801,972
Powys	18,200,000	28,855,999	10,655,999	23,556,877	5,356,877
Swansea	74,000,000	87,514,579	13,514,579	80,793,913	6,793,913
Vale Of Glamorgan	33,900,000	42,114,191	8,214,191	38,029,355	4,129,355
Wrexham	118,000,000	125,492,881	7,492,881	121,766,746	3,766,746
<b>Total</b>	<b>465,500,000</b>	<b>466,085,263</b>		<b>466,085,263</b>	
<b>Held by WG for future distribution</b>	<b>5,585,263</b>	<b>5,000,000</b>		<b>5,000,000</b>	
<b>All Wales</b>	<b>471,085,263</b>	<b>471,085,263</b>		<b>471,085,263</b>	

Option 1 should be regarded as the baseline as this is what each LHA identified as the borrowing capacity they each required to meet their business plan commitments at a certain point in time. Earlier versions of this data were used to form the basis for the calculation of the borrowing cap and for agreement with Treasury.

Steering group members noted that, for a range of reasons, not all LHAs had included plans for new build in the data submitted to Welsh Government and there were also concerns about whether the data was based on consistent assumptions. Therefore some members of the steering group felt that option 1 would not be considered fair and equitable to all LHAs.

Option 2 prioritises the borrowing each LHA requires to meet WHQS in the first instance. The balance of the borrowing capacity is then distributed using the modified SHG statistical formula and provides borrowing capacity to all 11 LHAs. As can be seen, this creates significant differences, particularly for the 4 LHAs that have consistently requested capacity for new build and have developed firm plans for new homes to

be built or to demolish and re-develop some of their existing stock. Steering group members recognise that developing plans for new build is a lengthy process and will depend on for example housing need, the availability of land, planning consents and appointment of contractors etc.

It is also possible that some LHAs may not wish to consider new build within the next few years. Alternatively the borrowing capacity under this option may not be “affordable” within the business plan for a LHA.

Some members of the steering group felt that there was a need to match the distribution of the borrowing cap with outcomes and deliverability. Option 2 would not provide 4 LHAs with sufficient borrowing capacity to meet their existing plans for development. It was also noted that the borrowing capacity may not be maximised as some LHAs may not wish or be able to utilise their allocated borrowing cap.

It was therefore considered necessary to develop an option that would provide a compromise that could be supported by all 11 LHAs which appear to fall within two groups, those with firm plans for new build and those that only submitted figures for WHQS for various reasons.

The steering group members were keen to strike a balance between ensuring that the distribution methodology for the borrowing cap could be regarded as fair and equitable to all LHAs whilst ensuring the deliverability of new build plans.

Option 3 again prioritises borrowing for WHQS. It then provides a percentage share of the borrowing 4 LHAs identified as required for new build and distributes the balance to all 11 LHAs on an indicative basis using the modified SHG statistical formula which was used for option 2. The modelling for this option is based on the 4 LHAs receiving a 50% share of the new build capacity they require.

There has been significant discussion as to the potential for future flexibility in the distribution of the borrowing cap as it is considered important that borrowing capability should be fully utilised where possible. However it is also recognised that this should not negate the enormous benefit of self-financing and moving away from annual announcements which will provide LHAs the ability to plan over the medium to longer term and deliver and measure key outcomes and outputs. It is expected that any change to a LHA’s borrowing cap, whether temporary or permanent, would need to be accounted for within “a Limit on Indebtedness Determination”, subject to the Wales Bill coming into force.

The steering group noted that the flexible approach would need to be taken during both the initial setting of the borrowing cap and during any future reviews and recommended that a review of the borrowing cap should be undertaken every 3 years, starting in 2018. This periodic review would apply regardless of what option is taken forward.

The Welsh Government are seeking to ensure that the methodology to be applied to the borrowing cap will distribute borrowing capacity to where it can be fully utilised by achieving WHQS and maximising the delivery of new housing supply. It is therefore important that each LHA is realistic about its ability to use their “indicative allocation” by 2018 which will be reflected in its submission to the Welsh Government in October 2014.

