



An Roinn Tithíochta,  
Pleanála agus Rialtais Áitiúil  
Department of Housing,  
Planning and Local Government

# Value for Money Unit

## Local Government Audit Service

### An Overview of Interest Only Loans in Local Authorities

March 2019

Department of Housing, Planning and Local Government

[housing.gov.ie](http://housing.gov.ie)

## **Local Government Audit Service**

The Local Government Audit Service (LGAS), incorporating the Value for Money (VFM) Unit, being an external audit service, provides independent scrutiny of the financial stewardship of local authorities.

The sectoral goals of the LGAS are to:

- Carry out the audits of local authorities and other bodies in accordance with the Code of Local Government Audit Practice thereby fostering the highest standards of financial stewardship and public accountability.
- Promote the achievement of value for money in local authorities by undertaking Value for Money audits and publishing reports thereon.

It is the responsibility of local authority management to ensure that value for money is achieved by establishing and maintaining sound arrangements including procedures for planning, appraisal, authorisation and control of resources.

This report was prepared on the basis of information, documentation and explanations obtained from the public bodies included in this report. The draft report was sent to all local authorities and relevant Government departments for factual accuracy and where appropriate the comments received were incorporated in the final version of the report.

The website of the Department of Housing, Planning and Local Government is the primary means of publishing reports of the Value for Money Unit of the Local Government Audit Service. Should any errors arise they will be corrected and noted in the report published at <http://www.housing.gov.ie/en/publications/localgovernment/auditservice/>

# Contents

	<b>PAGE</b>
Executive Summary	4
1. Introduction	8
2. Types of Loans Payable	11
3. Financial Institutions	14
4. Recoupable Loans	18
5. Mortgage Loan Funding Surplus/(Deficit)	22
6. Acknowledgement	23
References	24
Appendices	25

# Executive Summary

## Background

This review was in response to a continuing number of issues being raised in audit reports in relation to loans payable. The aim of this review is to:

- i. Quantify the total level of loans payable in local authorities at 31 December 2016
- ii. Quantify the level of mortgage and non mortgage loans
- iii. Quantify the local authorities' exposure to interest only loans
- iv. Establish the original purpose of these interest only loans
- v. Identify the source of loans (lender)
- vi. Quantify the interest costs of servicing these loans on a yearly basis
- vii. Determine the value of loans that are fully recoupable from the Department of Housing, Planning and Local Government (the Department).

## Issues raised in audit reports in relation to loans

The audit issues raised as part of the 2017 audit process in relation to loans payable remain the same as in the previous year and include the following:

- The value of loans which are operating on an interest only basis or where the interest is rolled up over a number of years
- The high cost of interest repayments which have to be funded from the local authority's own resources and the pressure this places on the Council's finances
- The existence of substantial loans in respect of land purchases made a number of years ago
- The level of these land loans which are not recoupable from the Department and therefore have to be funded from the local authorities own resources.

### i. Quantity of Loans Payable

Loans payable by local authorities are a significant balance in the Annual Financial Statements (AFS) with total loans outstanding of €3,858m at 31 December 2016 (2015: €4,042m).

## **ii. Mortgage and non mortgage loans**

The total value of loans at the year end can be split as follows:

- Mortgage loans of €832m
- Non mortgage loans of €3,025m

## **iii. Value of interest only loans**

Across all local authorities, an average of 20% of all loans outstanding at 31 December 2016 were interest only loans. The majority of these relate to land loans and bridging affordable housing loans.

## **iv. Original purpose of interest only loans**

The purpose for which the interest only loans were originally drawn down relate mainly to:

- Loans for land bought in most cases in order to establish land banks for social housing which did not go ahead due to the economic downturn. However, these are now being advanced under the housing construction programme in local authorities.
- Bridging loans for unsold affordable housing.

In relation to non mortgage loans, the main purpose of the loans were as follows:

- 40% were for the funding of assets / grants
- 14% were for bridging finance
- 38% were for recoupable voluntary housing and water loans.

## **v. Source of loans**

All local authorities' loans are borrowed from either:

- The Housing Finance Agency (HFA),
- The Office of Public Works (OPW) or
- Commercial banking institutions.

The HFA is by far the largest lender to local authorities, holding 90% of the value of outstanding loans as at 31 December 2016.

## **vi. Yearly interest costs**

The total HFA loan balance as at 31 December 2016 was €3,472m of which €753m (21.7%) are interest only loans, as set out in Appendix 3.

As the HFA accounted for 90% of the year end loan balance, these loans were analysed to determine the level of interest and principal repaid in the year.

- In relation to the interest only loans of €753m, the total interest repaid in 2016 was €12m.
- For the remaining HFA loan balance of €2,719m, principal repayments on these loans were €141m and interest repayments were €42m in 2016.
- Therefore the total interest payments made in 2016 were €54m.

The total loans held by the OPW and other commercial lenders are €387m or 10% of the value of loans payable as at 31 December 2016. These loans are all on a full annuity repayment basis.

## **vii. Value of Recoupable Loans**

There are various schemes (past and present) set up by the Department whereby local authorities can recoup the principal and/or the interest on loans payable by them from the Department. It should be noted that:

- 38% of all non mortgage loans outstanding at the year-end are fully recoupable from the Department, the majority of these relate to voluntary housing and water loans

- Much of the 62% residual balance has to be funded by the local authority from their own resources; however, some loans may be partly recoupable from the Department under schemes such as the Social Housing Leasing Scheme and the Land Aggregation Scheme.

## Conclusion

At an average of 20% of total loans, the value of interest only loans held by local authorities is high. The audit issues in relation to these loans in terms of land loans and the burden these loans places on the resources of the local authorities will continue to feature in audit reports going forward. Local authorities will need to continue to monitor and assess the impact on their income and expenditure account if these interest only loans move to repayment of both principal and interest.

# 1. Introduction

## 1.1 Background

Local authority borrowing is governed by Section 106 of the Local Government Act 2001. Borrowing by a local authority under this section must be sanctioned by the appropriate Minister. A decision to borrow or lend under this section is a reserved function of the local authority members.

