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| Committee: | Partnership and Regeneration Scrutiny Committee |
| Date: | 27 th November, 2014 |
| Title of report: | Housing Revenue Account Subsidy Voluntary Agreement |
| Author: | Shan Lloyd Williams, Head of Housing Services |
| Portfolio Holder: | Councillor Kenneth P Hughes |
| Corporate Director: | Gwen Carrington |
| Reason for reporting to Scrutiny Committee: | To scrutinise and approve entering into a Voluntary Agreement with Welsh Government, to exit the Housing Revenue Account Subsidy. |

1.0 Background and Context

- 1.1** Elected Members are aware of two previous reports submitted to the Executive Committee in July 2014 and October 2014 regarding the Housing (Wales) Act 2014 and in particular relating to Housing Revenue Account Subsidy (HRAS) buy-out.
- 1.2** An agreement has been reached between HM Treasury and Welsh Government that will allow the eleven Authorities in Wales with retained Council housing stock to exit from the Housing Revenue Account (HRA) subsidy system and become self-financing from April 2015. The settlement value for exit has also been negotiated.
- 1.3** 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.
- 1.4** The introduction of self financing from April 2015 will give authorities the resources, incentives and opportunity to provide good quality, well managed council homes and plan for the long term with certainty. Local Authorities will retain rental income and be able to invest locally in existing homes and new supply as appropriate. Local Authorities will also be in a stronger position to help tackle poverty and deliver jobs and growth.
- 1.5** Self-financing will provide greater sustainability for the Local Authority, provide greater freedom and flexibility in terms of maximising opportunities of council housing and greater responsibility and accountability. The Local Authority's HRA account will be better off financially by approximately £765K per annum,

by paying less interest on existing loans. In order that this takes place, a Voluntary Agreement will need to be signed by all eleven Local Authorities. More information on the Voluntary Agreement can be seen in section 3 and 4 of this Report.

1.6 Having become self-financing, all eleven Authorities will be able to:

- accelerate Welsh Housing Quality Standard (WHQS) work, to ensure achievement by 2020, and sustain it into the future. Of the eleven, only four have achieved WHQS – Isle of Anglesey County Council being one;
- increase investment in existing homes and in regenerating neighbourhoods over the short, medium and longer term;
- ensure tenants benefit from more efficient and effective housing services;
- increase the supply of new affordable homes;
- increase investment in a range of other local priorities which could include increasing the energy efficiency of council homes, estate regeneration, remodelling general needs or sheltered housing, and purchase of existing homes to increase supply;
- take a much longer term and business - like view of the housing stock and associated assets such as garages, commercial properties and land;
- create jobs and training opportunities, and increase investment in the local economy.

2.0 Progress to date

2.1 Governance

2.1.1 National

On a national level the HRAS project reports direct to the Minister for Communities and Tackling Poverty, Welsh Government and a project framework established made up of a steering group which makes recommendations to the Minister and four work streams making recommendations to the Steering Group. Isle of Anglesey County Council is represented on the Transaction work stream by Head of Housing Services and Finance Manager for Housing and Social Care. A high level project plan is appended to this Report [appendix 1].

Much collaboration has taken place between the Welsh Local Government Association, all eleven Local Authorities, Wales Audit Office, Welsh Tenants Association, CIPFA and the Welsh Government.

2.1.2 Local

Following the Council's internal project management framework, a Project Board and Project Group [operational] have been established and reports to the Isle of Enterprise Programme Board. The work of the Project Group and Board will ensure that all the necessary arrangements, internal governance processes to enable the settlement transactions and loans to take place will be in established. In addition to the corporate project documentation, this includes considering self-financing investment priorities, a review of the Treasury Management Strategy, developing a HRA asset management strategy, Capital and HRA budget reports including pooling of debt, obtaining appropriate Scrutiny and Executive Committee approval, ensuring appropriate authorisation and delegation levels on the key dates [leading up and including the conversion date and transaction date], future staffing requirements, staff resources and timescales for clearance of funds, business continuity arrangements and any other appropriate systems and processes in place. The process map for achieving this has in the region of 90 steps and milestones.

Communication and consultation has taken place locally with our Tenants and leaseholders through the Tenants newsletter and also through the Rent Policy and Service Charges consultation, which is currently on-going. Ending the HRA subsidy system will mean that rental income will become the primary source of income for the HRA. Engagement with tenants on the use of rental income, the standard of housing services and the priorities for investment will become much more important than in the past. This is the context behind including a key question within the current consultation process.

Communication with Elected Members will have taken place through a '*Housing for the Future*' seminar on 18th November, 2014 and via reports to Executive Committee. The project also reports to the Isle of Enterprise Programme Board. Other key stakeholders are aware through the newly established Anglesey Housing Partnership.

2.1.3 Future governance

Decisions on HRA debt including how it is funded and investments are the responsibility of the Authority. Recommendations on the 'basket of loans' – type and duration required from PWLB to fund our share of the settlement will be documented within the HRA Business Plan and the Council's Treasury Management Strategy.