One of the consultation questions is seeking views on what sanctions could be used by Welsh Government in the event that there is a significant difference between the LHA’s

borrowing capacity and what it has utilised. However, if sanctions were to be applied then provision will need to allow for further flexibility during the period prior to the 2018/19 review. This should be on an “exceptional basis” but would enable a LHA to advise the Welsh Government where it is unable to use their borrowing capacity for whatever reason. This surplus borrowing capacity could then be re-distributed to a LHA e.g. those with shovel ready schemes. It is expected that this type of flexibility which would result in the transfer of borrowing capacity from one LHA to another would require a revised “Limit on Indebtedness Determination” to be issued.

The Welsh Government considers that Borrowing Cap Option 3 is the preferred option. The final decision will be subject to consultation and agreement by the Minister for Housing and Regeneration. Option 3 is supported by the following process:

- Each LHA will be allocated an “indicative allocation” of the borrowing headroom” under the methodology set out in option 3.
- Each LHA will need to advise the Welsh Government by end of October 2014 on whether they will take up their “indicative allocation” for new build up until March 2018.
- If a LHA wishes to take up their “indicative allocation”, the LHA will need to submit proposals to the Welsh Government by end of October 2014 which sets out how and when they could utilise this for new build and whether this together with their allocation for WHQS and % share for new build was “affordable” within the business plan.
- The LHA’s submission will need to set out whether land has been identified, an assessment of housing need, the number and type of properties to be developed, timescales for development (up to 2018) and any potential barriers to deliverability.
- As part of the submission, each LHA to advise if they could afford to, and wish to, take on any further borrowing capacity over and above their “indicative allocation” and, if agreed, what additional units could be delivered and whether these would be shovel ready.
- Where a LHA is not able, or does not wish, to utilise their “indicative allocation” for new build, this could be re-distributed to those LHAs that wished to take on further borrowing capacity. This could either be re-distributed to those LHAs that have indicated they could deliver more units or to all remaining LHAs using the modified SHG formula.
- Exceptional arrangements will be introduced to enable a LHA that is not able to fully utilise its “actual allocation” of the borrowing cap before March 2018 to notify the Welsh Government and the surplus borrowing capacity will be re-allocated to LHAs.
- New systems and processes need to be developed to allow for the annual monitoring of compliance with the borrowing cap. This work will be undertaken by one of the work-streams and will consider the data that will need to be gathered by, and collected from, LHAs on what has been delivered in terms of all key outcomes and outputs. This is expected to cover all aspects including achievement and ongoing maintenance of WHQS, re-modelling of existing schemes, regeneration and the

development of new properties etc. The work-stream will also be looking at ways of collecting data on the community benefits that are achieved and can be evidenced by LHAs in respect of tackling poverty, jobs and growth, apprenticeships, workless households (LIFT project) etc.

- The borrowing cap will be subject to review every three years with the first review being undertaken during 2018/19. Where a LHA makes a decision not to take up their “indicative allocation of the borrowing cap” for new build under this first distribution, this period of review will enable them to develop new build proposals to feed into the 2018/19 review. LHAs may also be able to develop new build from existing resources or any revenue savings arising from exiting the HRAS system.

### **Other options considered and reasons for being disregarded**

Members of the steering group carried out extensive modelling, and considered the outputs, for the distribution of the borrowing cap which reflected both prioritising and not prioritising the borrowing each LHA requires enabling them to meet WHQS. Where borrowing for WHQS was not prioritised within the modelling, in each case, there were between 3 and 6 LHAs that would not receive enough borrowing capacity to enable them to achieve WHQS by 2020. Since this is a shared Welsh Government and Local Government priority and is to be made a statutory obligation, all options where the borrowing required for WHQS was not prioritised were disregarded.

