

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Executive Committee
Date:	14 th July 2014
Subject:	Housing Revenue Account Subsidy Reform [HRAS reform]
Portfolio Holder(s):	Councillor Kenneth P Hughes
Head of Service:	Shan Lloyd Williams, Head of Service (Housing)
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Local Members:	N/a

A –Recommendation/s and reason/s
<p>Members of the Executive Committee are recommended to:</p> <p>R1. Note recent developments in ending the HRA Subsidy system in Wales and move to a self-financing model for local authority housing;</p> <p>R2. Endorse the Council’s response to the Welsh Government’s consultation document ‘New Local Housing Authority Self-Financing System (HRAS Reform), May 2014’ (section 5 of the Report);</p> <p>R3. Endorse Option 3 for the distribution of the borrowing cap as an acceptable option.</p> <p>R4. Endorse the strategic direction for the Housing Service to become self-financing and that a project team be established to proceed with preparing for exiting HRAS by end of March 2015, and that the Portfolio Member for Housing be a member of the project team;</p> <p>R5. That a seminar is arranged for all Elected Members in the Autumn on self-financing.</p> <p>Reasons</p> <p>1.0 Background</p> <p>1.1 In July 2013, the Welsh Government and UK Treasury reached agreement on a</p>

'buy-out' figure that will allow landlord Authorities in Wales to exit from the HRAs system in March 2015 by voluntary agreement. The terms of the agreement require all 11 Authorities to agree the distribution of the all Wales 'buy-out' figure and the imposed borrowing cap. Failure to agree on the distribution will result in the HRA subsidy system remaining in place in Wales until the necessary UK legislation is passed.

1.2 Local Authorities in England exited the HRAS three years ago and have been able to show the benefits even in this short time period.

2.0 The agreement

2.1 The agreement with UK Treasury consists of two parts.

2.1.1 Firstly the 11 landlord authorities are required to buy themselves out of the HRAS system by making annual interest payments of £40m on a loan from the Public Works Loan Board (PWLB). The precise amounts that authorities will need to borrow will depend on the PWLB interest rate on the day. The £40m of interest payments will replace the current annual negative subsidy payments of £73m to HM Treasury and will therefore increase HRA revenue income for the 11 authorities.

2.1.2 Secondly, the UK Treasury will impose a cap of £1.85bn on total HRA borrowing by the 11 authorities. The borrowing includes existing HRA borrowing by Authorities to fund WHQS, borrowing for the buy-out and for future work and other HRA priorities such as new build and remodelling.

2.2 Setting a borrowing cap for authorities in Wales will require UK legislation and appropriate provisions are included in the UK Government Wales Bill. The timescale of this legislation is not clear however, and therefore it has been agreed that authorities can exit from the HRAS system at the end of March 2015 subject to the Welsh Government securing and managing a borrowing cap through a voluntary agreement with the 11 authorities.

3.0 Distributing the Settlement Amount

3.1 Discussions have been held with Heads of Housing Services and separately with the Welsh Treasurers Group / 151 Officers from the 11 Authorities. A seminar was held on the 16th May 2014 by WLGA, attended by the Leader, Portfolio Holder for Housing and Social Services, Head of Housing Services and Finance Manager for Social Care and Housing, to ensure that there was a shared understanding amongst the 11 Authorities about the implications of each of the options put forward, and to allow for a full debate with a view to achieving consensus on the way forward.

3.2 The agreed option distributes the settlement value according to current HRAs negative subsidy payment, reducing the annual payment equally resulting in a reduction of 45.12%. This approach is transparent and will ensure that every authority is better off and gains by an equal percentage of their current negative subsidy payment.

4.0 Distribution of the borrowing cap

4.1 The UK Treasury has imposed an overall HRA borrowing cap for Wales of £1.85bn made up of existing HRA borrowing, future borrowing to fund the 'buy-out', borrowing to bring all authority stock to WHQS by 2020 and borrowing to fund future HRA work including new build, housing-led regeneration, remodelling of stock, acquisition of properties, financial inclusion work etc.

4.2 There is a broad consensus across authorities that the distribution of borrowing headroom should prioritise borrowing for outstanding WHQS work and ensure that all authorities are able to bring their stock up to WHQS by 2020. The consensus was gained at the WLGA seminar, 16th May, 2014.

4.3 This leaves an estimated £112m of borrowing headroom for future non-WHQS work such as new build etc [see 4.1]. The Welsh Government consultation paper details the three most credible distribution options, all of which prioritise borrowing for WHQS.