Loans payable by local authorities are a significant balance in the Annual Financial Statements (AFS) with total loans outstanding at 31 December 2016 of €3,858m (2015: €4,042m). Local authorities repay some of these loans on an interest only basis. The interest only loans relate mainly to bridging loans for unsold affordable housing and to loans for land bought in order to establish land banks for social housing which did not go ahead due to the economic downturn. However, these are now being advanced under the housing construction programme in local authorities.

Schemes such as the Land Aggregation Scheme and the Social Housing Leasing Scheme were introduced as an interim measure by the Department of Housing, Planning and Local Government (the Department) to alleviate the pressure on local authorities, however some local authorities were not able to avail of these schemes for various reasons and are waiting for an alternative solution in order to be able to repay these borrowings.

## 1.2 Issues raised in audit reports in relation to loans

The audit issues raised as part of the 2017 audit process in relation to loans payable remain the same as in the previous year and include the value of loans which are operating on an interest only basis or where the interest is rolled up over a number of years. Some audit reports made reference to the high cost of interest repayments which have to be funded from the local authority's own resources and the pressure this places on the Council's finances.

The existence of substantial loans in respect of land purchases made a number of years ago continues to be noted. With the increased level of funding for social housing, some local authorities noted that they will use some of their land for social housing which will lead to a reduction in the level of loans, as they are then recoupable from the Department.



Others noted the anticipated future sale of the land or the development of the land for houses or other capital projects.

However, a large number of land loans continue to be not recoupable from the Department and therefore have to be funded from the local authorities own resources.

Reports also made reference to bridging loans which are being repaid on an interest only basis. Some of these loans were originally drawn down to fund the acquisition or building of housing units for sale under the former affordable housing scheme, which are currently fully recoupable (funded) from the Department. However a number of these properties remain unsold and have been transferred to temporary letting schemes, let to Approved Housing Bodies (AHB) or taken into the Council's own stock.

Auditor's recommendations include the need for the local authorities to assess the impact on their income and expenditure account when the non recoupable interest only loans move to repayment of both principal and interest.

It is important to note that as long as repayments are affordable and the local authority is able to finance its debts, then borrowing will continue to be an important method to finance long term capital costs.

### **1.3 Scope of the review**

The information included in this report is based on the responses received under the survey questionnaire. The completed questionnaires have been approved and signed by the Head of Finance in each local authority.

### **1.4 Basis for Selection**

All 31 local authorities were selected to participate in the survey and their data was compiled by Local Government Auditors and the responses were collated into this report by the Value for Money Unit. A draft report was sent to all 31 local authorities for confirmation of factual accuracy and feedback comments and all responded.

## 1.5 Methodology

A detailed survey questionnaire was sent to all Local Government Auditors requesting the following information:

- A summary of Loans Payable as per Note 7 (a) and (b) of the Annual Financial Statements for 2014, 2015 and 2016.
- Details of HFA loan balances at 31 December 2016 by category, amount of principal and amount of interest repaid in 2016 per the HFA statements.
- Details of the amount of HFA loan balances by category at 31 December 2016 recoupable, amount of principal and amount of interest repayments recouped in 2016.
- Details of Mortgage Loans/Equity Payable and Receivable as per Note 12 of the Annual Financial Statements for 2014, 2015 and 2016.
- Details of Cash on Hand relating to Redemptions and Relending as per Note 12 of the Annual Financial Statements for 2014, 2015 and 2016.
- Details of Non-HFA loan balances at 31 December 2016 analysed by local authority service division, including details of any of these loans not on a full annuity repayment basis.

## 2. Types of Loans Payable

### 2.1 Types of Loans Payable

€3.86 billion was the total value of loans outstanding in local authorities as at the 31 December 2016. The value of loans has been steadily decreasing over the last number of years as can be seen in the table below.

Loans payable can be divided into the following two categories:

- Mortgage loans
- Non mortgage loans.

#### Exhibit 1: Mortgage versus Non Mortgage Loans

Application	2016	2015	2014
	€000	€000	€000
Mortgage Loans	832,180	884,925	931,455
Non Mortgage Loans	3,025,544	3,156,575	3,754,922
<b>Total per Note 7(b)</b>	<b>3,857,724</b>	<b>4,041,500</b>	<b>4,686,377</b>

Source: Survey Questionnaire of all Local Authorities

#### 2.1.1 Mortgage Loans

Mortgage loans are annuity type loans from financial institutions which are used as funding for equivalent annuity loans issued to customers for the purchase of houses. The repayments on these loans are funded by the corresponding repayments from the borrowers. It is important that the profile of these loans is matched to the customer loan book to avoid any impact on cash flow. A comparison of mortgage loans payable and receivable by local authority at the end of 2016 is included in Appendix 5. As can be seen from Appendix 5, the amount receivable by the local authorities is greater than the amount payable by €46.4m.

Local authorities should monitor and address the difference between the two balances on an on-going basis.

#### 2.1.2 Non Mortgage Loans

Non mortgage loans include loans for the purchase/construction of assets, bridging finance and loans for other purposes. The repayment of principal and interest on these loans are

generally funded from the revenue account. An analysis of non mortgage loan balances by local authority for the last three years is shown in Appendix 2.

Note 7 to the AFS sets out the types of borrowing under this heading. Loans relating to assets/grants and revenue funding will not have a corresponding stream of income. Bridging finance will eventually become part of permanent funding. Loans in respect of the other headings will have a corresponding value in Note 3.

## 2.2 Accounting Treatment of Loans

The accounting treatment of the repayment of loan principal and interest reflects the fact that some loans payable by local authorities are matched by loans repayable by borrowers to the authorities. As noted above these are referred to as mortgage loans. The accounting treatment also reflects the funding of assets.

- All interest on mortgage and non mortgage loans is charged to the revenue account.
- Principal repayments on mortgage loans are not charged to the revenue account and are funded by the repayment of principal by borrowers for loans to purchase housing units.
- Principal repayments on non mortgage loans that have no corresponding funding source from outside the local authority are charged to the revenue account “below the line” i.e. in transfers to reserves.
- Where principal loan repayments are funded from capital / reserves a corresponding transfer from capital / reserves should be included in the revenue account as set out in the Accounting Code of Practice for Local Authorities.

