

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **HOUSING OVERVIEW & SCRUTINY COMMITTEE**

DATE: **MONDAY, 7TH JULY 2014**

REPORT BY: **CHIEF OFFICER, COMMUNITY AND ENTERPRISE**

SUBJECT: **HOUSING REVENUE ACCOUNT SUBSIDY (HRAS)
SYSTEM**

1.00 PURPOSE OF REPORT

1.01 Welsh Government issued a consultation document on 15th May 2014 identifying options to end the HRAS subsidy system by voluntary agreement. This paper describes the content of the document, implications of the various options for Flintshire and seeks support for Flintshire's response submitted on 10th July 2014.

2.00 BACKGROUND

2.01 The Welsh Government has been in discussion with HM Treasury since 2010 with a view to agreeing a financial settlement that would enable the stock retaining local authorities (11) to exit from the Housing Revenue Account Subsidy (HRAS) system.

2.02 In June 2013, Welsh Ministers announced that they had reached agreement with HM Treasury. The key elements of the agreement are:

- Local Housing Authorities (LHA's) are required to "buy" themselves out of the HRAS.
- £73M of annual subsidy payments will be replaced by interest payments of approximately £40m.
- The £40m annual interest payments will be converted to a lump sum settlement figure to enable LHA's to plan their "basket" of borrowing to meet this requirement and other investment needs. Public Works Loans board must be used for all borrowing
- HM Treasury require a housing related borrowing cap to be imposed on each LHA

2.03 The Housing (Wales) Bill is expected to make provision, allowing WG to make a determination for the calculation of the settlement ("buy out") payment.

2.04 The borrowing cap requires UK legislation. UK Government has agreed that exit from the system can take effect from 1st April 2015 but this will require a Voluntary agreement, secured and managed by Welsh Government. All eleven councils must agree and sign the voluntary agreement.

3.00 CONSIDERATIONS

- 3.01 Welsh Government officials have established a Steering Group and worked with LHA's to consider the principles on which the settlement figure and borrowing cap could be distributed. Key principles on which all have agreed is that "all stock retaining authorities should be "better off", than under the current system.
- 3.02 In order to be able to exit the system by 1st April 2015 a (challenging but achievable) timetable has been established. This requires a response to the consultation document by 10th July. The Ministers decision on the outcome of the consultation is expected by 31st July. Following this the council will need to seek approval for the introduction of self financing on the terms outlined by the Minister to enable officers to complete the work streams necessary for Self Financing to be introduced and for the Council to be able to sign the voluntary agreement described earlier.
- 3.03 The WG consultation document is attached to this report as Appendix A. It identifies a rationale for, and proposal for distribution of the settlement buy out figure, and three options for distribution of the borrowing cap.
- 3.04 The proposal for the settlement figure, which is an annual payment to HM Treasury of £40m per year (to replace the £73m negative subsidy payment), is to use the negative subsidy payments as the basis for apportioning each of the 11 councils share of the £40m annual payment. There is a general (informal) consensus by all councils affected that this seems fair, and in Flintshire's case, based on 13/14 data would result in an annual interest payment of £3,471,379. The negative subsidy payment for the same period was £6,324,826.
- 3.05 A large number of proposals for distribution of the borrowing cap were considered, and the final consultation paper included three of these. Again some overriding principles were agreed informally. The first is that existing borrowing needs to be accounted for when distribution of the cap is considered. Secondly, borrowing needs to achieve the WHQS must take priority over other aspirations. These principles have been supported in principle.
- 3.06 Once these figures had been drawn together based on 13/14 MRA applications, £107m remained for borrowing to meet new build aspirations across the 11 councils. Four councils including Flintshire had well developed plans and aspirations for new build, whilst others, had an ambition but had not identified specific borrowing needs. This area of the work to date has therefore been a little challenging, hence the 3 options presented in the consultation document.

- 3.07 The first option suggests distributing the new build borrowing on the basis of the plans submitted by each council. In Flintshire's case this would provide (£25m to achieve WHQS and) £20m for new build.
- 3.08 The second option proposes using the SHG formulae for distribution of the £107m across all 11 councils. The rationale for using this is that the formulae utilises data on income levels and house prices to make an assessment of the need for affordable housing across Wales. In this option, this would provide £8,609,555 for new build in Flintshire (and £25m for WHQS).
- 3.09 The third option is for those councils who had submitted plans for new build to receive 50% of the amount they had planned to borrow, with the remainder being split across all 11 councils on the basis of the SHG formulae. This would provide Flintshire with £14, 326,108 for new build (and £25m for WHQS).

In all these options WG propose leaving a contingency of c£5m for distribution later by an unspecified method.

- 3.10 Flintshire Council elected members have been working closely with colleagues in other authorities, and with WLGA, and a consensus has been reached to recommend option 3 for distribution of the borrowing cap. Consensus is vital as all 11 councils need to sign the voluntary agreement for self financing to take effect from 1st April 2015.
- 3.11 Flintshire's response to the consultation document is attached at Appendix B. This needed to be submitted ahead of cabinet meeting. Cabinet were supportive of the response and Housing Scrutiny Committee were happy to recommend option 3.

4.00 RECOMMENDATIONS

- 4.01 That scrutiny note and support the Flintshire response to the HRAS consultation document.

5.00 FINANCIAL IMPLICATIONS

- 5.01 Self financing will introduce a number of freedoms for councils, including much greater self determination for the long term planning for investment in council housing services.
- 5.02 Should the proposals supported in this paper for the distribution of the settlement amount and distribution of the borrowing cap be agreed, then Flintshire Council will benefit from increased revenue annual to achieve stock investment and service plan priorities and it will be able to commence a new build housing programme.

6.00 ANTI POVERTY IMPACT

6.01 Exiting the HRA subsidy system will provide resources to continue to target those most in need.

7.00 ENVIRONMENTAL IMPACT

7.01 Delivery of the WHQS programme will support the council's improvement objective to address fuel poverty and will support reductions in Co2 emissions.

8.00 EQUALITIES IMPACT

8.01 None directly arising from this report.

9.00 PERSONNEL IMPLICATIONS

9.01 Exiting the subsidy system by voluntary agreement will require a significant new (additional) workload in 2014. This may require additional finance capacity in Housing for 12 months.

10.00 CONSULTATION REQUIRED

10.01 None.

11.00 CONSULTATION UNDERTAKEN

11.01 Meetings have been held with both the Scrutiny Committee and Tenants Federation who are supportive of the councils response to the consultation document.

12.00 APPENDICES

12.01 Appendix A – Consultation document.

12.02 Appendix B – Consultation response.

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

None.

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