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Date: 10th December 2014

Dear Sir/Madam,

A **Special** meeting of **Cabinet** will be held in the **Sirhowy Room, Penallta House, Tredomen, Ystrad Mynach** on **Wednesday, 17th December, 2014** at **2.00 pm** to consider the matters contained in the following agenda.

Yours faithfully,

A handwritten signature in black ink that reads 'Chris Burns'.

Chris Burns
INTERIM CHIEF EXECUTIVE

A G E N D A

- 1 To receive apologies for absence.
- 2 Declarations of Interest.
Councillors and Officers are reminded of their personal responsibility to declare any personal and/or prejudicial interest(s) in respect of any item of business on the agenda in accordance with the Local Government Act 2000, the Council's Constitution and the Code of Conduct for both Councillors and Officers.

To receive and consider the following reports which require a recommendation to Council: -

- 3 Collection of Dry Recyclables - Waste Framework Directive & Waste (England & Wales) Regulations 2011.
- 4 Decision for the Authority to Buy Out of Housing Revenue Account (HRA) Subsidy Arrangements.

A greener place Man gwyrddach



Circulation:

Councillors Mrs C. Forehead, D.T. Hardacre, K. James, Mrs B. A. Jones, G. Jones, Mrs R. Passmore, D.V. Poole, K.V. Reynolds, T.J. Williams and R. Woodyatt,

And Appropriate Officers



CABINET – 17TH DECEMBER 2014

SUBJECT: COLLECTION OF DRY RECYCLABLES – WASTE FRAMEWORK DIRECTIVE & WASTE (ENGLAND & WALES) REGULATIONS 2011

REPORT BY: ACTING DEPUTY CHIEF EXECUTIVE

1. PURPOSE OF REPORT

- 1.1 To provide Cabinet and Council with an update on legislative changes which come into effect on 1st January 2015 and its potential impact on the recyclable collection regime employed by Caerphilly County Borough Council.
- 1.2 To seek Member authorisation to continue with existing collection arrangements until further evidence is available on which to base long-term future decisions.

2. SUMMARY

- 2.1 This report sets out the basis of the legislation, complexities over its interpretation and implementation and the many complex issues surrounding the Authority's collection regime such as performance and user satisfaction.
- 2.2 The report then considers the various aspects of "TEEP" (Technical, Environmental, Economical & Practical) and the evidence that the Authority has available.
- 2.3 Finally, the report asks Cabinet to consider all of these aspects and to reach a decision on the current situation and any future review.

3. BACKGROUND

- 3.1 Caerphilly County Borough Council currently operates a collection system that involves:-
 - Weekly co-mingled kerbside recycling (the term "co-mingling" means that dry mixed recyclables (metal cans, glass jars & bottles, plastic bottles & trays, newspaper, magazines & junk mail) are placed in a single collection container (predominantly a brown wheeled bin).
 - Weekly food waste collection (food caddy)
 - Weekly garden waste collection (re-usable bag)
 - Fortnightly residual waste (green or black wheeled bin)
- 3.2 This service mix has operated since October 2009 when it was introduced following significant public consultation, consideration by the "Caerphilly Waste Forum" and endorsement by Scrutiny and Cabinet.
- 3.3 Caerphilly was fairly unique as the Authority had previous experience of delivering recycling services via the kerbside sort system (initially fortnightly then weekly) and the change

introduced in 2009 has dramatically improved the Authority's recycling performance (this is discussed later in this report).

- 3.4 The Waste (England & Wales) Regulations 2011 implement certain aspects of the EU revised Waste Framework Directive, with regard to the collection and processing of certain recyclable materials. The aim is to ensure that materials collected as recyclables are in fact recycled and not disposed of in a certain way. The Directive is concerned with the quality of materials collected and the ability of materials processors to sort materials and provide high quality materials for subsequent reprocessing and use.
- 3.5 The interpretation of the Directive & England & Wales Regulations has been the subject of significant debate within the waste industry with the result that the Welsh Government (WG) consulted on potential draft statutory guidance on the separate collection of recyclables in the summer of 2014. The Authority responded to this consultation after receiving joint legal advice (from a specialist waste lawyer) with the other authorities in Wales that collect recyclables in a similar manner to Caerphilly. However, at the time of writing this report WG have not issued any guidance or its response to the consultation (in comparison, DEFRA in England have decided not to issue any guidance). The Authority's response to the consultation was retorted to the Regeneration and Environment Scrutiny Committee on 16/9/14.
- 3.6 The Separate Collection requirements of the Regulations come into force on 1st January 2015. From this date Waste Collection Authorities will be required to provide separate collections of glass, metals, plastics and paper where doing so is:-
 - (i) **NECESSARY** - to ensure waste undergoes recovery operations to facilitate improved recovery (the so called **NECESSITY TEST**) and,
 - (ii) it is **TECHNICALLY, ENVIRONMENTALLY AND ECONOMICALLY PRACTICABLE (TEEP)** to do so
- 3.7 In addition to the legislation described above, WG's policy preference is for separate or kerbside sort collections and may or may not use fiscal measures (such as conditioning the Sustainable Waste Management Grant) to drive forward this policy preference in the future.
- 3.8 For clarity, "separate collections" means the gathering of waste, including the preliminary sorting and storage of waste for the purposes of transport to a waste treatment facility where a waste stream is kept separately by type and mixture so as to facilitate a specific treatment. There has been significant debate over what constitutes separate collection and the matter has been the subject of legal argument in the UK.
- 3.9 The important aspect of the new legislation is the necessity test. If separate collection would increase the quantity or quality of material collected, this would generally indicate that it meets the necessity test and change from a co-mingled to a separate collection would be necessary.
- 3.10 The over-riding aim of the legislation is to ensure that collection authorities produce recyclate capable of being used by reprocessors to process the materials into a product of similar quality to the original.
- 3.11 Co-mingling is therefore allowed where separate collection is determined not to be necessary to provide higher quality recyclates or where separate collection is not technically, environmentally and economically practicable.
- 3.12 At this stage, what is important is to review the evidence available for the purposes of the necessity test; to consider the robustness of that evidence and any gaps and to make an informed decision that a collection system change is or is not necessary at this time. This decision will also need to be reviewed in the future (particularly as there are gaps in the evidence base).

