

ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	Executive Committee
Date:	December 1st, 2014
Subject:	Housing Revenue Account Subsidy Voluntary Agreement
Portfolio Holder(s):	Councillor Kenneth P Hughes
Head of Service:	Shan Lloyd Williams
Report Author: Tel: E-mail:	Shan Lloyd Williams 01248 752201 ShanLloydWilliams@anglesey.gov.uk
Local Members:	

A –Recommendation/s and reason/s
<p>Recommendation 1 Executive Committee to approve the exit from Housing Revenue Account Subsidy [HRAS] funding, on 31st March 2015 thereby becoming self-financing.</p> <p>Recommendation 2 Executive Committee to approve the taking out of a loan from the PWLB to fund the exit from HRAS.</p> <p>Recommendation 3 Executive Committee to approve entering into the draft Voluntary Agreement with Welsh Government.</p> <p>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.</p> <p>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).</p>

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.

1.0 Context

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

1.2 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:-

1.2.1 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.

1.2.2 The second part of the agreement is that HM Treasury require a housing borrowing cap to be set for each of the eleven authorities.

1.3 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.

1.4 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.

2.0 Voluntary Agreement between Welsh Government and the Council

2.1 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.

2.2 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.

2.3 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.

2.4 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).

2.5 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.

2.6 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.

2.7 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.

3.0 The Self-Financing HRA Business Plan

3.1 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.

3.2 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.

3.3 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.

3.4 There will be opportunities for council housing and landlord services to address wider corporate priorities including jobs growth, economic regeneration and increasing the supply of affordable housing within the legislative framework.

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

n/a

C – Why is this a decision for the Executive?

The Executive Committee is responsible for matters relating to the HRAS

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

Yes.

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

Yes. Section 151 Officer is satisfied that the new arrangement will be in the Council's authorised treasury management arrangements.

E – Who did you consult?		What did they say?
1	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	
2	Finance / Section 151 (mandatory)	Finance are working very closely with Housing Services on the HRA Reform

		Project and have representatives on the HRA Project Board and Project Group and are therefore fully aware of the requirements of the project. The Treasury Management Strategy will need to be changed in 2015 to reflect the new arrangements.
3	Legal / Monitoring Officer (mandatory)	Legal opinion received on the draft Voluntary Agreement, which have been forwarded to Welsh Government for consideration.
5	Human Resources (HR)	No comments
6	Property	
7	Information Communication Technology (ICT)	
8	Scrutiny	Scrutiny Committee 27 th November, 2014. Feedback will be given verbally by Portfolio Holder
9	Local Members	Issue for all Members
10	Any external bodies / other/s	

F – Risks and any mitigation (if relevant)		
1	Economic	
2	Anti-poverty	
3	Crime and Disorder	
4	Environmental	
5	Equalities	
6	Outcome Agreements	
7	Other	

FF - Appendices:

G - Background papers (please contact the author of the Report for any further information):
<p>Report to Partnerships and Regeneration Scrutiny Committee 27/11/14 Housing Revenue Account Reform : Self financing in Wales, Introductory guide for Councillors, WLGA, November 2014</p> <p><i>Housing Revenue Account Subsidy Reform (HRAS Reform)</i>, Report to Executive Committee, July 2014</p> <p><i>New Rent Policy for Social Housing and Service Charges</i>, Report to Executive Committee, October 2014</p>

New Local Housing Authority Self Financing System (HRAS Reform) - High Level Project Plan

5th October 2014

