

Homelessness and the Housing Revenue Account

Swindon Council's second raid on the housing account

As Swindon Council faces the decline of central government Revenue Support Grant year on year, it has scabbled around desperately looking for ways of saving money. Its imposition of parish councils on the town without a democratic mandate was one such means, transferring services and costs to the new parishes¹. Casting its eye around for other sources of money to cover the growing financial chasm in the General Fund, it organised a “transfer of assets” between that fund and the Housing Revenue Account (HRA), the separate account for council housing. It transferred garages and some shops owned by the HRA to the General Fund, giving the latter an extra annual income of £1.25 million. After some housing owned by the General Fund was transferred to the HRA as a sweetener, the housing account still loses an income of more than £500,000 a year. The ruling group had said that the outcome of the transfer between the two accounts would be “fair and balanced”. In reply to a question at a cabinet open forum the Cabinet Member cynically replied, “yes, but we never said it would be equal!” “Fair and balanced” meant the General Fund gaining at the expense of the HRA and tenants.

Now faced with a funding gap for homelessness prevention and relief (for reasons explained below) they decided to make another raid on the HRA. The Council Cabinet proposed to use £17 million of HRA money to buy 80-100 properties on the open market so that they could transfer some families currently housed in the private rented sector *and thus prevent the General Fund from having to pay for them*. Their presentation of this as action to deal with homelessness was pure propaganda. This was simply a means of preventing the General Fund having to cover a funding gap of £400,000.

To understand what they have done we need to look at the council's legal duty in relation to homelessness. It does not have a duty to house *all* homeless people, only those deemed to be 'statutorily homeless'². Since it has insufficient council properties at its disposal for homeless families it pays to house more than 400 households in private rented accommodation. The government, until April of this year, gave councils a management fee of £60 a week for each household which it placed in these properties. In 2016-17 this provided the council with around £1.25 million. In place of this the government has introduced a “flexible homelessness grant”. It made a commitment that *no council would lose out*. It said that

“No local authority will receive less annual funding under the (new) grant than we estimate they would have received under the Department of Works & Pension fee.”

A breach of promise

However, on March 15th the government published the grant each local authority would receive. Instead of £1.25 million Swindon would only receive just over £800,000; more than

1 This also provided a bonus for the Council. Given the rushed time-scale the new parishes had little choice but to pay SBC to provide the services at least for the first year.

2 This excludes couples or individuals without children, except in certain cases where they are deemed vulnerable. The council owes no duty to house people who may be genuinely homeless if they have no children and they are not considered to have some vulnerability such as disability or learning difficulties.

£400,000 less. Since this contradicted the government's promise you might have imagined that the council would have got straight onto them, pointing out the discrepancy and calling on them to honour their commitment. They could even have called on the local MPs, one of whom is a member of the government, to demand that the grant was increased to make up the shortfall.

Instead the council accepted the £400,000 loss **without protest**. We know this is the case since they presented a document to the Housing Advisory Forum telling us that since there was a shortfall they were going to use HRA money to buy some properties in order to transfer some of the families currently in private rented accommodation into the properties they would buy. The council did eventually send an email to the Department of Communities and Local Government, saying that they had expected their grant to be higher, and asking how they came to their estimate. Yet this was on April 24th, **nearly six weeks after they knew what grant they would be getting**. They only did this after I had emailed them to ask if they were aware of the government's commitment and if they had challenged the grant level.

Why did they not call on the government to honour their commitment? We can only speculate. It could have been timidity or negligence. Alternatively the shortfall presented a **convenient excuse** for them to raid the HRA of funds which are supposed to be used for the maintenance and renewal of existing council stock. The consequence of their proposal will be:

- The abandonment of the principle that the cost of homelessness prevention and relief is borne by all residents through their council tax;
- Since the reserves were earmarked for spending on existing council stock, if they are used instead to buy properties, then they cannot be used on existing council homes;
- Council tenants, who already pay towards the cost of homelessness services through their council tax, will effectively be **paying twice**, through their rent as well.

The acquisitions programme will seek to buy 3, 4 and 5 bedroom homes, not because that is the type of home which is most needed for people on the housing waiting list, but “to reduce costs on the General Fund”. Of the households on the council housing waiting list 88% qualify for either a one or two bed properties. Even the 561 on the list who qualify for 3 or more bedrooms will not qualify for these new properties since people currently housed in private rented accommodation will be “direct matched” to them.

Raiding the HRA for more?

The Cabinet document makes it clear that any cost of upgrading homes bought with this money will “fall on existing budgets”.

“Essentially safety checks, repairs and improvement work for new acquisitions will be funded through existing budgets.”

In other words money in the 2017/18 HRA budget, only recently agreed for work on existing council stock will have to be diverted.