4. LINKS TO STRATEGY

- 4.1 Maximising re-use and recycling has been at the heart of many of the Authority's strategies for a number of years, including the corporate plan and various service improvement plans. The positive effect that re-use and recycling can make to the management of natural resources is also recognised as part of the cleaner and greener agenda of the Local Service Board.

5. THE REPORT

5.1 Performance of the current Caerphilly Collection System

- 5.1.1 Since the current collection regime was introduced in October 2009, the Authority's recycling performance has continued to increase. This is demonstrated below:-

Year	Tonnage of Dry Recyclables	Recycling % (PI)
2008/09	9,621	32%
2009/10	16,286	44% (WG Target 40%)
2010/11	17,635	51%
2011/12	20,106	55%
2012/13	22,283	57% (WG target 52%)

- 5.1.2 In terms of comparison with others, WG categorises Local Authorities based on topography, demographics, settlements, etc. Consequently, Caerphilly is categorised as a "Valley Authority". For a number of years, Caerphilly has been the best performing Valley Authority for recycling and has consistently been amongst the top performing recycling authorities in Wales.

- 5.1.3 In 2013/14, Caerphilly was again the top performing Valley Authority and the 5th best performing Authority in Wales. Worthy of note is the fact that in 2013/14, the 5 best performing Welsh Authorities all provide a co-mingled or twin stream recycling collection service. These "top" performers were as follows:-

Authority	2013/14 Recycling Performance	Collection System
Denbighshire	63.20%	Fully Co-mingled
Monmouthshire	63.00%	Twin Stream Co-mingled
Pembrokeshire	60.30%	Co-mingled + Separate Glass
Ceredigion	58.40%	Co-mingled (no glass)
Caerphilly	57.60%	Fully Co-mingled

5.2 Customer satisfaction with Caerphilly Collection System

- 5.2.1 In addition to the Authority's general bi-ennial household survey, the Community & leisure Services division undertakes a summer bi-ennial Customer Survey for its front-line services. Public satisfaction with recycling has shown an upward trend since 2007:-

Year	Public satisfaction with Recycling
2007	84%
2009	88%
2011	94%
2013	95%

- 5.2.2 In addition to measuring public satisfaction, the last 2 survey's respondents have been asked for their views on changing back to a kerbside sort collection system. On average, 66% of residents surveyed would not take part in recycling if they had to revert back to separating

materials, 81% would not purchase carrier bags and 79% would not participate if they had to change back to a box or bags. Whilst it is accepted that changing the collection system would probably have a detrimental effect on participation and performance it is difficult to reach an exact assessment.

5.3 **Likely future performance**

- 5.3.1 The WG statutory recycling target for 2015/16 is 58% recycling/composting rising to 70% by 2024/25.
- 5.3.2 In recent weeks, Local Authorities have met (via the CSS – County Surveyors Society) to discuss concerns relating to changes in the regulatory position over certain materials that have previously counted towards recycling (wood & leaf sweepings). The CSS has raised concern with WG that this change in position could affect achievement of statutory recycling targets across Wales and have requested a consequential review of the statutory targets.
- 5.3.3 Wood has generally contributed circa 5% towards Caerphilly's recycling performance and it is likely that unless this position is addressed, the Authority's performance in 2015/16 (the 58% statutory target year) could reduce with the target not being achieved. Not achieving statutory recycling targets could result in fines of £200 per tonne being levied by WG.
- 5.3.4 In addition to the issues relating to wood and leaf sweepings, the mix of waste arriving at the Authority's civic amenity sites is changing with an indication that waste for recycling is falling. This may be due to the new van and trailer restrictions although it is too early to predict whether this will have a detrimental effect on the Authority's recycling performance.
- 5.3.5 Once the full Project Gwyrdd contract commences (April 2016) the Authority will benefit from its share of the plant's incinerator bottom ash and metal recycling which is likely to add 4-6% to the recycling performance.

5.4 **The Necessity Test**

- 5.4.1 In accordance with the Necessity Test, the Authority must consider whether it actually needs to separate materials further in order to achieve high quality recycling. A simple benchmark for this test is comparing the quality of Caerphilly's materials, at the point that they are recycled with "good" kerbside sort authorities. Unfortunately terms such as "high quality" and "good kerbside sort authority" are not defined in the legislation or the draft WG statutory guidance. Officers consider these to be fundamental points when considering whether the Authority should switch from what is a highly affective high performing, efficient service which enjoys high levels of public satisfaction.
- 5.4.2 WG have determined that authorities should seek to achieve the best overall environmental outcome, and that, where possible, "Closed loop" recycling should be achieved. This, for example, would mean a glass bottle being re-melted to produce another glass bottle rather than grinding to form road aggregate.
- 5.4.3 There is a degree of confusion among local authorities that collect recyclables with co-mingled systems on how to address the necessity question, and what to compare collections to. As a starting point officers have compared the destinations for Caerphilly's recycling to those used by Welsh kerbside sort authorities and given the level of information and knowledge obtained to date, the comparison would suggest that the end destination are comparable with kerbside sort authorities for a number of materials. This comparison has been collated and forms part of the Authority's file of evidence available to date.
- 5.4.4 Although the above is fairly compelling, it is important that the Authority has a full understanding of the quality of its recyclable materials before a full conclusion can be made on the Necessity Test.

