



Leicester  
City Council

**WARDS AFFECTED**  
All Wards

**FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:**

**Cabinet  
Council**

**21 January 2008**

**24 January 2008**

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**HOUSING REVENUE ACCOUNT – BUDGET 2008/09**

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**Report of the Corporate Director of Adults and Housing and Chief Finance Officer**

**1. Purpose of Report and Summary**

- 1.1 This report summarises the financial position of the Housing Revenue Account (HRA) for 2007/08 and 2008/09. The approval of Members is sought for setting rents for 2008/09 again based on the Government's "formula rents", and Members are asked to determine the levels of service charges to be applied in 2008/09.

**2. Recommendations**

- 2.1 The Adults and Housing Directorate and Corporate Directors Board are recommended to note the report.
- 2.2 The Cabinet is asked to consider the report, and recommend Council to:
- (i) note the estimated working balance of £3.979m at the start of 2008/09 and approve the base budget for 2008/09 as detailed at Appendix A;
  - (ii) consider the issues outlined in the body of the report and, in particular, the comments of the Housing Management Board, which will be reported at the meeting;
  - (iii) approve the setting of rents for 2008/09 on the basis of "formula rents" and within the ranges shown in Appendix B, noting that different properties will attract different increases and the **overall average**, in terms of income generated, will equate to a 5.2% increase overall;
  - (iv) consider the issues outlined in Section 3.5 of the report, regarding the district heating function, and decide on the level of charges to be applied in 2008/09;
  - (v) approve the decision not to proceed with the metering of properties on the district heating scheme, for the reasons given in Section 3.5.5;

- (vi) approve the revised level of miscellaneous payments and charges to be applied in 2008/09, as detailed in Appendix D;
- (vii) approve the “prudential indicators” for the HRA, as detailed in Section 3.7 of the report and Appendix E;
- (viii) approve that £24,000 be added to the 2008/09 budget (and £87,000 in 2009/10 and then reducing in later years as more principal repayments are made) to facilitate £1m of new prudential borrowing being used to finance the 2008/09 HRA Capital Programme, if required;
- (ix) approve the addition of £195,000 to the 2008/09 HRA budget for the implementation of a Choice Based Lettings Scheme, which is detailed in Section 3.3 of the report as a potential Service Development for 2008/09.

### 3. Report

#### 3.1 Revised Assessment for 2007/08

As shown in Appendix A, the original budget for 2007/08 forecasts a credit working balance of £3.421m to be carried forward into 2008/09. Current forecasts indicate that this balance will be £3.979m, which represents a £0.558m favourable variance compared to the original budget.

This favourable variance is largely due to reduced energy charges, with the markets for gas and electricity returning to lower prices compared to the very high levels that applied in the year from June 2006.

#### 3.2 Base Budget for 2008/09

Appendix A shows the 2008/09 base budget for the HRA; this is the position on the account at existing levels of service and at current rent levels. Also shown are the variances between the 2008/09 budget and the corresponding original budget for 2007/08.

Details of the major variances are:

##### (i) Rent – Dwellings

The reduction in rent income of £1,051,000 (prior to the rent increase for 2008/09) is due to:

	£000s
(a) allowance for 290 “Right to Buy” and other sales during 2008/09 and the full-year effect of 2007/08 sales	800
(b) there is one day’s less rent in 2008/09 compared to 2007/08	185

(c)	other small changes (eg. in occupancy levels)	66
		<hr/>
		<u>1,051</u>

(ii) Repairs and Maintenance

This budget is showing an increase of £367,000 which is effectively a substantial real reduction after allowing for inflation; this reflects lower maintenance costs resulting from high levels of recent capital investment.

(iii) Landlord Services

The increase of £548,000 is due to:

	£000s
(a) allowances ranging from 2.5% to 2.75% for pay awards and price inflation	384
(b) allowances for the additional costs arising from the "single status" pay agreement	200
(c) allowance for the cost of meeting the statutory requirement from 1 October 2008 to provide Energy Performance Certificates (EPCs) for all new HRA tenancies (ie. relets) and for all Right to Buy applications (in a full year it is estimated that 3,000 EPCs will be required at a cost of some £150,000 to £200,000)	100
(d) Other changes, including savings in energy costs following the very high charges that applied in the year from 1 June 2006	(136)
	<hr/>
	<u>548</u>

(iv) Negative Subsidy

It can be seen from Appendix A that Negative Subsidy has increased by £2.002m between the 2007/08 and 2008/09 budgets. However, as capital financing costs are part of the subsidy calculation, it is necessary to combine this variance with the variance in capital financing costs (a reduction of £117,000) to obtain the total effective change in the negative subsidy position, and this shows a net worsening of £1.885m. This worsening of Leicester's annual negative subsidy position follows a similar £3.0m worsening between 2005/06 and 2007/08. However, over the period 2003/04 to 2005/06 there was a combined improvement in the annual subsidy position of £6.8m, so the Government is now "clawing back" a substantial part of these large earlier improvements.

