

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **CABINET**

DATE: **TUESDAY 18TH NOVEMBER**

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 Cabinet on the progress to introduce self financing for the Housing Revenue Account and to seek approval for the actions required to meet the 1st April 2015 deadline.

2.00 BACKGROUND

2.01 The UK Government and the Welsh Government have 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 with £40m of interest payments on PWLB loans. The aggregate settlement figure of c£920m has been a matter for Welsh Government to determine. .

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

The all Wales approximate 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

2.05 The legislative framework to enable this change is contained in the Housing (Wales) Act 2014, which came into effect from 17th

September 2014. This act contains a duty to make the settlement payment. The UK Government – Wales Bill, which is currently at report stage, will set the all Wales limit of indebtedness and those for individual LA's. This will not be in force for some twelve to eighteen months, and therefore in the meantime a voluntary agreement is needed (agreed and signed by each of the eleven local authorities) to ensure that the UK set borrowing limit will not be exceeded.

- 2.06 The detail on the distribution of the borrowing limits across the eleven councils is a Welsh Government decision. WG established an officer 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 Cabinet prior to submission.
- 2.07 A lot of work was undertaken by the eleven councils led by the WLGA 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 stock retaining 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 for each council will be set on the basis of the current negative subsidy amounts. This was Flintshire's preferred option as it was seen to be the fairest mechanism and transparent.
 - 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 In summary, (although figures cannot be defined explicitly at this stage), Flintshire's borrowing requirements and/or limits for borrowing will be (approximately) as follows

Existing borrowing- £2.5M
Borrowing to achieve settlement- £80m
Borrowing for WHQS- £25m
Borrowing for new build- £14.5m

3.04 Work is well underway to prepare for self financing, but the timescales are tight. A summary level project plan has been developed which is attached to this report as Appendix A. Detailed actions are underway to achieve key deadlines. Achievement of self financing (and all its benefits), will require delegated authority to enter into a voluntary agreement with Welsh Government, ahead of formal approval of the HRA Business plan/budget/rent setting and the Councils Treasury Management Strategy.

3.05 Welsh Government and Local Government (the 11 affected), are bringing forward a number of deadlines to achieve self financing by April 1st. In summary these include; Welsh Government issuing settlement determination in December 2014, submission of the HRA business plan to Welsh Government in January (rents and budget not usually agreed until February); "agreement" of borrowing levels required to meet the needs of self financing (ahead of agreeing the Councils Treasury Management strategy in February), and signing of the Voluntary Agreement in January 2015.

3.06 In Flintshire a HRA project group has been established for some time; this includes the Leader, Deputy Leader, Cabinet member for Housing, Chief Executive, Chief Officer, Finance and Asset Management colleagues. A document will be prepared for this group documenting the key risks and appropriate mitigation measures,

including an assessment of legal risks, ahead of making recommendations to enter into a Voluntary Agreement.

- 3.07 Housing Scrutiny Committee has taken a strong interest in this work; and it has been agreed that a member and tenant workshop is held in the next few weeks, with open invite to all councillors and “involved” tenants, to discuss this significant change in more detail and to consider proposals on how Governance of the HRA should be developed going forward.
- 3.08 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. 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.
- 3.09 Self financing is to be welcomed. The HRA will benefit from circa £1m additional revenue each year. This will provide additional resource for investment in tenants’ homes and will support achievement of the WHQS standard by 2020 minimising 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 Cabinet is asked to note this update report and the planned actions over the coming months, including those for communication and engagement, to introduce self financing for council housing.
- 4.02 Subject to consideration of the risk assessment, that delegated authority is given to the Chief Officer Governance, Chief Officer Community and Enterprise and Corporate Finance Manager, in consultation with the Leader, and Cabinet Member for Housing to enter into a Voluntary Agreement in January 2015, to enable the introduction of self financing for the HRA from 1st April 2015. (To note that before exercising any delegated authority the key risks and appropriate mitigation measures will be documented in a risk assessment).

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 Appendix A- High level project plan to achieve the introduction of self financing

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

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