- 5.4.5 The Materials Recycling Facility (MRF) regulations which came into force in October 2014 will assist with the necessity test. These regulations require MRF's to undertake detailed sampling of material as it is received and again after it has been through the sorting process. This will enable the Authority to ascertain the true quality of its material, and how it is, or isn't, affected by the MRF process. The Authority will then be in a better position to compare the quality of the material it provides to reprocessors to that of kerbside sort authorities, in addition to providing robust, accurate data on reject/contamination levels.
- 5.4.6 As stated above the MRF Regulations have only been in place since October 2014 and a full assessment is likely to require at least 6 months of data. Consequently, it is not anticipated that the reports required from the MRF Regulations will be available before June/July 2015.
- 5.4.7 In addition to the above, the Waste Resources Action programme (WRAP) consultancy has been commissioned by WG to undertake an end destinations study which will complement the MRF data. Caerphilly has agreed to take part in this study but it is unlikely that it will report until the first quarter of 2015.

5.5 **The TEEP Test**

- 5.5.1 If it is found that it is necessary for the Authority to collect certain materials separately, it will also need to be considered whether it is TEEP to do so. The TEEP consideration will need to look in detail at 3 key issues although failure to pass any of the TEEP elements individually will result in a justifiable argument for no change.

- (a) **Technically Practicable** – Given that separate collections operate in County Boroughs similar to Caerphilly (eg: Torfaen, Bridgend), it is likely to be concluded that such collections, would be technically practicable within Caerphilly County Borough. An interesting factor to be considered will be the experience of two of Caerphilly's immediate neighbours (Merthyr & Blaenau Gwent County Borough Council's) who are currently in the process of changing from co-mingled to kerbside sort recyclable collections with WG funding support. The practicality of this change and effect on their recycling performance will be interesting to observe over the coming months.
- (b) **Economically Practicable** - The benchmark for whether collections are economically practicable is that they must not be "excessive" in comparison to non-separate collections. Officers from Community & Leisure Services and Corporate Finance have undertaken an initial piece of work to model the costs of change. Obviously, this modelling is heavily reliant on assumptions such as different levels of reduction in public participation, various levels of material income and the different levels of kerbside sorting undertaken. The modelling suggests that the best case scenario (separating glass only) is likely to incur additional annual revenue costs of circa £210,000 while this rises to £1.2m in the worst case scenario (full kerbside sorting). It should be noted these are annual revenue costs only but change (particularly in the worst case scenario) would also require large capital investment to change and increase the size of the collection fleet. This capital investment could be as high as £3m - £4m.

Two of our immediate neighbours have been awarded circa £2m each in WG Capital Grant to facilitate a change to kerbside sort and it is likely that each Authority will need to add circa £1m of their own funds. Both of these Authorities are considerably smaller than Caerphilly so these costs would be elevated if applied to a larger authority.

- (c) **Environmentally Practicable** – If change is deemed necessary then the Authority would need to model the environmental consequences of change. This modelling would need to examine such issues as vehicle emissions and fuel usage as well as the carbon resource efficiency benefits of each collection system.

5.6 The Local Government Measure 2009

5.6.1 In addition to the necessity and TEEP tests, the Authority is subject to the requirements under Schedule 2 of the Local Government Measure 2009. Under the measure, the Authority must “make arrangements to secure continuous improvement in the exercise of its functions”. In doing so, the Authority must have regard in particular to the need to improve the exercise of its functions in terms of:-

- Strategic effectiveness
- Service quality
- Service availability
- Fairness
- Sustainability
- Efficiency
- Innovation

5.6.2 Any decision to change the current collection arrangements must also be justified when considering the above points. Further consideration will therefore need to be given to how the Authority would apply those 7 requirements to any new collection regime. Examples include:-

- **Strategic effectiveness** – where does the service sit within Corporate priorities and is it currently meeting its performance targets? Is there a major strategic case for investment in change compared to other council priorities?
- **Service quality** – does the service meet the needs of its residents, satisfaction ratings, participation levels, etc?
- **Efficiency** – in the current financial climate, is it a prudent and efficient use of public funds to invest heavily in changing a service that may be performing well when other services are either ceasing or being reduced?

5.7 The Overall Evidence Base

5.7.1 As the body of the report outlines, this is a complex area with a higher level of ambiguity and uncertainty than is normally the case with new legislation.

5.7.2 Officers have reviewed the evidence available to date (customer satisfaction, high level costings, performance and limited end destination comparisons) which indicates that the Authority does not need to change its collection regime at present. However, it has to be accepted that there are significant gaps in the evidence base (as the information is not available to the Authority) and that this information will be crucial in making a fully informed, robust decision on future service provision. In summary, these significant “gaps” include:-

- At least 6 months worth of MRF regulations data
- WRAP’s work on the end destinations of materials
- WG not having published its final guidance.

5.7.3 Consequently, it is not possible to make a fully informed, long-term decision on whether or not the Authority needs to change its collection regime until this additional evidence is gathered (probably the summer of 2015). Even where change is deemed necessary, WG accepts that the ability to change may be delayed for a number of operational reasons (eg: vehicle life cycles, contractual timescales, etc.).

6. EQUALITIES IMPLICATIONS

6.1 No equality impact assessment has been undertaken to date. However, this will need to form part of any future consideration in respect of changing the collection service.

7. FINANCIAL IMPLICATIONS

- 7.1 As outlined in section 5.5.1 (b) above there is a range of annual revenue costs between £210,000 and £1.2m dependant on the type of change and assumptions relating to public participation and income for recyclables. This annual revenue cost would be in addition to capital costs for changes to the vehicle fleet which could be as high as £3m - £4m.
- 7.2 Additional costs noted in paragraph 5.5.1b and 7.1 are indicative estimates based on a set of assumptions that will impact on the cost of collection & treatment from source separating. Further work will be required to firm up on the possible financial impact. This work will be undertaken when additional evidence/information becomes available during 2015.