4.3.1 The options are:

Option 1 : distribution of the headroom to the 4 authorities that included new build in their 2014-2015 HRA business plan that was submitted by each Authority in support of their MRA application.

What would this mean for Anglesey? Anglesey was one of the 4 authorities and this option would focus borrowing on the 4 areas and would not correlate with the distribution of housing need in Wales. In monetary value, this would result in a borrowing cap of £21.4m or 4.5% share of borrowing for the Anglesey Housing Services.

Option 2: distribution based on the application of a modified formula used to distribute Social Housing Grant [SHG] which uses household projections and an affordability index. The formula is a proxy for housing need.

What would this mean for Anglesey? Distributing the borrowing headroom to all the 11 authorities would significantly reduce the borrowing headroom that will be available to authorities that have firm plans to build. In monetary value, this would

result in a borrowing cap of £4.7m or 1.0% share of borrowing for Anglesey Housing Services.

Option 3: distribution of the borrowing headroom on prioritising WHQS, 4 Local Authorities receiving 50% of their new build request with the balance allocated to the 11 authorities using the modified SHG formula.

What would this mean for Anglesey? In monetary value, this would result in a borrowing cap of £13.06m or 2.8% share of the borrowing for Anglesey Housing Services. This option would allow Anglesey and the other 3 authorities to make early progress with their new build plans and also provide some borrowing headroom to the remaining 7 authorities. Option 3 would provide a compromise option.

Option 3 would be the most acceptable option of the three put forward in the consultation document for Anglesey. During discussions at the WLGA seminar, “*it was agreed that option 3 represented an acceptable compromise position. This was an option that all could ‘live with’.*” (source: report to WLGA Co-ordinating Committee, 23rd May, 2014).

5.0 Consultation process

On 15th May 2014, Welsh Government commenced an 8 week consultation with the 11 Authorities who remain landlords and the Welsh Local Government Association on how the two main elements of the agreement with Treasury can be divided between the 11 Authorities. Deadline for responding to the consultation is July 10th, 2014.

Isle of Anglesey County Council’s response to the Welsh Government Consultation Paper

Consultation Q1 Do you agree with the proposal to distribute the settlement value based on negative subsidy amounts?

Isle of Anglesey County Council endorses the preferred option for the distribution of the settlement value as set out in Annex 1 ie distributed between authorities to reflect current negative subsidy payments so that each authority benefits by 45.12% of their current payments

Consultation Q2 Do you agree with the proposal to distribute the borrowing cap based upon option 3 to allow for new build commitments whilst also providing potential headroom for new build to every local authority?

Isle of Anglesey County Council endorses option 3 for distribution of the borrowing cap as an acceptable option.

Isle of Anglesey County Council also endorse the prioritisation of the borrowing required to achieve WHQS.

Consultation Q3 Do you agree that the Welsh Government should retain a small proportion of the borrowing headroom as a contingency?

Isle of Anglesey County Council reject the proposal that WG hold back £5 million of borrowing capacity as a contingency. This money should be shared between the 11 local authorities, with priority given to those Authorities who have yet to achieve WHQS.

Consultation Q4 What are your views on how we allocate any unallocated borrowing headroom now or in the future?

Isle of Anglesey County Council's preference would be for any future borrowing capacity that becomes available to be distributed on the basis of the relative need to increase social housing stock possibly on a formula basis, but also taking into consideration the accommodation need of local population which are affected by new major economic programmes, such as the proposed Wylfa newydd.

We are of the opinion that there are some principles that should be adopted in agreeing the detail of any future distribution discussions:

- *Based on relevant and current data*
- *Based on reliable, stable and representative data sources*
- *Transparency*
- *Robustness of business plan*

Q5 Do you agree that the borrowing cap should be reviewed every three years with the first review in 2018/19?

Isle of Anglesey County Council agrees that there should be flexibility in relation to the borrowing cap which will allow Authorities to 'trade' borrowing on a voluntary basis. We agree that an independent periodic review takes place on a 3 year cycle starting in 2018.

Consultation Q 6: What action should the Welsh Government take on a LHA who has not delivered on their ability to utilise their borrowing cap

The Welsh Government consultation paper also includes proposals for 'sanctions' against authorities in relation to use of the borrowing cap and unallocated borrowing headroom. A combination of factors which may be outside the control of the Authority, may lead to difficulties in using all of the allocated borrowing cap.

Isle of Anglesey County Council would therefore not support a 'use it or lose it' approach to distribution of the borrowing cap.

Consultation Q 7: Do you have any further comments to make?

The timescale for developing detailed business plan for new build by October 2014 seems to be very tight, from experience of working with RSLs, this timescale is not realistic.

