Appendix 4

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.

<u>Option 3- Three Pool Approach</u>

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.