

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

**Cabinet – 14 April 2015**

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

<b>Purpose:</b>	To set out the final terms of the exit from the Housing Revenue Account Subsidy system and the implications on the Council
<b>Policy Framework:</b>	Local Housing Strategy
<b>Reason for Decision:</b>	To provide the final terms of the reforms
<b>Consultation:</b>	Legal, Finance & Access to Services
<b>Recommendation(s):</b>	It is recommended that:  1) The final terms of the exit from the Housing Revenue Account Subsidy system are noted.
<b>Report Author:</b>	David Evans
<b>Finance Officer:</b>	Jeff Dong
<b>Legal Officer:</b>	Sandie Richards
<b>Access to Services Officer</b>	Phil Couch

## **1.0 Introduction**

- 1.1 The exit of all 11 Welsh Council's with a housing stock out of the Housing Revenue Account Subsidy system (HRAS) is planned to take effect on the 1<sup>st</sup> April 2015 via the Voluntary Agreement of each Council.
- 1.2 At its meeting on the 2<sup>nd</sup> December 2014 (minute 146), the Council delegated authority 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.
- 1.3 The terms of the exit have now been finalised and the Voluntary Agreement has been signed and submitted.

## 2.0 The Revised Terms of the Exit

### All Councils

- 2.1 The HRAS is a complex and bureaucratic system which 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 existing Council housing stock and the provision of new housing.
- 2.2 The terms for the exit reported to Council in December 2014 reflected the original agreement between the Welsh Government (WG) and HM Treasury (HMT) which was made in July 2014.
- 2.3 However, unforeseen and unprecedented low interest rates in the period since the agreement had the effect of increasing the settlement value and if taken forward, the overall 'deal' would have been less favourable than originally estimated. In addition, continuing uncertainty over what interest rate would prevail on the date of the settlement transaction (i.e. March 31<sup>st</sup> 2015) introduced new and unacceptable risks for Welsh Council's.
- 2.4 In response, both the WG and the HMT recognised this and conceded that the terms needed to be renegotiated to ensure that the deal remained beneficial to Welsh Councils and fiscally neutral from the Treasury's perspective. The revised terms which have been agreed are summarised below:

	Original Terms (as reported in December 2014)	Revised Terms
a)	LHA's will need to buy themselves out of the HRAS	Unchanged
b)	The £73m of annual negative subsidy payments would 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 £73m of annual negative subsidy payments will be replaced by interest payments of approximately £38.2m. 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
c)	The £40m annual interest payments would be converted to a lump sum settlement value shortly before the agreed implementation date. The precise amount would depend on the interest rate prevailing at the time of the transaction.	The settlement value is now fixed at £919m (i.e. the value used at the time of the original consultation in June 2014) and a 'special' interest rate for the settlement debt will be fixed at an agreed date in March 2015 around the 4.25% rate for the standard PWLB 30 year maturity.

d)	HMT would require LHA's to borrow from the Public Works Loan Board (PWLB)	HMT will require LHA's to borrow from the Public Works Loan Board (PWLB) and the special rate can only be used for borrowing the settlement value.
e)	HMT would require a housing related borrowing cap to be imposed on each LHA in order to control public sector borrowing	Unchanged

### Swansea's Position

2.5 In terms of the impact locally, Swansea's share of the settlement value will be £73.6m which results in annual interest payments of £3.06m. After adding principal repayments (MRP of 2%) of £1.47m, the total payment is £4.54m p.a.. In comparison, the Council's HRA currently returns £5.85m in negative subsidy under the HRAS system so the result of the revised terms is a net benefit of £1.3m p.a. In the report to Council in December 2014, the net benefit was forecast to be £1m p.a.

2.6 In summary, the net result of the revised terms is that:

- The all Wales settlement value is made certain and fixed at the level forecast as part of the original consultation in June 2014.
- The overall cap on Welsh HRA borrowing remains in place at the level originally negotiated (i.e. £1.85bn)
- Swansea's share of the settlement value is also fixed at £73.6m (slightly higher than the figures forecasted in December 2014),
- There is certainty on interest payments that would be used for the settlement which after adding principal repayments results in a total of £4.54m as opposed to the current negative subsidy payment of £5.85m.
- The overall benefit to the Council is greater than what was forecast in December 2014.

### 3.0 The Voluntary Agreement

3.1 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 Council at its meeting on the 4<sup>th</sup> December 2014 delegated authority to the Director of Place and the Section 151 Officer to enter into the Voluntary Agreement along the lines set out in that report.

3.3 Whilst some of the detailed terms reported in December 2014 have since been amended, the net result is an improved benefit to the Council and in order to ensure the exit took place, Swansea's Voluntary Agreement was signed and submitted.

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

- 4.1 An EIA screening form was completed for the report to Council in December 2014 and concluded that a full EIA report is not required at this time. However, any specific matters / opportunities that arise in the future as a result of the reforms (directly or indirectly) will be considered at that 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 as reported in December 2014, the terms for the exit from the HRAS will result in a significant increase in the liabilities of the Authority in respect of the Housing Revenue Account (HRA). However, the ending of the subsidy system will mean an increase in the surplus in the HRA and greater freedom and flexibility for the Council in financing future housing provision.
- 5.2 Failure to enter into the Voluntary Agreement would have resulted in the HRAS remaining in place and the continuation of negative subsidy payments which are significantly more than the anticipated share of the interest and debt payments of the settlement.
- 5.3 The cost of financing and repayment of this additional borrowing falls entirely within the HRA and will not impact on Council Tax Payers as part of the General Fund of the Council. Repayment of the debt in line with normal practice together with interest financing costs can be met from within the projected HRA Business Plan.
- 5.4 However, as reported in December 2014, this additional debt will appear on the annual Balance sheet of the Council and it is therefore important that Members are aware of the reasoning behind the increase.

#### **6.0 Legal Implications**

- 6.1 The Voluntary Agreement sets out the financial implications for the authority in terms of exiting the HRAS and has been signed and submitted under the authority delegated to the Director of Place and the Section 151 Officer.

**Background Papers:** Report to Council on the 2<sup>nd</sup> December 2014 'Reform of the Housing Revenue Account Subsidy System'.

**Appendices:** None