6.0 Issues

6.1 In the period leading up to April 2015, the Council, along with the other 10 Authorities will need to plan and implement a significant change programme. This will impact on a number of different service areas including Housing Services, Housing strategy, Accounting, Treasury Management and asset management policy and will require changes to policies and processes. The programme of work is considerable and needs to be undertaken in a short period of time – therefore strong leadership will be needed together with support from the Senior Leadership Team and Portfolio Holders for Housing and Social Services and Finance. This project needs to be aligned to one of the three corporate Programme Boards.

6.2 Self-financing is likely to require all the 5 key services [listed above] to work much closer together and with equal involvement in developing the HRA business plan. Legal Services support and guidance will also be required at key stages of the project plan. To make progress on this, a project team needs to be established to guide and support the business planning process which will lead to better engagement and ownership of the business plan across the Authority.

6.3 There is a clear need for raising awareness amongst Elected Members, new rent policy, de-pooling of service charges, incorporating self-financing within Treasury Management strategy, developing an efficiency strategy for housing services [HRA related], debt management strategy to maximise future flexibility and a policy on priorities for HRA investment.

There is also a clear need to make progress on governance arrangements for the self-financing HRA, developing a communications strategy and consultation with tenants and other partners.

Capacity within the current staff structure is a risk for achieving the necessary tasks within the set period of time. Our reputation as a Council is at risk if, for some reason, we are unable to deliver, thereby leading to the overall programme failing to deliver. There will be a series of capacity building seminars and resources available from the WLGA and Housing Leadership Cymru to support the 11 Authorities, however, at times there will be a need to bring additional capacity to implement the project locally. These costs will be paid by the HRA, not Council General funds.

There is currently no budget for this within the HRA. There will be a virement within the staffing budget from two posts which the Service has not been able to recruit during quarter 1, 2014-2015, with remaining from the HRA reserves.

B – What other options did you consider and why did you reject them and/or opt for this option?

A range of distribution options were discussed by the Task and Finish group made up of representatives of WG, WLGA and LAs and can be seen within the consultation paper together with the reasons why they were disregarded.

C – Why is this a decision for the Executive?

The endorsement of the HRA Business Plan is a role of the Executive Committee. This proposed reform has implications for the HRA business plan as well as Treasury Management (amongst others).

CH – Is this decision consistent with policy approved by the full Council?

There will be opportunities for revenue savings, improving services as well as increasing the supply of affordable homes and housing-led regeneration.

Self-financing will bring significant benefits to tenants and communities and will allow the authority's Housing Services to plan with certainty and for the long term. It will offer opportunities to invest in new build, regeneration and energy efficiency measures, acquire properties and improve services for tenants. The wider community will also benefit through jobs growth, training opportunities, regeneration of the local economy, overall improvement in health and well-being and bringing households out of poverty.

The decision is therefore consistent with policy approved by full Council.

D – Is this decision within the budget approved by the Council?

The HRAS Reform will result in a reduction in expenditure for the Council's Housing Revenue Account – the interest payment will be 45.12% less at current PWLB interest rates, following exiting the subsidy system. This equates to savings of approximately £765k per annum to the HRA which cannot be used by the Council's General Fund.

DD – Who did you consult?		What did they say?
1	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	
2	Finance / Section 151 (mandatory)	Comments reflected in the final report to Committee
3	Legal / Monitoring Officer (mandatory)	Comments reflected in the final report
4	Human Resources (HR)	No comment
5	Property	
6	Information Communication Technology (ICT)	
7	Scrutiny	
8	Local Members	
9	Any external bodies / other/s	

E – Risks and any mitigation (if relevant)

Risk 1: All 11 stock-retaining Authorities individually are expected to enter into a voluntary agreement with Welsh Government, on the buy-out figure and borrowing cap, and to exit the HRA subsidy on the same date. Failure to do this will result in a financial cost for all 11 Authorities and further delays in the ability to benefit from the opportunities that leaving the HRA subsidy system will bring. There would also be a risk to the Council's reputation for delivering as a partner with other local authorities.

Risk2: Shortage of capacity and skills to enable the Council to achieve and deliver the project within the timescale of March 2015. This may mean drawing in additional staffing resources into Housing and Finance services and external specialists during the project period leading up to March 2015.

1	Economic	
2	Anti-poverty	
3	Crime and Disorder	
4	Environmental	
5	Equalities	
6	Outcome Agreements	
7	Other	

F - Appendices:

FF - Background papers (please contact the author of the Report for any further information):
HRAS Project Plan – key task list, WLGA, 2014 Welsh Government Housing Bill, 2014