In respect of mortgage loans only the interest element payable and receivable is included in the Statement of Comprehensive Income (Income & Expenditure Statement).

However for non mortgage loans both the principal and interest payable is charged to the Statement of Comprehensive Income (Income & Expenditure Statement).

Exhibit 2 below sets out an analysis of the original purpose of the non mortgage loans, the main reasons were as follows;

- Funding of assets/grants (40%),
- Bridging finance (14%) and
- Recoupable voluntary housing and water loans (38%).

Recoupable water loans are further discussed in Section 4 of this report.

Revenue funding loans were loans set up by some local authorities to enable them to fund their revenue deficits over time.

<b>Exhibit 2: Analysis of the original purpose of Non Mortgage Loans</b>			
<b>Application</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	€000	€000	€000
Asset / Grants	1,224,264	1,241,357	1,390,838
Revenue Funding	23,945	25,164	26,273
Bridging Finance	425,692	443,326	477,686
Recoupable	9,819	8,792	367,501
Shared Ownership / Rented Equity	203,011	236,387	266,002
Voluntary Housing & Water Loans recoupable	1,138,813	1,201,549	1,226,622
<b>Non Mortgage Loans:</b>	<b>3,025,544</b>	<b>3,156,575</b>	<b>3,754,922</b>
<b>Mortgage Loans</b>	<b>832,180</b>	<b>884,925</b>	<b>931,455</b>
<b>Total Loans per Note 7(b)</b>	<b>3,857,724</b>	<b>4,041,500</b>	<b>4,686,377</b>

Source: Survey Questionnaire of all Local Authorities

## 3. Financial Institutions

### 3.1 Lenders to Local Authorities

All local authorities' loans are borrowed from the HFA, the OPW or commercial banking institutions. The HFA is by far the largest lender to local authorities, holding 90% of the value of outstanding loans as at 31 December 2016, as can be seen in Exhibit 3 below.

Financial Institution	2016	2015	2014
	€000	€000	€000
HFA	3,470,605	3,581,670	4,153,638
OPW	339	1,119	6,135
Other Financial Institutions	386,780	458,711	526,604
<b>Total per Note 7(a)</b>	<b>3,857,724</b>	<b>4,041,500</b>	<b>4,686,377</b>

Source: Survey Questionnaire of all Local Authorities

### 3.2 Housing Finance Agency (HFA)

As can be seen from the Exhibit 3 above, at 31 December 2016, €3.47 billion (90%) of loans were with the HFA. Established as a state-owned company in 1982, the HFA is the main provider of loan finance to local authorities and voluntary housing bodies for housing and related purposes. The HFA raises its funds on the domestic and international capital markets in structures and at costs that reflect its customers' requirements. It provides loans on a competitive basis thus reducing sector costs by economies of scale.

The HFA also lend to local authorities for waste and environment capital projects. They provide ancillary services to local authorities, such as an investment facility in short-term commercial paper, and treasury-related advice.

Further information on the HFA can be found in Appendix 8.

#### 3.2.1 HFA Loan Analysis

As can be seen from the Exhibit 4 below, €753m (21.7%) of the total HFA loan balance of €3,472m as at 31 December 2016 related to interest only loans.

#### Exhibit 4: HFA Loan Analysis

HFA Loan Type	Balance as at 2016	Amount of Repayments of Principal in 2016	Amount of Repayments of Interest in 2016
	€000	€000	€000
Interest Only Loans	752,995	0	12,034
Non Interest Only Loans	2,718,855	141,204	41,905
<b>Total HFA Loans</b>	<b>3,471,850</b>	<b>141,204</b>	<b>53,939</b>

Source: HFA Loan Statements. HFA interest only loans have been extracted based on HFA Loan Type/Category.

There is a relatively small difference (€1.2m) between the total HFA loans balance per the HFA and per the local authorities (Exhibit 3). This relates to differing accounting treatments, by the HFA and some local authorities, of the repayments of principal and interest of pre 1986 loans over a period of time. These local authorities are working with the HFA to resolve the differences.

A full breakdown of HFA loans by loan type can be found at Appendix 3.

### 3.2.2 HFA Interest Only Loans

Exhibit 5 below gives a breakdown of the category of HFA interest only loans held by the local authorities at the 31 December 2016. Of the total HFA interest only loans of €753m as at 31 December 2016:

- €309m (41.0%) relates to land loans
- €433m (57.5%) relates to interest only bridging (affordable housing).

As set out above the existence of substantial loans in respect of land purchases made a number of years ago continues to be noted in audit reports as an issue facing local authorities. The increased level of funding for social housing will allow some local authorities to use some of their land for social housing. This will lead to a reduction in the level of loans, as they can then be recouped from the Department. Other local authorities noted the anticipated future sale of the land or the development of the land for houses or other capital projects which will allow them to reduce their debt.

### Exhibit 5: HFA Interest Only Loans Categories

HFA Loan Category	Balance as at 31 Dec 2016	Amount of Interest repaid in 2016 per HFA Statements
	€000	€000
Interest Only Bridging (Affordable Housing)	433,098	7,344
Interest Only County Council Offices	2,150	41
Interest Only Loan Rented LA Social Housing	9,197	156
Variable Loan Land Acquisition Interest Only	297,531	4,394
Variable Loan Land Acquisition LAGS Interest Only	11,019	99
<b>Total interest only HFA loans</b>	<b>752,995</b>	<b>12,034</b>

Source: HFA Loan Statements & Survey Questionnaire of all Local Authorities. HFA interest only loans have been extracted based on HFA Loan Type/Category.

Local authorities, in view of the level of interest only loans, need to assess the impact this will have on their income and expenditure account when these loans move to repayment of both principal and interest.

In certain instances, part of the principal and/or interest on some interest only loans is recoupable from the Department. Details of this are discussed further in Section 4 recoupable loans.

### 3.3 Analysis of Non HFA Loans by Division

The total loans held by the OPW and other commercial lenders are €387m or 10% of the total value of loans as at 31 December 2016.

Exhibit 6 below shows a breakdown of these loans by local authority division. The main divisions are as follows:

- 29.5% or €114m were in respect of water
- 22.2% or €86m related to environment loans
- 19.1% or €74m related to the Central Management Charge (CMC) allocation, which is a service area for accounting allocations.