The £17 million is comprised of £12 million reserves and £5 million Right to Buy receipts. What are these reserves? They are essentially money from rental income which was

designated for work on existing council homes but not carried out. Indeed over 5 years the council has **underspent** on its capital budgets by nearly £15 million, as you can see from the table in the Appendix. This is money which is used to renew key components of council housing such as bathrooms, kitchens, roofs etc. It is also needed for major works on some of the non-traditional stock to increase its lifespan. In using this money to buy properties specifically to house families housed in the private sector the council is risking the deterioration of the condition of some of the existing homes because it will delay work which should be taking place on existing stock.

The Cabinet document says that should the Reserves and RTB receipts be insufficient in 2017/18 to fund both the acquisitions programme and the capital works on existing homes “authority is sought to fund the balance by using new HRA borrowing”. Extra borrowing will have to be serviced by tenants' rent which means there will be less money available to spend on existing stock.

Local Housing Allowance is lower than private rents

It is clear that funding for homelessness is insufficient. Welfare benefit 'reforms' have depleted council of the resources for funding their homelessness work. The HAF document admits as much without saying so directly. It says that

- As a result of benefit cuts the Council receives £45 per week less income for each Private Sector Leasing property than the actual cost of the rent.
- Homelessness budget pressure has been exacerbated by the introduction of Universal Credit. People of working age on housing benefit are being transferred to UC. The average wait in Swindon for a new claim to be processed and the first payment received, is 10 weeks. During this period the claimant has no Housing Benefit or Local Housing Allowance. Hence every person on UC is automatically thrown into rent arrears. This is why Council rent arrears have increased by more than £400,000 since UC was introduced for all new claimants in December of last year.
- Private sector rents are increasing at way above the level of wage increases. This has meant that every leased property is costing the council on average £150-200 per month above the level of Local Housing Allowance (the private sector equivalent of Housing Benefit).
- The lowering of the Benefit Cap (the overall amount of benefit that a household or individual can get) in November 2016 “has had a particular impact on larger households accommodating larger properties that attract higher rents”.
- The 'reforms' collectively have produced an “escalation of rent arrears”.

Why can't the General Fund pay?

As a result of the loss of central government grant Swindon, like other local authorities, is looking to become a developer/investor in properties of one sort or another. They are setting up a Commercial Investment Fund and have earmarked £50 million for it. Of this, £15 million has been designated for housing. The council has spoken of having as part of its portfolio private rented properties. So why doesn't the council use this money to provide homes for homeless people? If they own them they can determine the rent level, which if set at the LHA rate would not be as expensive as using the properties of private landlords.

Money from the General Fund cannot be used to fund council house building. However, if they are going to buy/build homes for the private rented sector there is nothing to stop them from using General Fund money for properties which could be used to accommodate homeless people. The only reason they aren't proposing to do this is because they want to rake in more money by charging 'market rents'.

Underfunding council housing

It is certainly true that putting homeless people in expensive private rented accommodation is a waste of money. However, there is an acute shortage of council housing resulting from the Right to Buy and the failure to replace homes sold off on the cheap. Since RTB was introduced nearly 8,000 council homes have been sold off in Swindon. The ruling Conservative group supports the continuation of RTB and appears content to allow the number of homes at the disposal of the council to continue to decline. Despite fiddling the housing waiting list by restricting access to it, there were nearly 4,000 households on it³ in March. Ironically the shortage of council housing is now so acute that they are having to resort to buying back council homes that they sold under RTB. Having sold them on the cheap, of course, they are buying them back at inflated market rates.

Homelessness cannot be tackled by diverting money to buy homes on the open market which is needed to ensure that the stock condition of existing council housing is of a decent standard. The shortage of genuinely affordable housing will only be resolved by building council housing on a large scale. However, the HRA does not have the resources to build on a large scale because it is under-funded as a result of government policies. The Conservative government ended funding for council house building, with the marginal exception of 8,000 supported housing units, *nationally*.

As a result of the policies of the coalition and Tory governments each local authority HRA is losing huge amounts of income. If you compare the Business Plan for the new 'self-financing' system introduced in 2012, with the expected income today, then Swindon will take in **over £300 million less rent** over the course of the 30 years of the Plan than it estimated in 2012. This is because of changes such as:

- **Increased discounts for RTB.** These have increased sales significantly. In the four years before the increase 46 homes were sold in Swindon. In the five years after the change 290 were sold. This means much more rent was lost to the council than estimated in the Business Plan;
- **An annual 1% rent cut.** This was imposed by the government on councils for 4 years. The government abandoned its commitment that for 10 years councils could increase their rent by CPI + 1%. As a result income from rent is not just failing to keep up with inflation but declining absolutely.

When the 'debt settlement' took place in 2012 the amount of extra 'debt' Swindon was given was based on an estimate of income which is completely out of line with what is

3 Households the list had to reapply. They were told that the chances of them getting anything were slim and any household which earned enough to afford private market rent, or to buy or part-buy a home, would not be allowed on the list. People supposedly have the right of appeal but they are not told what constitutes 'too much' income to go on the list. The rationale of the ruling group was that many of the people on the list could afford to buy a home. The Lead Member had to publicly admit he had no evidence of this. Since the new system has been introduced only one household applying to go on the list has been deemed to be earning 'too much' to be allowed on the list!

actually being collected now⁴.

