

FUNDING ISSUES AFFECTING THE COUNCIL'S HOUSING STOCK

1 SUMMARY

- 1.1 To inform Members of the financial issues that affect Housing.

2 BACKGROUND TO THE REPORT

- 2.1 At the Housing Management Sub-Committee held on 15 December 1999 Members were reminded of the problems facing the Housing Service at Rochford within the Housing Revenue Account. Members were informed that reports had been delayed as the Government was in the process of announcing new legislation that would affect the Housing Revenue Account. Members agreed however that despite current uncertainties regarding changes to legislation a report should be presented which covers the broad issues and provides some options on the way forward.

3 BEST VALUE

- 3.1 The Housing Service is very much within the Best Value framework. Detailed plans are already in place to systematically review all aspects of the Housing Service to ensure that it continues to improve.
- 3.2 One of the fundamental aspects of Best Value however is "challenge". Here the question 'should the Council be running the service at all' must be considered.
- 3.3 The information contained in this report will feed into the Best Value review of both Housing Strategy and Housing Management as this will form an essential element to the challenge concept.
- 3.4 A simplified model of the Housing Revenue Account is shown at Appendix A. This shows the inter-relationships of the key parts of the service and the issues to be covered in this report.

4 BACKGROUND TO THE SERVICE

- 4.1 The Housing Revenue Account as we know it today was introduced through the Local Government and Housing Act 1989. This was the same Act that also introduced the current capital finance system. The key changes introduced were

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- (a) the concept of ring fencing
 - (b) a new basis for the way in which Government subsidy is paid in respect of housing
 - (c) Government controls on capital expenditure.
- 4.2 All these issues affect the financial structure of the Housing Revenue Account. Normally financing issues follow service legislation, however for the Housing Revenue Account these are key to the way the service can be delivered and the problems currently being faced by the Authority.
- 4.3 It must be stressed that this report aims to convey these issues in a very broad sense and without the details, which will be important at a later date.

5 THE HOUSING RING FENCE

- 5.1 The Housing Revenue Account is part of the Local Authority's Accounts but transfers between the Account and the General Fund are not allowed unless covered by legislation. This is not to say that every item is specified but sufficient rules exist to ensure that the account reflects the landlord's function of running housing. The Housing Revenue Account can not provide financial help to or receive help from the General Fund.
- 5.2 Most items that are allowed to be accounted for within the Housing Revenue Account are easily understood. Examples are:-

The cost of letting and managing properties
The cost of rent collection
The repair and maintenance of properties
The rents collected
The value of housing benefits granted to tenants.

Some examples of items not allowed in the Housing Revenue Account are:-

The cost of administering rent rebates;
The cost of welfare support for tenants within sheltered homes;
Unreasonable costs in relation to homelessness;
A general housing advice service.

6 HOUSING SUBSIDY

- 6.1 The Government provides subsidy by way of a financial model. This is in most cases different from the real income and expenditure within the Housing Revenue Account for any particular year. The main items for this financial model are:-

Formula support for management and maintenance;
Statutory calculation in respect of historic debt and interest thereon;
Housing benefits granted
Less model rent income.

- 6.2 An approximation of Rochford's estimated position in respect of housing subsidy for 2000/01 is as follows:-

<u>Description</u>	<u>£M</u>
Management and maintenance	1.6
Debt and interest	1.7
Benefits	<u>3.2</u>
Total	<u>6.5</u>
Model rent income	<u>4.7</u>
Subsidy payable	<u>1.8</u>

- 6.3 Here the total of expenditure (£6.5M) is greater than income (of £4.7M) and therefore a subsidy is payable. A key line to the model is the rent income as it can be seen that an increase in income will reduce the net sum payable. Year on year increases in actual rents are allowed up to the Government guidelines. These same guidelines are used in the subsidy model shown above. Therefore an increase in real rents is an increase of cash to the Housing Revenue Account; however it is also an increase to the subsidy model and the increase in the model rent will reduce subsidy. There is therefore no net increase in cash to the Housing Revenue Account up to rent guidelines. Inflation has to be absorbed year on year. Increases beyond rent guidelines are possible but incur substantial penalties in respect of the grants payable to support housing benefit payments.