Exhibit 6: Non HFA Loans by Local Authority Division		
Loan Category	Balance at 31/12/16	%
	€000	
Division A - Housing	5,455	1.4
Division B - Roads	14,028	3.6
Division C - Water	114,160	29.5
Division D - Development	17,899	4.6
Division E - Environment	86,118	22.2
Division F - Recreation	32,783	8.5
Division G - Agriculture	3,428	0.9
Division H - Miscellaneous	39,400	10.2
Division J - CMC Allocation	73,848	19.1
<b>Other Loans (inc. OPW)</b>	<b>387,119</b>	<b>100</b>

Source: Survey Questionnaire of all Local Authorities

Water loans are fully recoupable from the Department and are further discussed in Section 4 of this report.

### 3.4 Total value of interest only loans

In summary, interest only loans, all of which are held with the HFA, amount to €753m or 20% of total loans held by local authorities as at 31 December 2016.

## 4. Recoupable Loans

### 4.1 Background

Recoupable loans can be divided into the following two categories according to how they are shown in Note 7(b) of the AFS.

#### 4.1.1 Recoupable Loans separately identifiable in AFS Note 7(b) (see 4.2 below)

Local authorities can recoup loan payments in relation to voluntary housing and water loans as follows:

- Under the Capital Loan Subsidy Scheme (CLSS), which was a scheme funded by the Department through local authorities for Approved Housing Body (AHB) projects, the local authority makes loan repayments to the HFA and these are fully reimbursed by the Department. This scheme was wound up in 2011.
- Following the move to Irish Water, non HFA Irish Water loans remained with the local authorities but are funded (principal and interest) from the Department.

#### 4.1.2 Other Recoupable Loans identified by the Local Authorities (see 4.3 below)

There are various schemes set up by the Department whereby local authorities can recoup some of the principal and/or the interest on certain loans payable by them, in accordance with the terms and conditions of the particular schemes. The two main schemes are the Social Housing Leasing Scheme and the Land Aggregation Scheme.

- The Social Housing Leasing Scheme was set up as a new initiative to allow local authorities to enter into long term lease arrangements with property owners with the purpose of providing social housing support. The scheme was later extended to make use of unsold affordable housing units. This interim measure helped authorities to deal with the large stock of unsold affordable housing units, and the loans associated with them, that could not be sold because of the economic downturn. For units accepted into the scheme, local authorities can recoup the interest repayments in relation to these loans. Further details of the scheme are outlined in Appendix 6.

- The Land Aggregation Scheme was set up in 2010 to help local authorities who had purchased lands to build social and affordable housing on but were not able to as a result of the economic downturn. At the end of 2013, because it was not financially viable to keep it going, this scheme closed to new applications. Local authorities can recoup the principal and interest repayments in relation to these loans. Further details of the scheme are set out in Appendix 7.

## **4.2 Recoupable Loans separately identifiable in AFS Note 7(b)**

Note 7(b) of the AFS shows some recoupable loans separately under the headings “Recoupable and Voluntary Housing” and “Water Loans Recoupable” (see Exhibit 2). For the 2017 AFS these two headings are amalgamated and shown under the one heading “Recoupable”. These loans are disclosed separately because they are fully recoupable and there should be a corresponding amount for them in Note 3 to the AFS, Long Term Debtors.

The Acute Financial Matters Sub Group (AFM) was established by the County and City Management Association (CCMA) Finance Committee and tasked with identifying, documenting and discussing the Acute Financial Matters that are having or will have an unacceptable impact on the finances of Local Government.

In July 2016, the AFM prepared a report “Non HFA Water Related Loans” which sets out the issue facing local authorities with respect to these loans.

The report noted the following:

“Irish Water was set up in January 2014 and under the legislation all assets and liabilities relating to Water and Waste Water were to transfer from the Local Authorities to Irish Water from that date. This process commenced in 2014 but due to ongoing technical and legal issues not all transfers of assets and liabilities have been completed as yet. One area that remains outstanding is in the area of Water/Waste Water Related Loans.

For 2014 to 2016 the Department had given written confirmation to the Local Authorities that they would recoup the local authorities for all principal and interest repayments on the loans until the issues were resolved.

In 2015 the issue in relation to HFA Water / Waste Water related loans was resolved with Local Authorities being able to redeem the loans in full with the HFA and recoup the cost from the Department.

There are still outstanding issues in relation to Non HFA Water / Waste Water Related Loans. In all, nineteen local authorities are currently carrying these loans on their accounts and since 2014 they have been making the loan principal and interest repayments and the Department has recouped this cost to the Local Authorities”.

The current position regarding these loans is that they continue to be fully recoupable from the Department.

Exhibit 7 below shows separately identifiable recoupable loans in AFS Note 7(b) as a percentage of total non mortgage loans. Of these:

- 38% of all non mortgage loans outstanding at the year-end are fully recoupable from the Department, the majority of these relate to voluntary housing and water loans.
- Much of the 62% residual balance has to be funded by the local authority from their own resources; however, some loans may be partly recoupable from the Department under schemes such as the Social Housing Leasing Scheme and the Land Aggregation Scheme.

<b>Exhibit 7: Recoupable Loans</b>			
<b>Non Mortgage Loan Type</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
	€000	€000	€000
Total Non Mortgage Loans	3,025,544	3,156,575	3,754,922
Recoupable	9,819	8,793	367,501
Voluntary Housing & Water Loans recoupable	1,138,813	1,201,549	1,226,622
<b>Total Recoupable</b>	<b>1,148,632</b>	<b>1,210,342</b>	<b>1,594,123</b>
% Recoupable	38.0%	38.3%	42.5%

Source: AFS Note 7(b) and Survey Questionnaire of all Local Authorities

Exhibit 8 below shows the breakdown of recoupable loans between HFA, OPW and Other Financial Institutions. The HFA hold 89.5% of all recoupable loans, the vast majority of which relates to voluntary housing and water loans.

