

## **KEY DEVELOPMENTS IN RELATION TO HOUSING REVENUE ACCOUNT FINANCE**

### **1 PURPOSE**

1.1 To inform Members of the changes taking place within the Housing Revenue account relating to finance. These key changes are:

- The introduction of the major repairs allowance
- The introduction of resource accounting
- Rent reforms
- Supporting people framework

1.1 As will be seen later these elements fit together as part of the Government's new business plan approach to the Housing Revenue Account.

### **2 CONSIDERATION**

2.1 Finances of the Housing Revenue account have never been simple as they are closely controlled by legislation which effects not only the income and expenditure shown in the account but also all the detail in relation to the subsidies paid in respect of the Housing Revenue account. The subsidies are a product of a financial model maintained by the Government. This model includes an allowance for the management and repair of stock plus an allowance for the cost of interest and debt repayment. It also includes a sum representing rent income.

2.2 Members may recall that the operation of this model has significant implications for the Housing Revenue account. The Government determines a rent guideline figure each year as part of the subsidy model and the Council has in recent years always implemented this guideline rent increase. The result is that although real rents will increase by say 3%, and produce additional income, the model also increases the income element by the same amount and effectively claws back the increase so that there is no additional cash within the Housing Revenue account. For this reason, Members have been advised that there is a limited life for the Housing Revenue account as funds will not increase and expenditure will have to be cut back as there will be no additional funding to cover inflation or new costs.

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- 2.3 Authorities can raise rents above the Government guidelines; however, significant penalties are triggered which mean that rents have to rise by a significant sum to obtain a small scale increase in net income.
- 2.4 The operation of the subsidy rules also prevented the Authority from looking at the structure of its rents either in relation to other social housing providers or for one property relative to another. A general rise in rents in excess of the rent guideline will trigger the penalty system and although a restructuring is possible, unless it is exactly self balancing the penalty system will operate.

### **3 MAJOR REPAIRS ALLOWANCE (MRA)**

- 3.1 Members will be aware that for 2001/02 the Housing Revenue account is now receiving the MRA. For 2001/02 it is around £1m. This is a payment by the Government through the Housing Subsidy system and can be used for capital type works.
- 3.2 However, nothing is simple in terms of housing finance. When the Authority receives the MRA we are currently required to set aside the whole sum for depreciation of assets. We then spend the allowance from the new set aside account. At the moment, depreciation is equal to the MRA; however, this may have to alter in future years with implications for the Housing Revenue account.

### **4 RESOURCE ACCOUNTING**

- 4.1 This has been introduced for the financial year 2001/02. The objective is to ensure that the value of Housing Revenue account property is taken into account into the decision making process. Therefore, the account will now include a cost representing a 6% rate of return on the value of housing plus a cost of depreciation. At the moment, depreciation is covered by the entries discussed under the major repairs allowance. In order to determine the capital value of housing a selected number of properties have been valued and these values then applied to all of the housing stock. These values show that at April 2000 the housing stock is worth around £120m if valued on an open market basis and £67m when using the tenanted value.

### **5 RENT REFORMS**

- 5.1 The view of the Government is that in future rents for both Local Authorities and Housing Associations should be set using a standard formula. The key reasons for this are:-
- Social rents should remain affordable in the long term
  - That social rents should be fairer and less confusing for tenants
  - There should be a closer link between rents and the qualities which tenants value in properties

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- That unjustified differences between the rents set by Local Authorities and by Registered Social Landlords should be removed

To achieve these objectives, rent will be set by a formula, which takes account of size, condition and location of properties, local earnings and property size.

- 5.2 The actual calculation takes into account relative earnings and relative property values and therefore it is thought that within Essex, with higher average earnings and property values, there would appear to be generally upward pressure on the existing rent structure.
- 5.3 The Government accepts that changes to the new rent formula cannot take place overnight and has therefore set a 10 year timetable for the change. A separate report within this Agenda looks at the rent restructuring issues and rents in respect of the financial year 2002/03.
- 5.4 Earlier in this report, the relationship between housing subsidies, rent guidelines and real rents was covered. With the move to the new level of rents, although the higher rent income will be collected by the Authority, the guideline rent income will also be changed in line with these increases so that there will be a matching reduction of housing subsidies for any rent increases. Therefore there will still be no additional cash to the Housing Revenue account.