8. PERSONNEL IMPLICATIONS

- 8.1 There are no personnel implications associated with this report at the present time. However, if the Authority moves to a full kerbside sort (WG collections blue-print) service, then it is likely that the number of recycling collection drivers and operatives would need to increase 3-fold.

9. CONCLUSIONS

- 9.1 The Authority is in a very fortunate position with its recycling service. It has been one of the highest performers for recycling in Wales. Often services are changed because of a failure in performance. The Authority is not in that position and therefore it has to be recognised that a very strong case for change would need to be evidenced.
- 9.2 The EU Directive calls for quality and also quantity in recycling. Whilst further investigation is required in relation to quality, it cannot be argued that the Authority does not achieve quantity given that is such a high performer. The draft WG guidance does not answer how to reconcile the quality v quantity debate.
- 9.3 In addition, feedback from public consultation previously reported to Members demonstrated that the recycling service is well regarded by the citizens of the County Borough. It can therefore be foreseen that the public would question why the Council was embarking on a major investment for change when the current service was performing well and is well regarded. Moreover, the Authority is managing the most challenging financial times in the history of modern local government so investment in wholesale service change would be difficult to justify to the public, although the issue would need to be carefully considered based on the necessity and TEEP tests and legal compliance.
- 9.4 At the time of writing this report there remain gaps in the evidence base which will need further consideration and a further decision on the recyclable collection regime. It is the view of officers that change now is not required but this will need a future review in light of additional evidence. In this further review, it will be important that the future service:-
- Is sustainable and environmentally efficient;
 - Is affordable and maximises economic benefit and value;
 - Produces high quality recyclates;
 - Is supported by the public, businesses and wider communities;
 - Is periodically reviewed to ensure that it meets its legal obligations.
- 9.5 It is important for Members to note that there is a risk that the Authority may be legally challenged for its decision to continue with its current practices. In particular, it may be challenged in relation to the interpretation of the separate collection obligations and/or the obligation not to mix waste of a specific type or nature with other waste or other material with different properties. However, to mitigate this risk the Authority has followed a process based on the evidence and data currently available. If the recommendations in section 11 are

agreed, the Authority will have also committed to keep the issue under review in light of additional evidence and to bring more information forward for consideration at the appropriate time in 2015.

10. CONSULTATION

10.1 The report reflects the views of the listed consultees.

11. RECOMMENDATIONS

That Cabinet agrees and recommends to Council:-

11.1 That the existing method of kerbside collection of dry recyclables is continued subject to further review in 2015 when additional evidence/information becomes available.

11.2 That officers of the Authority agree to continue to participate in the study being undertaken by the Welsh Government to gather further end destination evidence and to participate in the WG exercise to model various collection scenarios.

12. REASONS FOR THE RECOMMENDATIONS

12.1 To ensure that the Authority operates a high performing, economically effective, legally compliant recycling service.

13. STATUTORY POWER

13.1 Local Government Acts, Environmental Protection Act 1990, Waste (England & Wales) Regulations 2011, Local Government Measure 2009

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Consultees: Sandra Aspinall, Acting Deputy Chief Executive
Chris Burns, Interim Chief Executive
Nicole Scammell, Acting Director of Corporate Services
Gail Williams, Principal Solicitor, Monitoring Officer
Tony White, Waste Strategy & Operations Manager
Hayley John, Principal Waste Management Officer
Councillor David Poole, Cabinet Member for Community & Leisure Services
David A. Thomas, Senior Policy Officer (Equalities & Welsh Language)
Mike Eedy, Finance Manager

Background Papers:-

- (1) Report to Regeneration & Environment Scrutiny Committee 16/9/2014 - Various Waste Management Issues
- (2) Report to Cabinet 28/10/2008 – Waste Less Recycle More; Compulsory weekly kerbside recycling
- (3) Report to Living Environment Scrutiny Committee 16/10/2008 – Waste Less, Recycle More; Compulsory weekly kerbside recycling
- (4) Welsh Government Consultation Document – Consultation on Draft Statutory Guidance on Separate Collections of Waste Paper, Metal, Plastic and Glass



SPECIAL CABINET – 17TH DECEMBER 2014

SUBJECT: DECISION FOR THE AUTHORITY TO BUY OUT OF HOUSING REVENUE ACCOUNT (HRA) SUBSIDY ARRANGEMENTS

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S 151 OFFICER

1. PURPOSE OF REPORT

1.1 The attached report provides Cabinet with information to consider whether they wish to support the recommendations to Council in respect of the Buy Out of the HRA Subsidy arrangement.

2. SUMMARY

2.1 The attached report to Council is provided for Members' consideration.

3. RECOMMENDATIONS

3.1 Cabinet endorse the report and recommend to Council that:-

3.1.1 Council consider and agree that the Authority exits the HRA Subsidy arrangements prior to 2015/16 to enable the HRA to become self-financing from April 2015.

3.1.2 Council agree to borrow this Authority's share of the total settlement value currently estimated to be £84.8 m and notes that the final figure may be higher or lower.

3.1.3 Members endorse the Officer recommendation to use option 2 to calculate the HRA share of debt after 1 April 2015.

3.1.4 Members accept that a borrowing cap will be applied to the HRA after March 2015 as detailed in Appendix 2.

3.1.5 Members agree that this Authority enters into the Voluntary Legal Agreement in relation to the Buy Out subject to the Interim Head of Legal Services approving the terms of the Agreement to ensure the Buy Out is achieved.