<b>Exhibit 8: Recoupable Loans – HFA, OPW and Other Financial Institutions</b>				
<b>Recoupable Loans</b>	<b>Recoupable Balance as at 2016</b>	<b>Voluntary Housing &amp; Water Loans Recoupable Balance as at 2016</b>	<b>Total Recoupable Balance as at 2016</b>	<b>% of Total Recoupable Loans</b>
	€000	€000	€000	%
HFA	7,573	1,020,454	1,028,027	89.5
OPW	-	4	4	0
Other Financial Institutions	2,246	118,355	120,601	10.5
<b>Total Recoupable Loans</b>	<b>9,819</b>	<b>1,138,813</b>	<b>1,148,632</b>	<b>100</b>

Source: Survey Questionnaire of all Local Authorities

A full breakdown by local authority of recoupable loans as per Exhibit 8 can be found at Appendix 4.

### 4.3 Other Recoupable Loans identified by the Local Authorities

The local authorities have identified that there are some other recoupable loans within Note 7(b) of the AFS (see Exhibit 2) but these are not shown separately in that note. These are recoupable loan amounts included in Bridging Finance, for example, or Assets/Grants. They include loans recoupable under Department schemes such as the Land Aggregation Scheme, the Social Housing Leasing Scheme and others. Some of the principal and/or the interest on these loans is recoupable from the Department in accordance with the terms and conditions of the particular schemes.

## 5. Mortgage Loan Funding Surplus/ (Deficit)

### 5.1 Mortgage Loan Funding Surplus/ (Deficit)

Mortgage loans payable should be matched by corresponding mortgage loans to borrowers. Loan repayments and redemptions from the customer should be matched to pay off the corresponding loan payable by the local authority. Note 12 of the AFS sets out the Mortgage Loan Funding Surplus/ (Deficit).

<b>Exhibit 9: Mortgage Loan Funding Surplus/ (Deficit)</b>				
	<b>2016 Loan Annuity</b>	<b>2016 Rented Equity</b>	<b>2016 Total</b>	<b>2015 Total</b>
	€000	€000	€000	€000
Mortgage Loans/Equity Receivable	882,077	199,555	1,081,632	1,165,762
Mortgage Loans/Equity Payable	(832,180)	(203,011)	(1,035,191)	(1,121,312)
<b>Surplus/Deficit in Funding at 31 December</b>	<b>49,897</b>	<b>(3,456)</b>	<b>46,441</b>	<b>44,450</b>

Source: Survey Questionnaire of all Local Authorities

As can be seen from the Exhibit above, the amount receivable by the local authorities overall is greater than the amount payable by €46.4m; however, this ranges from a surplus of €18.4m in one local authority to a deficit of (€2.3) m in another. Local authorities should make every effort to monitor the difference between the two balances on an on-going basis. A comparison of mortgage loans payable and receivable by local authority at the end of 2016 is included in Appendix 5. This issue is often referred to in audit reports.

## 6. Acknowledgement

The LGAS would like to thank the following for their cooperation and advice during the course of this review of interest only loans in local authorities;

- The local authorities finance sections
- Local Government Auditors in each local authority
- Department of Housing, Planning and Local Government, Local Government Finance Division and personnel consulted
- The Housing Finance Agency

# References

## **Sources**

Housing Finance Agency

## **Enacted Legislation**

Local Government Act, 2001

## **Department Circulars and Reports**

Circular SHIP 2010.07 Revised arrangements under the Social Housing Leasing Initiative

Circular: Housing 35/2013 Discontinuance of the Land Aggregation Scheme

Circular Housing 24/2012 Revised Arrangements for the Implementation of the Land Aggregation Scheme [LAGS]

Circular L 3/14 Local Authority Capital Loans raised for the provision of Water Services



# Appendices

Appendix 1	Mortgage Loans
Appendix 2	Non Mortgage Loans
Appendix 3	HFA Loans as at 31 December 2016
Appendix 4	Fully Recoupable Loans as at 31 December 2016
Appendix 5	Mortgage Funding Surplus/ (Deficit)
Appendix 6	Social Housing Leasing Scheme
Appendix 7	Land Aggregation Scheme
Appendix 8	Housing Finance Agency

## Appendix 1 – Mortgage Loans

City and County Councils	2016 €	2015 €	2014 €
<b>Carlow</b> County Council	11,286,451	10,335,805	9,359,126
<b>Cavan</b> County Council	3,486,363	2,892,969	3,141,317
<b>Clare</b> County Council	7,253,081	6,270,394	7,448,152
<b>Cork City</b> Council	22,388,372	23,650,927	25,694,924
<b>Cork</b> County Council	53,093,689	56,636,454	61,631,750
<b>Donegal</b> County Council	18,344,833	19,595,793	21,299,002
<b>Dublin City</b> Council	164,804,349	187,451,947	195,639,034
<b>Dún Laoghaire-Rathdown</b> County Council	9,745,399	10,359,639	9,531,457
<b>Fingal</b> County Council	121,255,584	130,807,167	139,317,520
<b>Galway City</b> Council	12,781,083	13,805,363	15,897,181
<b>Galway</b> County Council	19,965,878	21,602,420	23,530,589
<b>Kerry</b> County Council	8,541,418	9,670,584	10,566,962
<b>Kildare</b> County Council	16,432,506	17,675,550	18,862,084
<b>Kilkenny</b> County Council	32,424,056	31,503,891	29,739,860
<b>Laois</b> County Council	46,864,124	49,267,369	50,838,633
<b>Leitrim</b> County Council	467,678	564,419	911,568
<b>Limerick City &amp; County</b> Council	10,667,784	11,758,139	12,815,790
<b>Longford</b> County Council	6,314,827	6,957,084	7,579,506
<b>Louth</b> County Council	13,794,580	11,962,550	12,196,139
<b>Mayo</b> County Council	36,553,997	37,793,957	34,712,406
<b>Meath</b> County Council	15,350,899	15,531,687	15,826,698
<b>Monaghan</b> County Council	12,067,290	12,812,850	13,325,014
<b>Offaly</b> County Council	5,078,586	5,484,517	5,943,939
<b>Roscommon</b> County Council	1,260,595	1,219,460	1,663,066
<b>Sligo</b> County Council	11,561,905	11,668,559	12,008,856
<b>South Dublin</b> County Council	44,933,513	48,157,956	52,305,398
<b>Tipperary</b> County Council	12,201,217	13,433,184	14,781,653
<b>Waterford City &amp; County</b> Council	32,974,286	32,852,771	34,980,179
<b>Westmeath</b> County Council	24,130,015	24,864,918	26,576,728
<b>Wexford</b> County Council	42,883,952	43,273,071	45,544,184
<b>Wicklow</b> County Council	13,272,060	15,063,700	17,786,521
<b>Total</b>	<b>832,180,370</b>	<b>884,925,094</b>	<b>931,455,236</b>