Tackling homelessness

The proposal to use HRA money to buy homes in which they can place the families with the highest rents, currently housed in the private rented sector, appears to be an opportunistic measure rather than part of a considered strategy for dealing with homelessness. This is shown by the fact that the council is still in the process of drawing up a new homelessness strategy. Additionally a new Homelessness Reduction Act has just been passed which will impose new duties on the council which is likely to significantly increase the workload of the Homelessness Department. The council has yet to plan for these new duties. It has rushed through its raid on the HRA to ensure that the General Fund does not have to cover the gap in funding resulting from the change from the management fee to the “flexible homelessness grant”. If the council had acted decisively **to hold the government to its promise** that no council would lose out under this new system, then there might not have been a gap in funding in the first place. With Parliament closed down there is now no chance of resolving this issue until the General Election is over.

Even if the council manages to find 80-100 properties to buy, this is a one-off measure, which cannot be repeated because of the shortage of resources which the HRA has. It will only replace a little over one year's RTB sales⁵. So the haemorrhaging of council homes will continue unless there is a change of policy at the national level. RTB has been a disaster, creating an acute shortage of 'social housing'. Housing waiting list numbers are continuing to rise. Swindon council does not have sufficient homes at its disposal to accommodate the increasing numbers of homeless and the rising number on the waiting list.

Fundamentally, the housing crisis cannot be resolved without a return to large scale council house building. Even the Conservative Chair of the Local Government Association, Lord Porter has recently said:

“It is clear that legislative change alone will not resolve homelessness. It is crucial that the government recognise and address the wider factors that are increasing homelessness, such as the lack of affordable housing and welfare reforms. Without this the Bill will struggle to achieve its aim of reducing homelessness.

Councils need powers and funding to address the widening gap between incomes and rents, resume their historic role as a major builder of new affordable homes...”

It's notable that a Tory leader of the LGA admits that welfare reforms are causing homelessness. One of them is the freeze of LHA. Shelter has called for an end to this freeze. It said:

“Marcus Jones, the homelessness Minister, has confirmed a change in council funding to encourage local authorities to spend money on stopping homelessness instead of on costly temporary accommodation. But local authorities will be left with few tools to prevent people becoming homeless without an end to the Local Housing Allowance freeze.”

4 Swindon Tenants Campaign Group has called for the reopening of the 'debt settlement', a power which the government has, to cut the 'debt' in line with the loss of income resulting from government policies. Swindon Council has thus far refused to press the government on this despite the big loss of income to the HRA.

5 74 were sold in 2016-17.

The freeze will not only widen the gulf between earnings and rent, but impose greater costs on councils at the very time when their central government grant is disappearing. Shelter says that the growing gap between LHA rates and high rents means that more and more families are now left with no choice but to seek help from council homelessness services.

The idea behind the “flexible homelessness grant” is that councils will save money on relief of homelessness by spending it on prevention. However, the government has not indicated whether there will be any grant after two years and whether it will continue to be ring-fenced after that. What happens if it doesn't achieve the desired results? Council staff already have their work cut out because single people under 35 only qualify for the Shared Accommodation Rate (a room in a shared house) of £61.84 a week. This is insufficient to cover the rent of any shared accommodation in Swindon, even if they qualify for the full amount. If government policy remains unchanged then in 2019 social housing tenants under 35 will only qualify for the Shared Accommodation Rate. This will mean that councils will either not house single people under 35 or would have to turn existing family homes into Houses in Multiple Occupation. If they did that then it would worsen the shortage of family sized homes which they own.

When the General Election is over, whatever the outcome, we need to campaign for the new government to increase Swindon's “flexible homelessness grant” to the level of management fees in 2016-17, and for an end to the LHA freeze which can only increase the gap between grant and private sector rents. So long as RTB continues to exist then councils should be allowed to keep 100% of receipts, something which even the LGA with a Conservative majority is calling for, though an end to RTB would be preferable.

If central government policy continues down the road it has travelled since 2010 then the social consequences will be disastrous. For all the talk of Swindon being a 'successful town' it is one in which we have seen the emergence of people renting garages to live in and unscrupulous landlords packing tenants into 'beds in sheds'.

Martin Wicks
May 11th 2017

Appendix

Housing Revenue Account: Capital Expenditure

Year	Planned Capital Expenditure	Actual
2011/12	£9,300,000	£8,776,000
2012/13	£11,012,000	£6,372,000
2013/14	£14,792,000	£9,311,000
2014/15	£16,802,000	£12,657,000
2015/16	£16,800,000	£16,770,000
Total	£68,706,000	£53,886,000
Underspend £14,820,000		