2.2

After April 2015, self-financed council housing will need to operate much more like a housing association. The Council under primary legislation, 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.

2.3 The HRA business plan is a financial model of income, expenditure and debt for the next 30 years, with more detailed modelling for the first 5 years. It provides a strategic planning framework and will be much more central to financial and service planning, monitoring progress and managing risk when self-financing is introduced. The business plan will enable better planning and procurement and will provide more certainty for tenants and residents on what investment is going where and when.

2.4 There will be a need to consider whether the current governance arrangements for the HRA will need to be strengthened to respond to the significant changes that self-financing will bring. For example, establishing a HRA Strategic Panel or 'Board' or strengthening the link between the existing Tenants Panel and Scrutiny Committee to oversee the HRA business plan and recommend it for approval to Executive. The monitoring arrangements for the HRA will also need to be reviewed in recognition of the potential for higher levels of risk involved in self-financing. For example monitoring might need to take place on a quarterly or monthly basis in the early years.

3.0 Exiting from the HRAS system: The Agreement with HM Treasury

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

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

3.1.2 The second part of the agreement is that HM Treasury require a housing borrowing cap to be set for each of the eleven authorities. 3.2 A borrowing cap of £1.85 billion was agreed with HM Treasury in June 2013. The cap includes the estimated Housing Revenue Account Capital Finance Requirement (HRA CFR) and the estimated settlement value. This leaves potential borrowing headroom of £471 million for authorities to meet their business plan commitments. All estimated figures are subject to change as the HRA CFR will need to be updated and the settlement value will be based on prevailing interest rates when the £40 million is converted to a settlement buy-out value.

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

4.0 Voluntary Agreement between Welsh Government and the Council

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

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

4.3 It is essential that all eleven LHAs agree and sign the voluntary agreement, and return to the Welsh Government by 19th January, 2015. Failure to do so will result in the HRAS remaining in place in Wales until appropriate UK legislation is passed. This means that at least £73 million will continue to be paid back to HM Treasury each year.

4.4 The Voluntary Agreement is between the Welsh Government and each Local Authority and is fundamental to our exit from the HRAS. The purpose is to set the limit of indebtedness (otherwise known as the borrowing cap) for each of the eleven stock-retaining Local Authorities.

The final Voluntary Agreement will break down the limit of indebtedness for the each local authority is as follows:

- Existing borrowing (final figure available in December – HRA CFR)
- New build borrowing (already known) – approximately £13million
- Modified SHG formula used to allocate balance (available in December)
- Settlement Payment (available 31 March 2015).

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

- 4.6** The Draft Settlement Determination will include the Council's actual share of the £40m with estimated settlement values based on range of interest rates, and is based on the Council's audited final HRAS 2013-2014 claims and include HRA CFR in borrowing cap calculation.
- 4.7** The Final Settlement Determination and Final Schedule will be provided on 31 March 2015 which will set out each LA's share of buy-out value (after conversion). The precise figure will depend on the interest rate for PWLB loans on 31 March 2015 when the loans are requested.

5.0 Recommendations

- 5.1** Scrutiny Committee Members are asked to scrutinise the Report and feed comments to the Executive Committee which meets on the 1st December, 2014.

Please find below a list of the recommendations which will be presented to the Executive Committee on the 1st December, 2014:

“Recommendation 1

Executive Committee to approve the exit from Housing Revenue Account Subsidy [HRAS] funding, on 31st March 2015 thereby becoming self-financing.

Recommendation 2

Executive Committee to approve the taking out of a loan from the PWLB to fund the exit from HRAS.

Recommendation 3

Executive Committee to approve entering into the draft Voluntary Agreement with Welsh Government.

Recommendation 4

Delegated authority be given for the S151 Officer and Monitoring Officer to sign the final version of the Voluntary Agreement, to be returned to Welsh Government by 19th January 2015.

Recommendation 5

Delegated authority be given jointly and severally to Head of Housing Services and S151 on the critical dates when money is transferred, to make any last minute changes to figures, or any other amendments to the transfer documents, that may arise on the key dates (Conversion date 31st March 2015 and Transaction date 2nd April 2015).

Recommendation 6

A copy of 2015 - 2045, 30 year HRA business plan is presented to Executive Committee to provide assurance on its viability, sustainability and affordability in February 2015.

Recommendation 7

A further report be submitted to Executive Committee for approval on whether the current governance arrangements for the HRA will need to be strengthened to respond to the significant changes that self-financing will bring.”

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| Background papers (please contact the author of the Report for any further information): |
| Housing Revenue Account Reform : Self-financing in Wales, Introductory guide for Councillors, WLGA, November 2014 <i>Housing Revenue Account Subsidy Reform (HRAS Reform)</i> , Report to Executive Committee, July 2014 <i>New Rent Policy for Social Housing and Service Charges</i> , Report to Executive Committee, October 2014 |

Shan L Williams, Head of Housing Services
10th November 2014