4. REASONS FOR THE RECOMMENDATIONS

4.1 Cabinet are provided an opportunity to determine whether they wish to recommend to Council that the Authority exits the HRA Subsidy arrangements.

5. STATUTORY POWER

5.1 Local Government and Housing Act 1989, Housing (Wales) Act 2014.

Author: Nicole Scammell, Acting Director of Corporate Services & S 151 Officer
Consultees: Steve Harris, Interim Head of Corporate Finance
Gail Williams, Interim Head of Legal Services/Monitoring Officer
Lesley Allen, Principal Accountant (Housing)
Nadeem Akhtar, Group Accountant
Chris Burns, Interim Chief Executive
Phil Davy, Head of Programmes (WHQS)
Shaun Couzens, Chief Housing Officer
Cllr Keith Reynolds, Leader of the Council
Cllr Gerald Jones, Deputy Leader & Cabinet Member for Housing
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Corporate Services

Background Papers:
HRAS file

Appendices:
Appendix 1 Decision for the Authority To Buy Out Of Housing Revenue Account (HRA) Subsidy Arrangements



SPECIAL COUNCIL – 17TH DECEMBER 2014

SUBJECT: DECISION FOR THE AUTHORITY TO BUY OUT OF HOUSING REVENUE ACCOUNT (HRA) SUBSIDY ARRANGEMENTS

REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES & S 151

1. PURPOSE OF REPORT

- 1.1 To provide Members with the financial business case and background so that they can determine whether Caerphilly County Borough Council (CCBC) borrows funds from the Public Works Loan Board (PWLB) to buy itself out of the HRA Subsidy arrangements. In making the decision, Members will need to accept a borrowing cap in respect of the HRA and agree a change to the Authority's Treasury Management Strategy.

2. SUMMARY

- 2.1 Members were advised in a Seminar on 30 June 2014 that there was likely to be an opportunity to buy out of the subsidy arrangements. This report gives more background information explaining how and why a negative HRA Subsidy arrangement currently exists.
- 2.2 This report then provides reasons why the Authority should Buy Out of these HRA Subsidy arrangements prior to 2015/16.
- 2.3 Members need to make a decision to Buy Out of the HRA subsidy arrangements based on the financial savings identified in this report. Members also need to agree to a borrowing cap in respect of HRA Debt.
- 2.4 If the arrangements are not approved by all eleven local authorities retaining housing stock, the current HRAS system will remain in place until the primary legislation is enacted.

3. LINKS TO STRATEGY

- 3.1 The Welsh Housing Quality Standard is intended to ensure that all Local Authority and Housing Association Homes are improved and maintained to specified standards.
- 3.2 This report links to the National Housing Strategy "Sustainable Homes"(WG), and the Council's Local Housing Strategy "People, Property, and Places".
- 3.3 The Single Integrated Plan 2013-2017 has a priority to "Improve standards of housing and communities giving appropriate access to service across the County Borough".

4. THE REPORT

- 4.1 Bringing the HRA Subsidy System to an end in Wales, particularly the annual payment from Wales to HM Treasury of circa £73 m per annum, has been a goal of the Welsh Local

Government Association (WLGA), the Welsh Government and landlord Local Authorities for many years.

- 4.2 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. These negotiations have been undertaken on the basis of the completion of individual voluntary agreements with the 11 landlord Authorities rather than waiting for the primary legislation to be enacted .
- 4.3 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.
- 4.4 The new self-financing arrangements are planned to be in place from April 2015 and will increase revenue year on year for the eleven landlord Authorities. This is because the annual negative subsidy payment of circa £73 m from the eleven landlord Authorities in Wales to the HM UK Treasury will be replaced from April 2015 by a payment in the form of a Public Works Loan Board (PWLB) loan from the PWLB. This Authority's share of the total debt will be based on H M Treasury receiving a notional £40 m interest per annum from the eleven Welsh Authorities.
- 4.5 **A Brief Outline of the Housing Revenue Account Subsidy System**
 - 4.5.1 The Housing Revenue Account (HRA) Subsidy System which could come to an end in Wales on 31 March 2015 was originally designed as a national pooling system for Council rents in England and Wales.
 - 4.5.2 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.
 - 4.5.3 The subsidy system has resulted in every Welsh Landlord Authority paying "negative subsidy" each year to the UK Treasury, which totals circa £73 m. This has diverted rental income away from investment in homes and has underfunded 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.
 - 4.5.4 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.
- 4.6 **Overview of HRA Reform in Wales**
 - 4.6.1 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.
 - 4.6.2 The move to self-financing in April 2015 will mean that Authorities will for the first time be in a position where they can support their landlord activities from their own income. In addition, Authorities can continue to apply for the 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.

4.6.3 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. Rental income will be retained by the Authority.

4.7 The Settlement Figure

4.7.1 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.

4.7.2 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 PWLB to fund their share of the settlement figure. Under the terms of the agreement with the Treasury a notional £40 m interest will be used to generate a total settlement value using the PWLB 30 year maturity rate.

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

4.7.4 These new arrangements will increase HRA resources for every Authority as the annual negative subsidy payments which currently total circa £73 m for the eleven Authorities will be replaced with approximately £40 m of interest payments on PWLB loans plus the cost of repaying the debt. This debt can be repaid over 50 years i.e. 2% per annum of the loan is repaid each financial year. The interest payment and debt repayment is lower than the negative subsidy payment. After Minimum Revenue Provision (MRP) payments (loan repayments estimated to be 2%) are taken into account, the eleven Authorities are expected to be better off each year.

4.8 Distribution of the settlement figure between Authorities

4.8.1 HM Treasury has agreed that the distribution of the aggregate settlement figure of approximately £920 m 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 and Members will note that Caerphilly CBC's share of the settlement is currently £75,427,087 (subject to final confirmation).