## **6 THE HOUSING REVENUE ACCOUNT BUSINESS PLAN**

- 6.1 The business plan is designed to bring together all aspects affecting the Housing Revenue account for the next 5 to 30 years. At the moment, this Authority has only submitted a 5 year plan owing to the uncertainties that the Authority faces.
- 6.2 The Department of Transport, Local Government and the Regions (DTLR) issued a standard form of business plan, which this Authority used for its current submission. This format is however regarded as too complicated for our stock level and mix of stock. Therefore for future years, a more simplistic model will be developed. The current business plan runs to around 75 pages of financial tables plus the explanatory text.
- 6.3 The key data for the business plan are:--
- Type of stock, stock level and stock values
  - Projections on inflation and rates of interest
  - Details of existing rents and charges
  - Estimates of right to buy sales and values
  - Cost of management and maintenance
  - Housing subsidies and charges
  - Rent rebates data

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- Information on the repair and improvement of properties
  - The capital programme and financing
  - Housing balances

- 6.4 Overall the business plan is showing that the Housing Revenue account will use up its reserves by the end of 2002/03. This means that balances will reduce to a figure less than the working balance of £300,000. This is broadly consistent with the information previously given to Members.
- 6.5 Members will see from the separate report on revenue estimates that for 2002/03 certain budget heads have been structured to ensure that this date is extended.
- 6.6 It is important to note that for the financial year 2001/02 the estimated deficit for the year was £325,100 and therefore if repeated in the following 2 years would see the Housing Revenue account go overdrawn.
- 6.7 The business plan looks at all of the listed items in detail and the projected effect on the Housing Revenue account. In applying the resource accounting requirements, the value of Housing Revenue account property is around £67m and therefore a 6% return on capital is £4m. The accounts presented in the resource accounting format would therefore show a significant loss for the year. Although this sum is an in and out entry within the accounts so that it is not a real impact on the Housing Revenue account, the reported figure will show the loss.
- 6.8 Housing stock at November 2001:-

<b>Description</b>	<b>Number</b>
General Needs Properties	1,050
Elderly Designated Properties	282
Sheltered Housing	<u>521</u>
	1,853

In addition to the above there are 15 units being used for the homeless.

- 6.9 The number is declining each year through the Right to Buy process. The business plan estimates that over the next 3 years, 100 properties will be sold. When a property is sold, there are a number of changes to income and expenditure and using the averages shown in the 2001/02 estimates, broadly these changes are as follows:-

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<b>Description</b>	<b>Per property £</b>
Repairs and maintenance avoided	(580)
Rent income loss	2,500
Housing subsidy adjustment	<u>(240)</u>
Total net expenditure	<u>1,680</u>

Therefore for each property sold, there is a net cost per year, which produces an additional drain on the Housing Revenue account.

- 6.11 The cost of general management will broadly increase with inflation and although savings could be made in line with the reduction of properties, this does not take account of additional functions or duties that the Local Authorities have to implement.
- 6.12 Existing warden's cost will increase with inflation but at the moment are absorbed by charges to residents in sheltered accommodation. With the introduction of this supporting people framework and possible changes to the warden structure, this cost relationship may alter for the future.
- 6.13 Repairs and maintenance will increase with inflation but reduce with property numbers. Up to now the cost of repairs have not been separated between sheltered and general stock. This will be in place for 2002/03 and following this separation, assumptions may have to change regarding the movement in repair costs following the sale of general properties under the right to buy.
- 6.14 Debt and interest charges will reduce with the repayment of debt, however, in the main there is a matching reduction within Housing Revenue Account subsidies.
- 6.15 Depreciation is expected to match the major repair allowance, which will reduce with property numbers and be subject to changes by DTLR.
- 6.16 Rents will increase in line with rent guidelines and restructuring but there will be a matching reduction in housing subsidy.
- 6.17 Therefore the outlook is for cost increases with no increase in rent income. In terms of options for the Authority to balance future Housing Revenue accounts, there are two main areas for consideration, they are repairs maintenance and rents. Repairs and maintenance could be reduced, however, priorities will have to be reassessed. However as can be seen by the deficit for the current financial year, the reduction in repairs and maintenance will have to be significant to remove the anticipated drawdown in balances. As previously shown, rents will

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increase due to rent restructuring and although additional increases are possible, they will trigger the penalties within the subsidy system and therefore require a significant increase in rents to achieve a modest increase in net income.

- 6.18 Other changes affecting the Housing Revenue account will be made and these will include the move to the supporting people framework and the removal of rent rebates from the Housing Revenue account.

## **7 SUMMARY**

- 7.1 In financial terms and based on current information, the Housing Revenue account would appear to have a short life. This message is consistent with information given to Members in recent years. Changes to the subsidy rules, the introduction of the Major Repairs Allowance and budget underspends have allowed additional life to that initially projected.

- 7.2 Even with rent increases, repairs will be more difficult to fund and with reductions of stock there will be real reductions in the service provided. The future policies in relation of the Housing Revenue account need to be considered. Members are aware that a Best Value Review on Housing Strategy will be reported shortly. Following this, detailed financial consideration of the options presented will be required to illustrate the policy options.

## **8 PARISH IMPLICATIONS**

- 8.1 The existing Housing Revenue stock is distributed throughout Rochford District Council.

## **9 RESOURCE IMPLICATIONS**

- 9.1 The Housing Revenue Account has a duty to avoid a deficit.

## **10 RECOMMENDATION**

- 10.1 It is proposed that the Sub-Committee considers this report and **RECOMMENDS** accordingly. (HFS)

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**Background Papers:**

None

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