

**Joint Report of the Cabinet Members for Finance and Strategy and  
Communities and Housing**

**Council – 2 December 2014**

**REFORM OF THE HOUSING REVENUE ACCOUNT SUBSIDY SYSTEM**

|                                   |   |
|-----------------------------------|---|
| <b>Purpose:</b>                   | To set out the planned reform of the Housing Revenue Account Subsidy system (HRAS) in Wales, the implications for the Council and the key actions required by the Council to implement the changes.   |
| <b>Policy Framework:</b>          | None  |
| <b>Reason for Decision:</b>       | To ensure all necessary preparations and key decisions have been made to implement the changes.   |
| <b>Consultation:</b>              | Legal, Finance & Access to Services   |
| <b>Recommendation(s):</b>         | It is recommended that:<br><br>1) The Council enters into the Voluntary Agreement to exit the Housing Revenue Account Subsidy system along the lines set out in this report and to undertake sufficient borrowing to meet its share of the settlement.<br><br>2) Authority is delegated to the Director of Place and the Head of Finance to enter into the Voluntary Agreement and to determine the accounting and debt management policy of legacy and additional borrowing. |
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## **1.0 Introduction**

1.1 The Welsh Government (WG) have set out their planned reform of the Housing Revenue Account Subsidy system (HRAS) in Wales which will take effect from the 1<sup>st</sup> April 2015.

1.2 This will have a significant and lasting impact for Council housing and will provide opportunities for increasing investment. The purpose of this report is to

set out the planned reforms, their implications for the Council, the opportunities and risks, the key stages and the decisions and actions the Council will need to take in the period leading up to implementation.

## 2.0 The Planned Reforms and their Impact

- 2.1 The HRAS is an extremely complex and bureaucratic system which currently results in the 11 Welsh Councils with a housing stock paying a combined total of around £73m in negative subsidy payments each year to the Government. The reforms aim to replace this with a system of 'self – financing' which would allow each individual Local Housing Authority (LHA) the freedom to retain the rent income in full and use it to fund their priorities for the existing Council housing stock and the provision of new housing.
- 2.2 In July 2013, the WG and HM Treasury (HMT) reached agreement on a 'buy out' figure that will allow LA's to exit the HRAS by March 2015. The key elements of the agreement for the 11 Welsh Councils as a whole are that:
- LHA's will need to buy themselves out of the HRAS.
  - The £73m of annual negative subsidy payments will be replaced by interest payments of approximately £40m. Councils will also have to provide for repayment of the extra debt, which at the current rate of 2% per year will equate to £18.4m per annum.
  - The £40m annual interest payments will be converted to a lump sum settlement value shortly before the agreed implementation date. The precise amount will depend on the interest rate prevailing at the time of the transaction although the current estimate is £919m
  - HMT will require LHA's to borrow from the Public Works Loan Board (PWLB).
  - The Treasury requires a housing related borrowing cap to be imposed on each LHA in order to control public sector borrowing.
- 2.3 HMT also agreed that as the timescales were unclear for the necessary UK legislation to provide the WG with the necessary powers to enable the reforms directly, they could be implemented by way of a Voluntary Agreement with each LHA.
- 2.4 It is essential that all eleven stock owning LHA's agree and sign the Voluntary Agreement as failure to do so will result in the HRAS remaining in place until the appropriate UK legislation is passed. This means that the £73m paid to the Treasury will continue.
- 2.5 For Wales as a whole, the cost of the agreed buy out between the WG and HMT is based on £40m of annual interest payments which will be converted to a lump sum (settlement value) a short period before the 1<sup>st</sup> April 2015. The estimated settlement value is considered to be in the region of £919.5m. The £40m of interest payments will be shared between all stock owning Welsh Councils and distributed according to the payment made by each Council as negative subsidy under the HRAS. Under this arrangement, each LHA would pay 45.12% less than they currently pay in negative subsidy payments.