4.8.2 At the time of writing this report PWLB interest rates were 3.87% for a 30 year Maturity loan. This would mean the Authority will need to borrow £84.786 m in respect of its share of the settlement value.

4.9 Borrowing Cap

4.9.1 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.

4.9.2 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.

4.9.3 The remaining borrowing headroom of approximately £122 m will be available to fund local investment priorities, for example new build, regeneration, remodelling of existing homes or improvement of housing services.

4.9.4 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 i.e. will increase if PWLB interest rates are lower than originally anticipated or reduce if PWLB interest rates are higher than originally anticipated.

4.9.5 The illustrative figures below indicated the borrowing that, at the point in time of the consultation, would be included within the borrowing cap of £1.85 billion (these figures have now been updated (see paragraph 4.9.7)).

	£ m
• Existing HRA borrowing by Authorities	460
• Estimated borrowing required to bring all Council owned homes up to WHQS by 2020	358
• Estimated borrowing for the cost of the settlement with HM Treasury	920
• Borrowing capacity remaining for other HRA priorities for example new build, regeneration and re-modelling	112
TOTAL	1.85 billion

4.9.6 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. This should ensure that the headroom for borrowing for WHQS and new build is maintained.

4.9.7 Appendix 2 provides the latest draft figures for the breakdown of the Limit on Indebtedness (usually referred to within this document as the “borrowing cap”).

4.10 Distribution of the Borrowing Cap

4.10.1 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.

4.10.2 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 £122 m of borrowing headroom to be distributed to Authorities for other HRA investment priorities.

4.10.3 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.

4.10.4 The three distribution options for the £122 m of borrowing capacity were considered at a WLGA HRA Reform Seminar in May 2014, and subsequently at the WLGA Co-ordinating Committee.

- 4.10.5 The preferred option that all eleven Authorities could “live with” 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. Caerphilly CBC did not include new build requirements in the Business Plan as the priority must be to deliver WHQS in the first instance by 2020.
- 4.10.6 The WLGA Co-ordinating Committee also endorsed the prioritisation of borrowing required to achieved WHQS, but rejected the Welsh Government proposals to hold back £5 m 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.
- 4.10.7 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” and no contingency sum would be held by the Welsh Government. This results in the borrowing headroom detailed in Appendix 2.
- 4.10.8 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.
- 4.10.9 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.
- 4.10.10 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.
- 4.10.11 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.
- 4.10.12 Imposition of a HRA borrowing cap on Welsh Authorities requires UK Government primary legislation and this is to be implemented via the Wales Bill which is currently 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.
- 4.10.13 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.
- 4.10.14 The eleven Authorities are working on a Voluntary Agreement that will enable the HRAS buy out to take place by April 2015. CCBC has a representative on that working group.
- 4.10.15 If the Voluntary Agreements are not individually agreed by the 11 Authorities the Buy Out will not proceed. The current HRAS system will remain in place until the primary legislation is enacted.
- 4.11 **Legislative Changes in the UK and Wales**
- 4.11.1 Exit from the HRA Subsidy System requires changes to both UK and Welsh legislation.

- 4.11.2 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.
- 4.11.3 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.
- 4.11.4 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.
- 4.11.5 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.

4.12 Introduction of the new Self Financing Arrangements

4.12.1 The HRAS Reform Project

- 4.12.2 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.
- 4.12.3 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.
- 4.12.4 A Steering Group and four work streams have been formed with the involvement of officials from all eleven Authorities with housing stock, along with the Welsh Government, WLGA, Welsh Tenants, Wales Audit Office and Chartered Institute of Public Finance and Accountancy (CIPFA).

4.13 Preparing for the Introduction of Self-Financing

- 4.13.1 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.
- 4.13.2 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.
- 4.13.3 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.

4.14 The Treasury Management Strategy

- 4.14.1 The Authority already has a Treasury Management Strategy, which is agreed annually by full Council alongside the Budget Report in February each year. 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, other priorities and the management of the debt. Authorities are required by the HRA Exit Agreement with HM Treasury to take PWLB loans to fund the settlement figure.
- 4.14.2 Once the Authority has bought itself out of the current HRA Subsidy arrangement, the Authority will need to put in place arrangements for the management of the HRA debt which will comprise of existing HRA debt, HRA settlement debt and new debt borrowed to deliver HRA capital schemes (WHQS). The Authority has a number of options available for the management of the HRA debt: -
- Option 1 - One Pool approach** - A single Pool for all debt (General (Council) Fund and HRA) including buy-out debt. This approach is a continuation of existing arrangements.
- Option 2 - Two Pool approach** - A notional exercise is undertaken to separate debt into a General Fund Pool and a HRA Pool. Both Pools will include respective old and new debt.
- Option 3 - Three Pool approach** - Existing loan debt (General Fund and HRA) will form one residual pool, which will reduce in value as loans are repaid at maturity or earlier. New debt will be split between the General Fund and the HRA and form two further separate Pools.
- 4.14.3 Appendix 4 sets out the advantages and disadvantages of all three options. It is recommended that the Authority adopts Option 2 (i.e. the two Pool approach) as this is the methodology supported by the Chartered Institute of Public Finance & Accountancy (CIPFA). A notional exercise will be required following the buy-out to de-pool existing debt in accordance with guidance issued by CIPFA and Welsh Government. The underlying principle for the splitting of loans, at transition, must be that of no detriment to the General Fund. Local Authorities are required to deliver a solution that is broadly equitable between the HRA and the General Fund. This process will result in a higher debt charge for the HRA based on the existing debt, with the General Fund receiving a consequential reduction. The exact value cannot be determined at this time as final guidance on the recharge mechanism is awaited from WG, but it is anticipated that circa £500 k of additional debt charge will need to pass from the General Fund to the HRA.