Source: Survey Questionnaire of all Local Authorities

## Appendix 2 – Non Mortgage Loans

City and County Councils	2016 €	2015 €	2014 €
<b>Carlow</b> County Council	28,764,610	36,619,127	39,706,728
<b>Cavan</b> County Council	18,812,839	20,389,978	23,465,387
<b>Clare</b> County Council	84,212,343	89,715,993	115,883,248
<b>Cork City</b> Council	122,853,149	122,844,302	131,954,527
<b>Cork</b> County Council	354,997,049	373,744,882	425,454,219
<b>Donegal</b> County Council	108,757,404	115,479,343	149,717,200
<b>Dublin City</b> Council	391,185,553	433,517,407	537,137,200
<b>Dún Laoghaire-Rathdown</b> County Council	127,592,499	135,449,647	149,192,502
<b>Fingal</b> County Council	253,243,376	269,650,614	299,756,468
<b>Galway City</b> Council	57,726,395	60,015,514	69,816,629
<b>Galway</b> County Council	28,523,501	31,333,153	82,909,443
<b>Kerry</b> County Council	72,640,676	75,373,516	96,383,010
<b>Kildare</b> County Council	99,139,436	105,146,187	118,835,296
<b>Kilkenny</b> County Council	23,210,325	11,097,932	20,301,706
<b>Laois</b> County Council	63,447,387	64,625,119	68,316,693
<b>Leitrim</b> County Council	7,055,522	6,908,378	12,465,694
<b>Limerick City &amp; County</b> Council	77,983,706	60,626,649	73,272,754
<b>Longford</b> County Council	32,178,502	34,063,144	43,745,648
<b>Louth</b> County Council	142,397,679	145,496,740	150,218,329
<b>Mayo</b> County Council	96,111,761	102,010,286	122,005,791
<b>Meath</b> County Council	68,656,954	72,922,122	76,689,145
<b>Monaghan</b> County Council	10,107,338	10,933,122	16,774,457
<b>Offaly</b> County Council	51,825,892	53,196,854	62,266,253
<b>Roscommon</b> County Council	28,764,356	22,456,102	23,561,056
<b>Sligo</b> County Council	92,343,299	94,534,640	109,368,839
<b>South Dublin</b> County Council	165,297,225	176,252,867	200,687,901
<b>Tipperary</b> County Council	93,403,579	97,985,552	107,568,085
<b>Waterford City &amp; County</b> Council	105,475,200	106,189,321	130,254,652
<b>Westmeath</b> County Council	56,463,702	58,191,957	83,037,075
<b>Wexford</b> County Council	91,813,407	94,014,210	110,039,897
<b>Wicklow</b> County Council	70,559,172	75,790,613	104,135,822
<b>Total</b>	<b>3,025,543,836</b>	<b>3,156,575,271</b>	<b>3,754,921,654</b>

Source: Survey Questionnaire of all Local Authorities

## Appendix 3 – HFA Loans as at 31 December 2016

HFA Loan Type	Balance as at 2016 €	Amount of Repayments of Principal in 2016 €	Amount of Repayments of Interest in 2016 €
CEB Water, Waste & Environmental Projects	3,600,000	659,375	-
EIB Water, Waste & Environmental Projects	380,000	380,000	-
Fixed Interest Affordable Housing	8,181,871	321,491	264,993
Fixed Interest Annuity House Purchase	3,025,559	2,177,847	490,150
Fixed Interest Converted	298,305	719,081	77,243
Fixed Interest Section 11	21,500,000	-	18,658
Fixed Interest Tenant Purchase	3,264,384	500,595	164,457
Index Linked Mortgage	26,979	101,847	12,674
Interest Only Bridging (Affordable Housing)	433,098,309	-	7,344,376
Interest Only County Council Offices	2,150,000	-	40,736
Interest Only Loan Rented LA Social Housing	9,197,223	-	155,597
Interest Only Section 11	-	-	-
Land Acquisition Affordable Housing	11,630,777	-	193,812
Land Acquisition General	15,998,493	-	320,633
Post April 98 Shared Ownership	65,621,689	1,819,026	766,674
Pre '86 Index Linked (Fixed)	6,920,964	-	53,750
Pre '86 Index Linked (Variable)	8,427,630	-	182,353
Pre April 98 Shared Ownership	19,964,154	656,717	276,281
Shared Ownership Post '02	113,597,807	8,556,983	1,446,376
Special Loan Various	3,785,762	954,937	56,772
Variable Loan Affordable Housing	344,760,163	20,610,344	4,102,067
Variable Loan Affordable Housing (Part V)	40,801,999	1,745,421	359,275
Variable Loan Annuity House Purchase	240,969,690	14,705,481	2,509,383
Variable Loan Annuity Shared Ownership	253,820,069	9,545,532	1,844,097
Variable Loan Capital Loan & Subsidy Scheme	896,410,211	45,512,776	17,713,600
Variable Loan Capital Works	9,288	245,954	3,150
Variable Loan Converted	579,314	170,911	8,119