7 CONTROLS ON CAPITAL EXPENDITURE

- 7.1 The Authority can undertake any level of expenditure within the Revenue Account. The limit being the resources available. For capital expenditure there must be a permission to spend and the expenditure must be for capital purposes.
- 7.2 Permissions to spend come from the usable part of capital receipts and credit approvals issued by the Government. Currently capital receipts generated through the Right to Buy process are subject to a 75% set aside which only leaves 25% usable to support new capital schemes.
- 7.3 In Rochford usable capital receipts are earmarked for General Fund schemes and all credit approvals for housing are used for housing. The credit approvals available to housing are shown below. Although there has been an increase in the last two years, resources are still regarded as insufficient to deal with the current housing issues and to cover the backlog of improvements required within the Housing Revenue Account stock.

<u>Year</u>	<u>£ '000</u>
1995/96	.697
1996/97	.734
1997/98	.393
1998/99	.374
1999/00	.415
2000/01	.858

8 SUMMARY

- 8.1 Currently the controls in relation to the Housing Revenue Account identified above have the following implications.
- It effectively prevents an Authority from building new housing through:-
 - (i) Lack of credit approvals to finance the works
 - (ii) The effect of the Right to Buy Scheme and the discounts offered to tenants;

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- (iii) On every sale made the Authority can only use 25% of the proceeds towards new expenditure.
- The subsidy controls effectively prevent the Authority from raising additional revenues through rent increases;
 - The housing subsidy rules make any restructuring of rents very difficult, as each year must balance out increases to match decreases. This would include any additional rents that might be chargeable for improvements etc.
 - The combination of capital limitations and subsidy rules prevent the Authority from undertaking all identified maintenance improvements and conversions that are required.
- 8.2 To add to the problems at Rochford we have a small housing stock, which is still shrinking quickly through the Right to Buy process. In the last ten years the general needs stock has reduced from 1,752 units to 1,468 units i.e. a fall of 284.
- 8.3 It should be remembered that in the main it is the multi-bedroom properties that have been sold. In 1999/2000, forty-six properties were sold but having a total of 125 bedrooms.
- 8.4 The Sheltered Housing stock is currently stable in number at 510 units although still subject to letting problems in some areas.
- 8.5 The problems of a small stock are:-
- lack of units to accommodate applicants from the housing register;
 - lack of units to deal with homelessness;
 - lack of choice for tenants;
 - small base over which to average repairs and improvements;
 - disproportionate management per unit.
- 8.6 If demand for social housing was declining with the stock numbers, problems could be avoided, however with the current buoyant private sector market the demand for affordable rented housing is as strong as ever. Currently there are 1,047 applicants on the Housing Register and in 1999/2000 38 homeless applicants were accepted for housing.
- 8.7 If the multi-bedroom stock continues to decline the ability to offer services to new applicants will be minimal as statutory services are directed towards family requirements.

9 BEST VALUE

- 9.1 As Members will be aware a report from the Head of Housing, Health and Community Care was considered by the Community Services Committee on the 27 June in respect of the Housing Green Paper "Quality and Choice – A Decent Home for All". This highlights possible future policies, which will have a radical impact on the provision of housing services. These issues will need to be addressed as part of the Best Value review.
- 9.2 The Government is currently reviewing the financing arrangements in respect of the Housing Revenue Account. Some elements of the review will take effect relatively soon e.g. resource accounting and new repairs allowances from 2001/2002. As yet, however, we are not able to ascertain what the full effect on Rochford will be from these changes. Other changes, such as the removal of Rent Rebates from the Housing Revenue Account to the General Fund would require primary legislation and will take longer.
- 9.3 The long term financial outlook for the Housing Revenue Account will be a major driver in formulating the future strategy for Housing in Rochford.

10 SUMMARY

- 10.1 As may be seen from the above, it will probably not be an option to retain the status Quo in housing.
- 10.2 Financial constraints and Government policy will require Members to ask fundamental questions of the service and perhaps consider radical solutions.
- 10.3 Use and designation of existing stock will need to be revisited to try to ensure that as far as possible our resources are tailored to the needs of residents.
- 10.4 It is intended to bring Best Value progress reports to Members in the autumn cycle of meetings.

11 PARISH IMPLICATIONS

- 11.1 Housing Strategy affects all parts of the District.

12 RECOMMENDATION

That the Working Group Recommends the report be noted and circulated to all Members of the Council. (CD(F&ES))

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Background Papers:

For further information please contact Dave Deeks on (01702) 546366