4.15 The New Rent Policy

- 4.15.1 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.
- 4.15.2 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.
- 4.15.3 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.

- 4.15.4 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.
- 4.15.5 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. A report will be presented to Cabinet late January/early February 2015 in respect of decisions that will be required to comply with the new Rent Policy.
- 4.15.6 The introduction of the new rent policy should not impact on the buy out process other than that any reductions to future rent increases that are not linked to the business plan will have a detrimental impact on the affordability of the buy out as well as the viability to meet the WHQS.

4.16 Capital Receipts

- 4.16.1 Local Authorities have discretion whether to use capital receipts to fund capital expenditure or to repay debt, but as part of the HRA Subsidy calculation rules it is assumed that 75% of the HRA capital receipts are used to repay debt. The remaining 25% is retained to offset Housing capital expenditure
- 4.16.2 Typically this has meant that on an average of 20 sales per annum, which generates a capital receipt of £980k, 75% (£735k) is set aside to repay debt, and 25% (£245k) is used to assist the funding of the Housing capital programme. This has been assumed within the current business plan.
- 4.16.3 As the subsidy regime disappears there is a need to formally set out the treatment of HRA capital receipts, and the Minister for Housing and Regeneration agreed on the 13th August 2014 to the recommendations made by the HRAS accounting working group. This was to devolve responsibility to Local Authorities to decide how to utilise their own capital receipts as long as this is ring fenced to the HRA. This option provides the incentive to invest in good asset management strategies, i.e. invest in existing stock, invest in new build or repay debt.
- 4.16.4 This means that in the typical example above, a further £735k could be made available to fund the Housing capital programme, although in reality the debt costs still need to be repaid. Hence, even though the HRA will have flexibility in how it uses its capital receipts it is assumed at this stage that 75% is still used to repay debt.

4.17 Service Charges

- 4.17.1 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.
- 4.17.2 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.
- 4.17.3 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.
- 4.17.4 In CCBC, where additional services are received (i.e. sheltered schemes), the Authority already distinguish between the rent and service charges, therefore de-pooling is not

necessary. However, a working group has been set up to ensure that service charges for these tenants are more accountable, transparent and fully recoverable. The working group will also investigate service charges for other tenants where additional services may be required.

- 4.17.5 The requirement for de-pooling service charges should not impact detrimentally on the HRA Subsidy buy out or the business plan.

5. EQUALITIES IMPLICATIONS

- 5.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan. There is no requirement for an Equalities Impact Assessment Questionnaire to be completed for this report.

6. FINANCIAL IMPLICATIONS

- 6.1 A table detailing the estimated savings if the HRA Subsidy buy out is successful are included in Appendix 3. In summary up to March 2020, it is anticipated that a revenue saving of £11.9 m will be generated for the HRA. Over the 30 year period it is anticipated that a saving of £37.9 m will be generated.
- 6.2 There is potential for additional capital receipts to be available for the HRA, although it would be prudent to not take these into account for the purposes of decision making in respect of the Buy Out.
- 6.3 There are also likely to be savings for the General Fund if the Buy Out is successful. These savings would be available to be used towards the 16/17 MTFP savings target.

7. PERSONNEL IMPLICATIONS

- 7.1 None.

8. CONSULTATIONS

- 8.1 All responses from consultees listed below have been incorporated within the report.

9. RECOMMENDATIONS

- 9.1 Council consider and agree that the Authority exits the HRA Subsidy arrangements prior to 2015/16, to enable the HRA to become self financing from April 2015.
- 9.2 Council agree to borrow this Authority's share of the total settlement value currently estimated to be £84.8 m and notes that the final figure may be higher or lower.
- 9.3 Members endorse the Officer recommendation to use option 2 to calculate the HRA share of debt after 1 April 2015.
- 9.4 Members accept that a borrowing cap will be applied to the HRA after March 2015 as detailed in Appendix 2.
- 9.5 Members agree that this Authority enters into the voluntary legal Agreement in relation to the Buy Out subject to the Interim Head of Legal Services approving the terms of the Agreement to ensure the Buy Out is achieved.

10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure that this Authority is able to participate in the HRA Subsidy buy out arrangements and accepts the restriction on HRA borrowing.

11. STATUTORY POWER

- 11.1 Local Government and Housing Act 1989, Housing (Wales) Act 2014.

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Consultees: Steve Harris, Interim Head of Corporate Finance
Gail Williams, Interim Head of Legal Services/Monitoring Officer
Lesley Allen, Principal Accountant (Housing)
Nadeem Akhtar, Group Accountant
Chris Burns, Interim Chief Executive
Phil Davy, Head of Programmes (WHQS)
Shaun Couzens, Chief Housing Officer
Cllr Keith Reynolds, Leader of the Council
Cllr Gerald Jones, Deputy Leader & Cabinet Member for Housing
Cllr Barbara Jones, Deputy Leader & Cabinet Member for Corporate Services

Background Papers:
HRAS file

Appendices:

- Appendix 1 Distribution of the Settlement Figure: Illustrative Figures from the July Consultation Document
- Appendix 2 Draft Figures – Breakdown of the Estimated Limit on Indebtedness at October 2014
- Appendix 3 Financial Implications of HRA Subsidy Buy Out
- Appendix 4 Options Available to the HRA for Management of Debt Post HRA Subsidy Buy Out

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	6,234,826	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
	72,879,693	40,000,000	32,879,693		919,500,000

Notes:

- (1) HRAS settlement amounts obtained from 2013/14 HRAS 2nd estimate claims HRAS 13-02(W).
- (2) Interest payments of circa £40 m 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%.