- 2.6 For Swansea, this would mean interest payments of £3.29m each year instead of the current negative subsidy amount of £5.79m (i.e. a difference of £2.5m each year). However, after taking into account potential debt repayments of around £1.5m per year, the net benefit would reduce to £1m per year.
- 2.7 In terms of the cap on overall borrowing by Welsh LHA's, this is estimated to be £1.85bn based on the following:
- Borrowing to fund the estimated settlement figure of £919.5m.
  - Existing borrowing by Welsh LHA's which is estimated to be £459.4m
  - Borrowing needed by some Welsh LHA's to fund the improvement of the existing stock up to the Welsh Housing Quality Standard (WHQS) by 2020 which is estimated to be £358.1m.
- 2.8 This adds up to a total borrowing of £1.737bn leaving 'headroom' below the overall cap limit of £113m for further distribution. The WG have adopted a method for distribution which allows those Welsh LHA's with firm plans for new build to receive 50% of their requested share and the remainder will be allocated to all LHA's on an indicative basis using a formula.
- 2.9 Although precise figures will not be known until closer to the settlement date, Swansea's share of the additional headroom is likely to be £6.8m which if added to the indicative borrowing needed to achieve WHQS of £74m, provides an initial cap for new borrowing of £80.8m.
- 2.10 The HRA Business Plan demonstrates that this level of additional borrowing is affordable over the longer term and headroom will continue to be available as repayment of the debt is made. Whether borrowing in the future will be affordable will depend on other factors in the HRA Business Plan such as rental income, interest payments and other expenditure. However, the available headroom below the cap coupled with revenue contributions could lead to significant sums being available for future spending and for the first time in a generation, allow the Council to consider building new housing.
- 2.11 This introduces a new dimension for the Council in terms of reducing the shortage of affordable accommodation in Swansea. Preliminary work has already started on a feasibility study for new build which will address in detail the funding issues together with measures that would need to be introduced to support an initial and continuing programme of new build.
- 2.12 This will take time to finalise but in order to secure the full distribution, it will be necessary to reflect a level of anticipated borrowing in an interim HRA Business Plan which will be used by the WG as the basis of the legally binding Voluntary Agreement.

### **3.0 The Voluntary Agreement**

- 3.1 As stated, due to the legislative timetable, the reforms are planned to go ahead by way of a Voluntary Agreement between each of the 11 stock owning Welsh authorities and Welsh Ministers.
- 3.2 The Voluntary Agreement will set out the precise terms of the settlement and will need to be signed and returned by mid-January 2015 to enable the exit from the HRAS to go ahead at the end of this current financial year. The signing of the Voluntary Agreement will be in advance of the Council formally approving the HRA budget for 2015/16 and the Treasury Management implications of the settlement.

### **4.0 Equality and Engagement Implications**

- 4.1 An EIA screening form has been completed and concluded that a full EIA report will not be required at this time. Any specific matters / opportunities that arise in the future as a result of the reforms (directly or indirectly) will be considered at the time and will be subject to a separate screening.

### **5.0 Financial Implications**

- 5.1 Where applicable, the anticipated financial implications of the proposed reforms are set out in the report but will result in a significant increase in the liabilities of the Authority in respect of the HRA. However, in summary, the ending of the subsidy system will mean an increase in the surplus in the Housing Revenue Account and greater freedom and flexibility for the Council in determining future housing provision.
- 5.2 Failure to enter into the Voluntary Agreement will result in the HRAS remaining in place and the continuation of negative subsidy payments by the Council which are significantly more than the anticipated share of the interest and debt payments of the settlement.
- 5.3 The proposals as recommended will result in significant additional borrowing (and hence debt) for the Council as follows:-

|   |              |
|---|--------------|
|   | £m           |
| Swansea's estimated share of the settlement value | 73.0         |
| Additional debt re Headroom                       | 6.8          |
| Additional debt to achieve WHQS                   | 74.0         |
| <hr/>   |              |
| <b>Total additional debt</b>                      | <b>153.8</b> |

- 5.4 As stated within the report the cost of financing and repayment of this additional borrowing falls entirely to the HRA and will not impact on Council Tax Payers as part of the General Fund of the Council.
- 5.5 Repayment of debt in line with normal practice together with interest financing costs can be met from within the projected HRA Business Plan.

- 5.6 However, this additional debt will appear as such on the annual Balance sheet of the Council and, as such, it is important that Members are aware of the reasoning behind the increase.
- 5.7 In terms of the additional headroom borrowing, commitment has to be given at an early stage in respect of the use of these funds for additional provision of Social Housing. However, the precise use of that borrowing will have to be the subject of further reports in terms of options to deliver best outcomes.

## **6.0 Legal Implications**

- 6.1 The Housing (Wales) Bill will allow the Welsh Government to repeal the relevant sections of the primary legislation that sets the framework for the HRAS system in Wales. However, the Bill has not yet received Royal Assent.
- 6.2 As an interim measure the provisions of Section 80B of the Local Government and Housing Act 1989 will be used for a Voluntary Agreement to be made between the Welsh Ministers and the Local Housing Authorities.
- 6.3 At the appropriate time, the Voluntary Agreement which will set out the financial implications for the authority in terms of exiting the HRAS will need to be signed and delegated authority is sought for this to occur. Separate legal advice will be necessary on the terms of the Voluntary Agreement.
- 6.4 Failure to enter into the Voluntary Agreement means that for all 11 Welsh Councils with a housing stock, there will be a delay in benefiting from the considerable opportunities that leaving the HRAS will bring and put at risk the reputation of the Council as a partner to the other authorities.

**Background Papers:** Equality Impact Assessment Screening Form

**Appendices:** None