

FLINTSHIRE COUNTY COUNCIL

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

DATE: **WEDNESDAY, 15 OCTOBER 2014**

REPORT BY: **CHIEF OFFICER (COMMUNITY AND ENTERPRISE)**

SUBJECT: **INTRODUCTION OF SELF FINANCING FOR THE HOUSING REVENUE ACCOUNT**

1.00 PURPOSE OF REPORT

1.01 To update Scrutiny Committee on the progress to introduce self financing for the Housing Revenue Account.

2.00 BACKGROUND

2.01 The UK Government and the Welsh Government have recently reached an agreement to change the financing arrangements for council housing in Wales from April 2015.

2.02 Welsh Local Authorities have long argued for this change; which to date, has seen a negative subsidy system in operation which has required all eleven stock owning councils across Wales to make a total annual negative subsidy payment of £73m (in Flintshire's case c£6m) of rental income to Welsh Government and on to the UK Treasury. On the introduction of self financing this will cease;

2.03 The new arrangements negotiated by Welsh Government will see the annual subsidy payment replaced by a one off payment of c£920m. The eleven councils are required to take out loans from the PWLB which equate to £40m per annum in interest charges.

2.04 In addition to this a borrowing cap of £1.85b has been set in total for all eleven councils. This includes the borrowing needed to meet the settlement figure; existing HRA borrowing; planned borrowing to meet WHQS, and a small amount to start a new build programme.

2.05 The all Wales figures on these elements are:
£460m- existing borrowing
£358M- borrowing required to meet WHQS
£920M- borrowing for the cost of the settlement
£112m- remaining capacity for other priorities such as new build

2.06 The detail on the distribution of the borrowing limits across the eleven councils has been left to the Welsh Government to decide. Welsh Government established a Steering Group and a number of work

streams in March this year to take forward this work and make recommendations to the Minister. A consultation paper on the detailed options to implement self financing was issued by Welsh Government in May this year with a return date of July. Flintshire's response to this was supported by Housing Scrutiny Committee and agreed by the Cabinet prior to submission.

2.07 A lot of work was undertaken by the eleven councils to try to ensure that there could be a consensus over the response to the Welsh Government as in order for self financing to be introduced from April 2015, a voluntary agreement will need to be made by all affected Councils.

2.08 The introduction of self financing requires all Councils to implement a new rent policy prescribed by Welsh Government. This also requires a phased implementation of service charges. This was approved at Cabinet in September 2014 to allow for a first draft of the business plan for self financing to be submitted to Welsh Government by the end of September. Feedback on this is expected over the next few weeks.

3.00 CONSIDERATIONS

3.01 In mid August the (then) Housing Minister Carl Sergeant wrote to all Councils outlining his response to the consultation. In summary he has agreed:

a. The settlement value will be based on the current negative subsidy amounts. This was Flintshire's preferred option as it was seen to be the fairest mechanism.

b. After taking account of existing borrowing and WHQS investment needs; the remaining allocation will be split on the basis of providing 50% of new build/regeneration borrowing for the four councils with worked up plans (this includes Flintshire), with the remainder allocated across all eleven councils. This will provide Flintshire with a new build/regeneration borrowing limit of circa £14m. This was Flintshire's preferred option following negotiation with the other affected councils.

c. Welsh Government were proposing to keep £5m of the borrowing limit back as a contingency. They have now agreed to distribute this alongside the borrowing limits referred to above. This will increase Flintshire's total figure by approximately a further £0.5m. This response is welcomed by the council.

d. Finally, Welsh Government asked for views on whether sanctions should be applied to councils who do not fully utilise their borrowing limit. Flintshire responded that it did not agree with this proposal and Welsh Government has agreed not to take this forward.

- 3.02 Flintshire welcomes the Housing Ministers decisions which should allow all eleven councils to be able to recommend and gain approval for entering a voluntary agreement in time for the system to end in April 2015.
- 3.03 Work has started to prepare for self financing, and the timescales are tight. A full project plan has been developed; this will require some decisions to be made ahead of traditional budget timescales. These include Welsh Government issuing settlement determination in December 2014, agreement of the HRA business plan so that it can be submitted to Welsh Government in January (rents and budget not usually agreed until February); agreement of borrowing needed to meet the needs of self financing (perhaps ahead of agreeing the Councils Treasury Management strategy in February as normal).
- 3.04 In Flintshire a HRA project group has been established for some time; this includes the Leader, Deputy, Cabinet member for Housing, Chief Officer, Finance and Asset Management colleagues. Membership of this group will need to be broadened to include Legal colleagues as the council move towards being able to recommend signing a Voluntary Agreement.
- 3.05 Housing Scrutiny Committee has taken a strong interest in this work; and it is suggested that an all member workshop is held in the next few weeks, with open invite to all councillors to discuss this significant change in more detail and to consider proposals on how Governance of the HRA should be developed going forward.
- 3.06 In addition the council needs to consider how it consults tenants on self financing. Regular updates have been provided at tenants conferences, and to the Federation; however there is a need for a broader communication strategy with all tenants as this change moves forward. A tenant conference will be held later in the Autumn, to consult on, and discuss the impact of the introduction of self financing. In addition there has been an elected member and tenant working group in place for several years; subject to agreement, this group could refresh its terms of reference to take on a more strategic role around governance and self financing. This will be discussed in detail with the working group in the coming weeks.
- 3.07 Self financing is to be welcomed. The HRA will benefit from circa £1m additional revenue funding each year. This will provide additional resource for investment in tenants home and will support achievement of the WHQS standard by 2020 with minimal prudential borrowing. In addition the borrowing thresholds set will allow a council house building programme to commence in early 2016 following the completion of the SHARP tender process.

4.00 RECOMMENDATIONS

- 4.01 Scrutiny committee is asked to note this report and the positive programme to introduce self financing for council housing.
- 4.02 Scrutiny Committee is asked to support the proposal to arrange a Member workshop to consider arrangements for the introduction of self financing for the Housing Revenue Account.

5.00 FINANCIAL IMPLICATIONS

- 5.01 Flintshire has a HRA business plan which can achieve the Welsh Housing Quality Standard by 2020, and following the introduction of self financing; a council house building programme can also commence.
- 5.02 The councils Treasury Management strategy will require revision to reflect the new borrowing which will be needed to achieve buy out and further borrowing to support the achievement of WHQS and new building.

6.00 ANTI POVERTY IMPACT

- 6.01 Self financing will provide additional revenue in the HRA to improve property standards and to meet service improvement objectives.

7.00 ENVIRONMENTAL IMPACT

- 7.01 Stock investment delivery plans will enhance the appearance of the environment and will contribute towards the councils CO2 reduction targets.

8.00 EQUALITIES IMPACT

- 8.01 All stock and all households will benefit from the councils investment programme for council housing.

9.00 PERSONNEL IMPLICATIONS

- 9.01 None directly

10.00 CONSULTATION REQUIRED

- 10.01 Further consultation is required with elected members and tenants.

11.00 CONSULTATION UNDERTAKEN

- 11.01 Scrutiny committee has received regular reports on the HRA and will continue to do so. Tenants have been consulted at tenants conferences and communicated with via tenants newsletters.

12.00 APPENDICES

12.01 None

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

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