These adverse subsidy charges are partly due to the Government's policy of not allowing Local Authorities to retain the full amount of additional income resulting from the large, well above inflation, annual rent increases due to the Government's rent restructuring process. The subsidy system is the means by

which the Government claws back a large part of the additional HRA rental income each year. Also, Authorities such as Leicester that gained significantly several years ago from the Government's review of the subsidy system, have lost out in recent years as improved protection has been given to Authorities that initially lost subsidy, at the expense of the gaining Authorities.

### 3.3 Service Development

3.3.1 One service development is proposed for 2008/09, as follows:

#### Choice Based Lettings (CBL) (also known as "Advertise and Bid")

CBL is the Government's preferred model of allocating social housing. Each Local Authority has been set a target to introduce CBL by 2010. The scheme offers housing applicants more choice over where they live and is based on advertising available properties to housing register applicants. Applicants bid for homes they are interested in. National evaluation has shown that housing applicants value the transparent nature of a CBL scheme.

Implementation costs will be a charge to the HRA and are expected to be a maximum of £195,000, comprising:

<b>Implementation Activity</b>	<b>Anticipated Cost £000s</b>
Create CBL website	10
Setting up system for automated phone bidding	50
Increase call capacity on call handling system	10
IT fees for setting up CBL system	30
Translation costs (advice leaflets)	50
Marketing of scheme changeover	25
Contingency	20
<b>TOTAL</b>	<b>195</b>

It is expected that ongoing annual costs such as advertising will be met from savings arising from the revised working methods under the new scheme, therefore, there will be no net budget requirement after the implementation year. The Cabinet has already approved the scheme in principle, and full approval is now sought to include £195,000 in the 2008/09 HRA budget for its implementation.

### 3.4 Rent Setting under the Rent Restructuring System

3.4.1 To comply with Government regulations, Leicester's HRA commenced the rent restructuring process in 2004/05. Under this system, all rents are set by a Government formula, taking account of local earnings levels, the value of the property and the number of bedrooms in the property. The Government's original intention was that, under the formula rent system, Local Authority rents would increase at a faster rate than Housing Association rents so that, by 2011/12, rent levels in the two sectors would be similar.

- 3.4.2 Following the Government's recent review of its rent restructuring policy, it has decided to extend the "rent convergence" period to 2016/17 – this will prevent the huge annual increases in Local Authority rents that would have been necessary to achieve parity with Housing Association rents by the original 2011/12 target.
- 3.4.3 Even with this extended convergence period, Leicester's average rent increase for 2008/09 will be 5.2%, which will produce extra rental income for the HRA of £3.108m. However, as noted earlier, £1.885m (60.6%) of this increased income is effectively "clawed back" by the Government by a worsening of Leicester's negative subsidy position.
- 3.4.4 Appendix B gives details of the impact of the Government's revised rent restructuring formula on average rents for different categories of property. In accordance with the decision of the 21 July 2003 meeting of the Cabinet (following the advice of the Housing and Community Safety Scrutiny Committee and the Housing Management Board), full usage has been made of the Government's permitted 5% tolerances to limit, as far as possible, large increases in rent levels. However, as can be seen from the ranges of increases listed for each category of properties in Appendix B, certain properties will still face large percentage increases despite the use of the tolerances, particularly where their base rent is low in comparison with other properties in their "family".
- 3.5 District Heating Charges
- 3.5.1 Members will recall that the Council's energy costs increased by around 100% for gas and 70% for electricity from 1 June 2006. Gas charges, in particular, constitute a very large part of the overall costs of the district heating function.
- 3.5.2 Despite these very large increases in energy costs, charges to tenants were "only" increased by 10% for 2006/07, with those (approximately 3,000) tenants using the district heating service effectively receiving a subsidy of £0.6m from the HRA.
- 3.5.3 District heating charges were increased by a further 15% for 2007/08 which meant, had energy prices remained at the levels that applied from 1 June 2006, that tenants on the district heating scheme would receive a further subsidy of some £0.5m from the HRA. Fortunately, on renewal of the Council's district heating gas contracts from 1 June 2007, the markets had stabilized and contracts were renewed until October 2008 at prices closer to those that applied prior to the very large increases in June 2006. Therefore, rather than the HRA again subsidizing tenants on district heating in 2007/08, a surplus of £0.4m is expected (depending on energy usage during the Winter period) which will go some way towards "reimbursing" the subsidy received from the HRA in 2006/07.
- 3.5.4 Although the Council's district heating gas contracts are again up for renewal from 1 October 2008 (and recently significant volatility has returned to the energy markets with current energy contract renewals showing 40% increases), it is considered by officers that it is appropriate for district heating charges for tenants to remain at 2007/08 levels, as detailed in Appendix C, for 2008/09. This will enable the district heating function to return to being broadly self-financing in 2008/09, whilst allowing for an increase of up to 12% in gas costs from the contract renewal on 1 October 2008.