## Appendix 3 – HFA Loans as at 31 December 2016

HFA Loan Type	Balance as at 2016 €	Amount of Repayments of Principal in 2016 €	Amount of Repayments of Interest in 2016 €
Variable Loan County Council Offices	139,035,000	4,280,431	2,262,083
Variable Loan Disabled Persons/Essential Repairs	2,246,129	728,619	47,152
Variable Loan General Housing	36,615	188,690	3,040
Variable Loan Glen Depot	5,627,878	456,491	100,834
Variable Loan Home Choice	3,325,853	115,262	64,027
Variable Loan Home Improvement	552,450	121,734	7,095
Variable Loan Housing Estate Improvements	3,333,451	194,335	9,057
Variable Loan Improvement to Housing Stock	691,591	88,139	14,081
Variable Loan Land Acquisition	74,998,995	2,935,440	2,048,465
Variable Loan Land Acquisition Interest Only	297,530,806	-	4,393,871
Variable Loan Land Acquisition LAGS	41,968,238	1,632,516	727,077
Variable Loan Land Acquisition LAGS Interest Only	11,019,066	-	98,904
Variable Loan One Stop Shop	7,722,904	530,119	137,132
Variable Loan Planned Housing Maintenance	2,165,140	333,864	15,601
Variable Loan Section 11	292,847,473	13,511,935	4,489,962
Variable Loan Section 11 Domestic Only Water Waste	23,230,358	1,744,014	413,429
Variable Loan Supplementary Grants	599,343	75,189	11,079
Variable Loan Tenant Purchase	56,897,893	4,882,419	690,322
<b>Total</b>	<b>3,471,849,823</b>	<b>141,203,515</b>	<b>53,938,437</b>

Source: HFA Loan Statements

## Appendix 4 – Fully Recoupable Loans as at 31 December 2016

City and County Councils	Recoupable €	Voluntary Housing/ Water Loans Recoupable €	Total €
<b>Carlow</b> County Council	-	15,711,911	15,711,911
<b>Cavan</b> County Council	-	5,853,853	5,853,853
<b>Clare</b> County Council	-	11,369,462	11,369,462
<b>Cork City</b> Council	-	47,212,691	47,212,691
<b>Cork</b> County Council	-	66,578,244	66,578,244
<b>Donegal</b> County Council	-	40,328,170	40,328,170
<b>Dublin City</b> Council	-	240,211,083	240,211,083
<b>Dún Laoghaire-Rathdown</b> County Council	-	67,377,029	67,377,029
<b>Fingal</b> County Council	-	111,194,981	111,194,981
<b>Galway City</b> Council	-	14,757,342	14,757,342
<b>Galway</b> County Council	-	18,898,214	18,898,214
<b>Kerry</b> County Council	-	19,802,974	19,802,974
<b>Kildare</b> County Council	-	37,026,901	37,026,901
<b>Kilkenny</b> County Council	-	5,362,028	5,362,028
<b>Laois</b> County Council	1,354,006	31,065,466	32,419,472
<b>Leitrim</b> County Council	-	5,338,258	5,338,258
<b>Limerick City &amp; County</b> Council	-	23,804,682	23,804,682
<b>Longford</b> County Council	-	21,445,634	21,445,634
<b>Louth</b> County Council	-	59,505,485	59,505,485
<b>Mayo</b> County Council	4,622,864	24,823,073	29,445,937
<b>Meath</b> County Council	-	12,014,285	12,014,285
<b>Monaghan</b> County Council	-	6,710,117	6,710,117
<b>Offaly</b> County Council	-	18,823,532	18,823,532
<b>Roscommon</b> County Council	-	4,312,679	4,312,679
<b>Sligo</b> County Council	-	17,226,456	17,226,456
<b>South Dublin</b> County Council	-	103,383,684	103,383,684
<b>Tipperary</b> County Council	-	57,001,788	57,001,788
<b>Waterford City &amp; County</b> Council	-	28,798,715	28,798,715
<b>Westmeath</b> County Council	892,000	-	892,000
<b>Wexford</b> County Council	2,950,470	17,952,330	20,902,800
<b>Wicklow</b> County Council	-	4,921,932	4,921,932
<b>Total</b>	<b>9,819,340</b>	<b>1,138,812,999</b>	<b>1,148,632,339</b>

Source: Survey Questionnaire of all Local Authorities

## Appendix 5 – Mortgage Funding Surplus/ (Deficit)

City and County Councils	Surplus/(Deficit) in Funding		
	Loan Annuity Balance 31/12/16	Rented Equity Balance 31/12/16	Total Balance 31/12/16
	€	€	€
<b>Carlow</b> County Council	(369,084)	(75,122)	(444,206)
<b>Cavan</b> County Council	736,814	(143,993)	592,821
<b>Clare</b> County Council	411,712	(349,563)	62,149
<b>Cork City</b> Council	(89,199)	37,802	(51,397)
<b>Cork</b> County Council	4,073,331	3,319,953	7,393,282
<b>Donegal</b> County Council	1,084,773	394,633	1,479,406
<b>Dublin City</b> Council	18,865,538	(459,360)	18,406,178
<b>Dún Laoghaire-Rathdown</b> County Council	(1,046,604)	92,653	(953,951)
<b>Fingal</b> County Council	2,266,456	(2,213,309)	53,148
<b>Galway City</b> Council	248,195	43,881	292,076
<b>Galway</b> County Council	314,964	193,096	508,060
<b>Kerry</b> County Council	264,868	725,414	990,282
<b>Kildare</b> County Council	10,265,214	(1,927,970)	8,337,244
<b>Kilkenny</b> County Council	1,266,934	42,094	1,309,028
<b>Laois</b> County Council	(672,650)	12,625	(660,025)
<b>Leitrim</b> County Council	1,206,606	(36,385)	1,170,221
<b>Limerick City &amp; County</b> Council	2,288,935	(25,134)	2,263,801
<b>Longford</b> County Council	3,590,316	(641,661)	2,948,654
<b>Louth</b> County Council	822,417	658,748	1,481,164
<b>Mayo</b> County Council	(310,698)	36,284	(274,413)
<b>Meath</b> County Council	742,106	(446,255)	295,851
<b>Monaghan</b> County Council	(926,689)	77,029	(849,660)
<b>Offaly</b> County Council	(422,099)	(387,492)	(809,591)
<b>Roscommon</b> County Council	137,154	449,484	586,638
<b>Sligo</b> County Council	355,614	1,112,613	1,468,227
<b>South Dublin</b> County Council	(1,266,399)	74,677	(1,191,721)
<b>Tipperary County Council</b>	970,314	(448,755)	521,559
<b>Waterford City &amp; County</b> Council	1,971,305	(585,510)	1,385,795
<b>Westmeath</b> County Council	(506,118)	(268,746)	(774,864)
<b>Wexford</b> County Council	2,435,955	808,720	3,244,675
<b>Wicklow</b> County Council	1,187,315	(3,526,896)	(2,339,581)
<b>Total</b>	<b>49,897,296</b>	<b>(3,456,445)</b>	<b>46,440,850</b>

Source: Survey Questionnaire of all Local Authorities

## Appendix 6 – Social Housing Leasing Scheme

Circular SHIP 2010.07: “In February 2009, the Minister announced a new initiative whereby housing authorities could enter into long term leases with property owners for the purposes of providing social housing support. These arrangements were later extended to include approved housing bodies (Circular SHIP 05/09) and to make use of unsold affordable units (Circular AHS 1/09).