The options that were considered and which prioritised borrowing capacity for WHQS together with the reason why each option was disregarded are set out in the table below:

<b>Modelled by:</b>	<b>Reason for being disregarded</b>
Data provided by LHAs in response to the Welsh Government's request in July 2013	This data was no longer current as LHAs recently submitted updated data to the Welsh Government ( <b>see Option 1</b> )
Existing housing stock /dwelling numbers	Since the borrowing capacity required to achieve WHQS has been prioritised then the existing stock numbers has no bearing on the borrowing capacity required for future new build plans
Housing projection figures for 2020 (published 2011)	The outputs were very similar to the outputs from the modified SHG formula which the steering group considered was a more objective measure and a reasonable proxy for housing need and affordability ( <b>see Option 2</b> )
Housing projection figures by the change in housing projections from 2013 to 2020	While this was based on the change in household projections over time, the time period involved was considered too small to be a robust measure of the typical change over a 30 year business planning period.
Each LHA receiving the same percentage headroom over and above the sum of their existing debt plus the settlement figure	This did not reflect future housing need and may also amplify any issues with the distribution of the settlement amount
Each LA receiving the same value headroom (an equal share)	This does not reflect the differences between authorities in terms of size and housing need
Distributing based on current negative subsidy settlement value	This does not reflect future housing need and may also continue any inequalities inherent within the current subsidy system.
Allocating a percentage share to those LHAs that identified a requirement for new build with the balance being distributed to the 7 remaining LHAs using the modified SHG formula	The further modification of the SHG formula to only allocate borrowing capacity to 7 out of the 11 LHAs could impact upon weighting and was not considered to be equitable and fair to all. The setting aside of a percentage for the 4 LHAs for new build and distributing the balance to all 11 LHAs was considered an appropriate compromise option which could be supported by all LHAs ( <b>see Option 3</b> )

## **Contingency and Future Distribution of the Borrowing Cap**

The setting of a housing related borrowing cap for each LHA is a Treasury requirement and is new to Wales. As part of the agreement for LHAs to exit the HRAS system Treasury has advised that any breach of the borrowing cap would be supported by sanctions. This means that, in the event that the borrowing cap is breached, Treasury would make a compensatory reduction to the Welsh Government Budget which would be passed on to LHA(s) accordingly. Therefore it is in all of our interest to ensure that the borrowing cap is maintained.

The Welsh Government propose the setting aside of a small part of the borrowing cap as a contingency in the first instance. The amount included in the options is approximately £5 million. This contingency will help to safeguard Welsh Budgets whilst the Welsh Government and LHAs adjust to the new borrowing cap arrangements. Whilst this contingency could provide LHAs with access to additional borrowing in the event of an emergency or a change in circumstances it is expected that LHAs will have prudent plans in place to enable them to act in the event of an emergency

The Welsh Government are currently in discussion with Treasury to ensure that there is equity between LHAs in England and Wales in that any increase to the borrowing cap in England should be replicated in Wales.

This consultation is aiming to identify the methodology that will be used in the setting of the initial borrowing cap for each LHA. Subject to the analysis of consultation responses, and Ministerial agreement, it is the expectation that a defined methodology will be identified.

In the event that Treasury does agree to uplift the borrowing cap, it may be possible for such an amount to be distributed using the defined methodology that arises from this consultation process.

## **Appendix 4:**

### **Minister's decision on Distribution of the Settlement and Borrowing Cap, and Flexibility Arrangements**

Carl Sargeant AC /AM  
Y Gweinidog Tai ac Adfywio  
Minister for Housing and Regeneration

Llywodraeth Cymru  
Welsh Government

Ein cyf/Our ref SF/CS/2217/14

Dyfed Edwards Leader  
Gwynedd Council  
Council Offices Shirehall Street Caernarfon Gwynedd  
LL55 1SH

13 August 2014

Dear Dyfed.

The purpose of this letter is to advise you that I have noted the responses to the consultation paper on the distribution of the settlement value of HRAS buy-out and the housing related borrowing cap for individual stock retaining local housing authorities. I have also considered the recommendations made by the Steering Group in relation to the consultation responses and have made the following decisions:

- Settlement Value- The settlement value will be distributed based on negative subsidy amounts in line with "Settlement Value Option 1". The 2013/14 Audited Final HRAS claim will be used for this calculation which will be finalised by authorities and the Wales Audit Office by end of November.
- Borrowing Cap -The distribution of the borrowing cap will be based on "Borrowing Cap Option 3". I note from the responses that this is a compromise option which every local authority has accepted.
- Contingency Sum - The Welsh Government will not be retaining a proportion of the £1.85bn borrowing cap as a contingency sum.
- Unallocated borrowing - I have asked that the Steering Group gives further consideration to how any unallocated borrowing headroom now or in the future is used and distributed. They will be reporting back to me in the Autumn.
- Review- A review will be undertaken in 2018/19 to consider the broader aspects of moving to the new self-financing system. This will mean that the new self-financing arrangements will have been in place for a period of three financial years.