3.5.5 It was also intended that meters would be installed in all dwellings on the district heating scheme by the end of 2007/08, so that tenants could regulate their own energy usage and determine their own heating bills. However, tenders received for this work were much higher than anticipated, both for the initial capital outlay (up to £7m) and for the ongoing running costs, making the scheme financially unviable. It has, therefore, been decided not to proceed with the metering, although it will be considered as part of the Council's current assessment of introducing a Citywide Combined Heat and Power (CHP) Scheme.

3.6 Other Associated and Miscellaneous Charges

3.6.1 The recommendations for the levels of associated and miscellaneous charges (except for district heating charges) to be applied in 2008/09 are given in Appendix D.

3.6.2 In most cases, the increase recommended for 2008/09 is 4% (in line with Government guidelines) which overall will produce additional income for the HRA of £94,000.

3.7 Prudential Code – Impact on the HRA

3.7.1 The Local Government Act 2003 introduced new capital rules for Local Authorities, including the “Prudential Framework” under which detailed regulation was replaced by a more flexible system of capital control, based upon Authorities’ ability to meet revenue costs, and comply with CIPFA’s code of practice.

3.7.2 The key requirement of CIPFA’s code of practice is that Authorities must agree a set of indicators that demonstrate that borrowing is affordable, sustainable and prudent. The Authority’s full Council must approve the set of indicators at the same time at which it agrees the Council’s budget for the forthcoming year.

3.7.3 **Separate indicators are required for General Fund borrowing and HRA borrowing.** The code recommends a number of national indicators which all Authorities must set. Authorities can also set local indicators, based upon local circumstances. Indicators relating to the HRA are in this report for approval by the Council.

3.7.4 The impact on unsupported borrowing of the proposals contained in this report is set out in paragraph 3.7.6. The indicators below and in Appendix E fully reflect:

(i) Recommendations made in this report regarding unsupported borrowing for investment in the HRA housing stock.

(ii) The Housing Capital Programme to be recommended for 2008/09.

3.7.5 The four national indicators for the HRA are given in Appendix E, whilst the two locally determined indicators are given below as these are more significant in the context of the HRA’s proposed prudential borrowing:

(i) Annual Movement in HRA Unsupported Borrowing

	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate



	£000s	£000s	£000s
Historic Unsupported Borrowing b/fwd	23,865	23,841	23,777
New Unsupported Borrowing	1,000	1,000	1,000
Less Unsupported Borrowing Repaid	(1,024)	(1,064)	(1,104)
Total Unsupported Borrowing c/fwd	23,841	23,777	23,673

- (ii) The actual ratio of unsupported capital financing costs to net revenue stream for 2006/07 and estimates for the current year and for the period 2008/09 to 2010/11 are:

	2006/07 Actual	2007/08 Estimate	2008/09 Estimate	2009/10 Estimate	2010/11 Estimate
HRA Ratio	2.36%	3.00%	3.20%	3.10%	3.00%

3.7.6 It is not yet clear whether it will be necessary to use any new prudential borrowing for financing of 2008/09 HRA capital expenditure. However, it is required under the Prudential Code that approval for any such borrowing is obtained from the Council at its budget-setting meeting for the relevant year. Therefore, to allow some flexibility in financing the 2008/09 HRA capital programme, it is assumed for the purposes of this report that £1m of new prudential borrowing will be used by the HRA in 2008/09. This will result in £24,000 of revenue costs in 2008/09, £87,000 in 2009/10, £84,000 in 2010/11 and reducing in later years as principal repayments reduce the outstanding debt. It is the opinion of officers, having regard to the above indicators and the generally improved financial position of the HRA, that the HRA will be able to meet the ongoing revenue costs in future years. To assist Members in making the decision on whether or not to utilize the Prudential Borrowing Framework in 2008/09, officers have compiled a prediction of the HRA up to 2011/12 (see Appendix F) which clearly shows the figures proposed are both affordable and prudent within the context of the HRA.