### Financial arrangements where authority transfers unsold affordable units to leasing - Temporary social rented accommodation arrangements:

Recoupment in respect of properties approved for use to accommodate social housing applicants using leasing funds will be based on the interest payment liable to the HFA on the loan. Monies secured by the authority under these arrangements are to be used to assist in meeting these interest charges. Authorities will need to fund costs in relation to the management and maintenance of these properties from their own resources. The designation of unsold affordable properties to accommodate social housing applicants should not result in any change in the structure of the HFA borrowing/loan arrangements.”



## Appendix 7 – Land Aggregation Scheme

Circular: Housing 35/2013:

The 'land aggregation scheme' was announced in April 2010 the primary purpose of which was to gradually unwind approximately €600m worth of loans taken out by housing authorities (with the approval of the Department) from the Housing Finance Agency to purchase land for the social and affordable housing investment programmes.

The scheme first became operational in 2010 with the objective of gradually, over an estimated period of about 10 years, reducing the outstanding loan balance for land on local authority books. The first iteration of the scheme was on the basis of the redemption of the full capital and interest outstanding on applications approved for inclusion. On that basis the original funding requirement agreed with the Department of Public Expenditure and Reform was on condition that the scheme be kept under continuous review. As such, the level of funding has subsequently reduced in line with overall Exchequer funding constraints.

With the publication of the Department of Public Expenditure and Reform Housing Capital Programme 2012-2016 it became clear that the level of funding being provided would not be sufficient to support the requirements for LAGS on an annual basis. In that context a review of the financial operation of the scheme was undertaken with a view to pursuing greater efficiencies.

The revised terms of the scheme stated that land loans that have matured or are due to mature in 2012 and after, must either be repaid or converted into a standard annuity with a term of up to 25 years. The approach agreed was that the Land Aggregation Scheme would continue to apply to land in respect of which matured HFA loans apply and from 2013 the Department would recoup the full cost of the capital and interest annuity payments. This was to allow a larger number of land loans to be dealt with than would have been possible under the original arrangements of full loan redemption. These new arrangements were notified to housing authorities in June 2012.

### Review and Discontinuance

Circular: Housing 35/2013 issued in December 2013, stated "It is now clear that the revised level of expenditure on LAGS is unsustainable given the budgetary position for 2014. In the context of the continuing pressure on Exchequer resources, a further review of the operation of LAGS, in consultation with the Department of Public Expenditure and Reform, has just been completed. The review has concluded that the land aggregation scheme be discontinued and accordingly it is now not possible to support the scheme above the level of

sites already approved under the revised scheme arrangements outlined in Circular Housing 2012/24. Funding will continue to be made available for the recoupment of annuity loan payments to local authorities in respect of land already approved into the scheme and any administration costs incurred by the Housing Agency in managing the land bank.

The Department will therefore not accept any new submissions for consideration in respect of loans which have matured or are due to mature. Furthermore, any submissions currently under consideration will not be accepted into the Scheme.

The HFA has been advised of the discontinuance of the scheme and the Department will continue to engage with the HFA and the local government sector in relation to the management of the local authority loan book generally. However, local authorities are advised to consult with the HFA directly on loans relating to lands not accepted into the scheme.”

## Appendix 8 – Housing Finance Agency

The following extract has been taken from Housing Finance Agency Annual Report 2016 (Review of the development of the business):

### **Loans to local authorities (approved pre 27 May 1986)**

The HFA was established to issue index-linked loans to local authorities for lending by them on an agency basis to individuals. A total of €403m was advanced to local authorities under this scheme and was used to finance 15,571 mortgages. At 31 December 2016 such loans represented outstanding balances of €9.1m. The HFA is liable for any credit losses that may arise on these loans.

### **Loans to local authorities (approved post 27 May 1986)**

With effect from May 1986, the HFA has issued loans to local authorities to be used by them for any purpose authorised by the Housing Acts, 1966-2009 to finance social housing development. Outstanding loans to local authorities advanced since 27 May 1986, totalled €3.47 billion at end-December 2016. A significant portion of these funds is retained by the local authorities for purposes such as land acquisition. The remainder is lent by the local authorities to individual borrowers and AHBs.

The local authorities are responsible for any losses that may arise on these loans. In the context of: (i) local authorities being statutory bodies under the Local Government Act, 2001 and other enactments; (ii) their revenues or funds being security for the due payment to the HFA of all amounts due by local authorities (as set out in the agreement between each local authority and the HFA); (iii) all loans advanced to local authorities are approved by the Minister for the Housing, Planning, Community & Local Government; (iv) the Board's understanding that central Government supports local authorities in meeting their obligations to the HFA; and, (v) the HFA has not experienced any loan losses on its loans advanced to local authorities after 1986, the Board is of the opinion that, in substance, no credit risk arises, other than sovereign risk, on loans advanced to local authorities on or after 27 May 1986 and no loan loss provisions are recorded in respect of these loans.

In 2016, gross loan advances amounted for Post May 1986 loans to €116m (2015: €95m), repayments and redemptions totalled €229m (2015: €670m), resulting in net redemptions of €113m (2015: net redemptions of €575m). The 2015 figure includes the

redemption of water-related loans of €412m, as agreed with the DHPCLG and local authorities. Such loans represented outstanding balances of €3.46 billion (2015: €3.57 billion).

The HFA endeavours to work with the local authorities to develop appropriate loan structures for them in order to better match their financial circumstances. The HFA may provide extended loan terms, interest deferred periods or offer other renegotiations as appropriate.

housing.gov.ie

Department of Housing, Planning and Local Government



Rialtas na hÉireann  
Government of Ireland