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APPENDIX 2

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
Total of 11	450,678,635	358,100,000	53,700,000	68,021,365	930,500,000	919,500,000	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.

APPENDIX 3

FINANCIAL IMPLICATIONS OF HRA Subsidy Buy Out

	2014/15 (final year of subsidy)	2015/16	2016/17	2017/18	2018/19	2019/20	Total 2015/16 – 2019/20	Total 2020/21 – 2043/44	Total 30 year plan
1 Borrowing costs									
Savings									
HRAS Subsidy payments (as per latest Business Plan submitted to WG)*	- 6,896	-7,055	-7,256	-7,501	-7,781	-7,876	-37,469	-146,717	-184,186
Total cost of debt									
Minimum Revenue Position on £84.78m	-	-	1,696	1,662	1,628	1,596	6,582	30,046	36,628
Interest on £84.78m**	-	3,281	3,281	3,281	3,281	3,281	16,405	78,746	95,151
Total		3,281	4,977	4,943	4,909	4,877	22,987	108,792	131,779
Estimated de-pooling charges		500	500	500	500	500	2,500	12,000	14,500
Net Saving		-3,274	-1,779	-2,058	-2,372	2,499	-11,982	-25,925	-37,907
2 Capital Receipts									
Current 25% retained (of estimated sales of 20 homes per annum)	247	254	260	267	274	281	1,337	9,287	10,624
Proposed 100% retained		1,015	1,041	1,069	1,096	1,125	5,346	37,148	42,494
Additional flexibility (if required)	-	761	781	802	822	844	4,010	27,861	31,871

*Members are advised that actual subsidy payment have been on average £6.5 m over the past 4 years, which tends to be lower than the estimates calculated in the Business Plan. This is due to the assumptions used in the plan (as advised by WG) actually being more favourable in reality, thus reducing the actual subsidy payment. Hence the above calculation could be overstated by approx £800k per annum up to 2019/20.

**Interest is calculated as per the HM Treasury's requirement of replacing the subsidy payments with an interest payment of £40m from all the eleven LA's. This is based on an interest rate of 3.87% of the settlement figure, which is a reflection of the current PWLB 30 year maturity rate. The above is CCBC's estimated apportionment of the £40m based on this rate. As explained in the report, the interest rate on the transaction day will determine the settlement figure.

***De-pooling charges are as a consequence of the need to change the TM Strategy to accommodate the self financing arrangement. The costs are likely to reduce over time but are kept constant for the purpose of this report.

Options Available to the HRA for Management of Debt Post HRA Subsidy Buyout

The Authority is required to raise a PWLB loan of £75.4m (subject to final confirmation). The loan proceeds will be paid over to Welsh Government, who in turn will repay HM Treasury, and effectively the Authority will have bought itself out of the HRA subsidy arrangement. The raising of the new loan and payment to Welsh Government will take place on the same day (02 April 2015). Therefore Welsh Local Authorities with housing stock are required to deliver a buyout solution that is broadly equitable between the Housing Revenue Account (HRA) and the General Fund.

A number of options are available to the Authority that will enable the management of the existing and new debt for the HRA and the General Fund, as follows: -

Option 1- One Pool Approach

A single Pool for all debt (General Fund and HRA) including buy-out debt. This approach is a continuation of existing arrangements.

Advantages: -

- A “Do nothing” approach. Very little work will be required from an administration perspective other than registering the loan details in the Treasury Management system and an annual recharge to the HRA of loan costs (as per existing arrangements).

Disadvantages: -

- Volatility in the HRA Consolidated Rate of Interest (CRI) (effectively the HRA pool rate). This arises as a result of the General Fund borrowing money.
- HRA benefits from the General Fund internal borrowing and therefore HRA receives a lower interest recharge, though this may change once Welsh Government have issued guidance on the new Item 8 Determination (the recharge mechanism).

Option 2- Two Pool Approach

A notional exercise is undertaken to separate debt into a General Fund Pool and a HRA Pool. Both pools will include respective old and new debt. Debt is de-pooled using CIPFA's Capital Financing Requirement methodology.

Advantages: -

- HRA is charged its fair share of debt costs.
- HRA has a stable Consolidated Rate of Interest (CRI) as pooled debt is not affected by General Fund borrowings.
- Simple to administer once the initial de-pooling of loans is undertaken and appropriate documentation set up.
- HRA debt costs are not subsidised by the General Fund
- Internal borrowing/under borrowings are easily identifiable between HRA and the General Fund as debt is accounted for separately.

- **The Chartered Institute of Public Finance & Accountancy (CIPFA) favours this approach but ultimately it is the Authority's decision as CIPFA recognises that debt structures will vary from one local authority to another.**

Disadvantages: -

- Some administrative work will be required initially to de-pool the existing debt and set up records. There will be ongoing workflow around monitoring levels of existing debt upon maturity but on the whole this will not be an administrative burden.

Option 3- Three Pool Approach

Under this approach the existing loan debt will form one residual pool, which will reduce in value as loans are repaid at maturity or earlier. Borrowing for new capital expenditure, including the settlement payment, WHQS, additional loans to cover under-borrowing and replacement loans would then be allocated to the two new separate pools, one for the HRA and one for the General Fund.

Advantages: -

- Avoids the need to split existing loans.
- Internal borrowing/under borrowings arising after the Subsidy Buyout are easily identifiable between the HRA and the General Fund as new debt is accounted for separately.
- HRA debt charges are not affected by General Fund borrowing decisions as new debt is kept separately.

Disadvantages: -

- Difficult to administer (a number of recharges are required for old and new debt).
- HRA existing loans will have a volatile Consolidated Rate of Interest (CRI).
- HRA existing loans benefit from General Fund under borrowings, resulting in a lower recharge.