3.7.7 Also, during 2005/06, Cabinet approved the creation of an earmarked reserve – currently with a balance of £0.5m – to cover unforeseen increases in future prudential borrowing costs (eg. due to increased interest rates). The existence of this reserve provides further reassurance that the proposed level of unsupported borrowing remains affordable and prudent.

### 3.8 Summarised Position for the 2008/09 HRA

3.8.1 The draft summarized position for the 2008/09 HRA is as follows:

	£000s
Deficit on base budget (see Appendix A)	3,178
Average rent increase under Rent Restructuring (5.2%)	(3,108)
Recommended increase in service charges (excluding district heating)	(94)
2008/09 cost of £1m new prudential borrowing	24
Service development – choice based lettings	195
Net position for 2008/09 (deficit)	195

Balances b/fwd 1.4.08.	(3,979)
Balances c/fwd 31.3.09.	<u>(3,784)</u>

3.8.2 Members are reminded that Cabinet have set minimum HRA balances at £1.5m to meet any unforeseen expenditure or shortfall in income. The projected balances of £3.784m at 31 March 2009 are, therefore, some £2.3m above the minimum. These balances will be required as follows:

- (a) to support the HRA Capital Programme, thereby helping to meet the Government's Decent Homes Standard by 2010;
- (b) for the introduction of a Global Positioning System for the Housing Repairs Trading Services;
- (c) to allow for any future restriction of rental income due to the operation of the Government's rent restructuring and subsidy systems;
- (d) also, the Government has recently indicated that Authorities may be able to "buy" their way out of the negative subsidy system, and having relatively high balances will be useful in this respect.

#### 4. Financial Implications (Graham Troup Ext. 29-7425)

4.1 The Council has to balance expenditure with rent income in the ringfenced HRA each year. This can be assisted, if necessary, by drawing on HRA balances, which are estimated to be £3.979m at 1 April 2008.

4.2 Leicester commenced property-specific rent restructuring (ie. setting rents on the basis of the Government's formula rents) in 2004/05. Under this process, it was intended that Local Authority rents would be in line with the rents on equivalent Housing Association properties by 2011/12. However, the Government has now extended the "convergence period" to 2016/17 to avoid having extremely large annual rent increases in the last part of the original restructuring period. Even so, the Government's revised formula will produce an average rent increase of 5.2% for Leicester's HRA for 2008/09, equivalent to £3.1m extra income; however, £1.9m (or 61%) of the increase will be "clawed back" by the Government via a worsening of the Authority's negative subsidy position.

#### 5. Legal Implications (Joanna Bunting Ext. 29-6450)

There are no legal implications associated with this report.

#### 6. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	Yes		7.1
Policy	No		



Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	Yes	7.1

## 7. Equal Opportunities Implications

- 7.1 Any reduction or restriction of HRA budgets directly affects the Council's ability to deliver high quality services that meet the needs and aspirations of Council tenants, many of whom are elderly and/or come from disadvantaged groups.

## 8. Background Papers – Local Government Act 1972

- 8.1 (a) Budget Book 2007/08  
(b) Draft HRA Subsidy Determination 2008/09 (DCLG 23.11.07.)  
(c) Report of the Corporate Director of Adults and Housing and Chief Finance Officer on "Housing Revenue Account – Budget 2007/08" to Housing and Community Safety Scrutiny Committee 11.1.07.; Cabinet 15.1.07. and Council 25.1.07.  
(d) Report of the Corporate Director of Adults and Housing on "Advertise and Bid – A New Letting Scheme for Social Housing" to Cabinet 10.12.07.

## 9. Consultations

- 9.1 This is a joint report of the Corporate Director of Adults and Housing and the Chief Finance Officer. No other departments have been consulted.

## 10. Aims and Objectives

- 10.1 The overall Quality of Life Aim for the Housing Services is that "a decent home is within the reach of every citizen of Leicester".

## 11. Report Author

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Graham Troup, Principal Accountant (HRA), Ext. 29-7425

<b>Key Decision</b>	Yes
<b>Reason</b>	Part of budget and Policy family framework
<b>Appeared in Forward Plan</b>	No
<b>Executive or Council Decision</b>	Council