- **Sanctions relating to ability to utilise the borrowing cap-** The Welsh Government will not impose any sanctions or put in place any arrangements that would require authorities to either "use their borrowing headroom or lose it". This will be considered again as part of the borrowing cap review in 2018/19. I have asked the Steering Group to consider the details of how the Welsh Government should undertake a co-ordinating role and facilitate the trading or swapping of borrowing headroom. I have asked that that Steering Group provide me with recommendations on this aspect by Summer 2015.

I would like to thank the WLGA and each local authority for responding to this consultation in such a positive and supportive manner and for your very helpful and constructive feedback. I am also very pleased with the collaborative working between the Welsh Government, the WLGA, local authorities and all the other organisations that are directly involved in the steering group and work streams.

Yours sincerely,

**Carl Sargeant AC / AM**  
Y Gweinidog Tai ac Adfywio  
Minister for Housing and Regeneration

## Appendix 5:

### The latest available draft figures for Limit on Indebtedness

DRAFT FIGURES							
Breakdown of the Estimated Limit on Indebtedness at October 2014							
Authority	LHA's estimated existing borrowing (1)	Borrowing to meet WHQS (2)	Borrowing for new build (3)	Modified SHG (4)	Sub Total	Settlement Value (5)	Estimated Limit on Indebtedness
	£	£	£	£	£	£	£
Caerphilly	44,359,608	55,000,000		5,398,136	104,757,744	75,427,087	180,184,831
Cardiff	96,360,476		20,000,000	14,012,754	130,373,230	190,459,015	320,832,245
Carmarthenshire	125,470,702	14,400,000		6,251,593	146,122,295	78,658,989	224,781,284
Denbighshire	29,507,731	19,600,000		3,597,626	52,705,357	39,175,823	91,881,180
Flintshire	24,929,168	25,000,000	10,000,000	5,423,274	65,352,442	79,798,326	145,150,768
Isle of Anglesey	16,557,736		10,700,000	2,958,237	30,215,973	21,396,292	51,612,265
Pembrokeshire	4,214,860		13,000,000	5,260,279	22,475,139	80,415,686	102,890,824
Powys	14,734,526	18,200,000		6,712,357	39,646,883	71,420,811	111,067,693
Swansea	66,378,044	74,000,000		8,513,014	148,891,058	73,039,241	221,930,299
Vale Of Glamorgan	2,079,670	33,900,000		5,174,229	41,153,899	63,231,107	104,385,006
Wrexham	26,086,114	118,000,000		4,719,866	148,805,980	146,477,623	295,283,604
<b>Total of 11</b>	<b>450,678,635</b>	<b>358,100,000</b>	<b>53,700,000</b>	<b>68,021,365</b>	<b>930,500,000</b>	<b>919,500,000</b>	<b>1,850,000,000</b>
					<b>930,500,000</b>		1,850,000,000

**Notes:**

(1) LHA's "estimated" existing borrowing has been obtained from the 2013/14 Advance Final HRAS claims.

LHA's "actual" existing borrowing will be obtained from 2013/14 Audited Final which will be available December 2014

(2) The borrowing required to meet WHQS as identified in the Consultation in the distribution methodologies.

(3) The borrowing required for New Build will provide four LAs with 50% of the amount requested and identified in the Consultation.

(4) Modified SHG amount is the amount that will be allocated across the 11 LAs using this agreed formula. This will be used as the balancing figure to ensure that the total of existing borrowing, WHQS, new build & SHG adds to £930,500,000

(5) The estimated settlement is as set out in the Consultation. The Actual Settlement Value will be known on 31 March 2015 using the 30 yr maturity rate.

## **References:**

1. LGA ( 2014) LGA Housing Self financing survey 2014