

Leicester  
City Council

ALL WARDS

HOUSING SCRUTINY COMMITTEE  
CABINET

10 JANUARY 2002  
28 JANUARY 2002

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## HOUSING REVENUE ACCOUNT – BUDGET 2002/03

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### Report of the Director of Housing and Chief Financial Officer

#### 1. Purpose of Report and Summary

1.1 This report summarizes the financial position of the Housing Revenue Account (HRA) for 2001/02 and 2002/03 and sets out the options for Members in deciding the 2002/03 rent level. The 2002/03 base budget currently shows a deficit of £1.669m.

#### 2. Recommendations

2.1 The Scrutiny Committee is asked to:

- i) note the estimated working balance of £3.187m at the start of 2002/03, and the base budget for 2002/03 as detailed in Appendix A;
- ii) consider the issues outlined in the background information of this report, and suggest the level of rents to be applied for 2002/03; and
- iii) consider and suggest on the revised level of miscellaneous payments and charges to be applied in 2002/03, as detailed in Appendix C.

2.2 Cabinet is recommended to:

- i) note the estimated working balance of £3.187m at the start of 2002/03, and the base budget for 2002/03 as detailed in Appendix A;
- ii) consider the issues outlined in the background information of this report, and decide the level of rents to be applied for 2002/03; and
- iii) consider and decide on the revised level of miscellaneous payments and charges to be applied in 2002/03, as detailed in Appendix C.

### **3. Financial Implications**

3.1 The Council has to balance expenditure with rent income in the ring-fenced HRA each year. This can be assisted by drawing on the HRA balances which are estimated to be £3.187m at 1<sup>st</sup> April 2002.

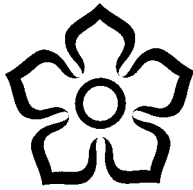
3.2 The Government has introduced 'rent restructuring' in 2002/03 and has indicated that the many authorities, like Leicester, that are unable to introduce the changes from 1<sup>st</sup> April 2002 should change overall rent levels during 2002/03 to be consistent with the overall impact of rent restructuring.

This would mean an average rent increase of 2.96% for Leicester's HRA.

### **4. Legal implications**

There are no legal implications.

**5. Dave Pate, Principal Assistant Director, Resources : Ex: 6801  
Graham Troup, Principal Accountant : Ex: 7425**



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10<sup>TH</sup> January 2002  
14<sup>TH</sup> January 2002

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REPORT OF THE DIRECTOR OF HOUSING AND CHIEF FINANCIAL OFFICER

**SUPPORTING INFORMATION**

**1. Report**

1.1 Revised Assessment for 2001/02

As shown in Appendix A, the original budget for 2001/02 forecast a credit working balance of £1.837m to be carried forward into 2002/03. Current forecasts indicate that this balance will be £3.187m which is a £1.35m favourable variance compared to the original budget.

1.2 Of this £1.35m variance, £706,000 relates to an improved level of balances at 1<sup>st</sup> April 2001, as detailed in the 2000/01 HRA Outturn report presented to the August 2001 meeting of the Housing Scrutiny Committee. The remaining favourable variance of £644,000 relates to the 2001/02 accounts, and mainly comprises savings of £500,000 on day-to-day repairs costs (reflecting the capital investment in the housing stock and continuing DSO recruitment/retention difficulties) and increased interest on higher cash balances.

1.3 It is possible that the HRA will receive some £1m extra subsidy in 2001/02 dependant on the outcome of discussions with the District Auditor and DTLR on the calculation of rent-cap penalties for 2000/01. However, it is the view of officers that no account should be taken of this possible additional income until the position is confirmed in approximately July 2002.

1.4 A detailed report on the revised position for 2001/02 will be presented to the next meeting of the Housing Scrutiny Committee and Cabinet.

## 2. FINANCIAL IMPLICATIONS BASE BUDGET FOR 2002/03

2.1 Appendix A also shows the 2002/03 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 2002/03 budget and the corresponding original budget for 2001/02.

2.2 Details of the variances are:-

a) Dwellings – Rents

The reduction in rental income of £606,000 is due to the effect of “Right to Buy” sales offset by additional rents from capital improvements to dwellings (e.g. new uPVC windows or central heating).

b) Other Income

This budget head comprises all non-dwelling rents (i.e. garages, shops and land), district heating charges and interest receivable on HRA mortgages and cash balances. The favourable variance of £93,000 is mainly due to extra interest on higher cash balances, offset by reduced interest on the declining mortgage portfolio.

c) Subsidy – Major Repairs Allowance (MRA)

This element of Housing Subsidy is included in the account as a presentational charge from the introduction of resource accounting to the HRA in 2001/02. Part of HRA capital expenditure is now shown in the HRA revenue account (see “Capital Repairs (MRA)” below) and this will be directly funded by revenue subsidy and have no net impact on the HRA. The increase of £284,000 in the MRA element of capital financing for 2002/03 is included in the Housing Capital Programme report elsewhere on this agenda.

d) Landlord Services

The increase of £684,000 covers allowances for pay awards and price inflation, plus budgets for increased buildings insurance costs (£120,000), resources for the LFTA (£16,500), and an extra £150,000 contribution to the bad debts provision, which is a legal requirement, due to higher rent arrears caused by the Housing Benefits payments backlog.

e) Revenue Repairs

The relatively small increase of £317,000 or 1.6% (at a time when construction industry inflation is running at some 6.9%) reflects lower

day-to-day repairs costs due to the improving condition of the HRA dwellings stock.

f) Capital Repairs (MRA)

This is the expenditure side of the resource accounting entries referred to above, and has no net impact on the HRA.

g) Capital Financing Expenses

The lower capital financing costs of £944,000 reflect the move away from loan financing of capital expenditure by the Government (with credit approvals being replaced by MRA subsidy noted earlier), and reductions in interest rates. These lower charges do not benefit the HRA since they result in a worsening of the Council's Negative Subsidy position by an equal amount (see below).

h) Negative Subsidy

The worsening of the Council's negative subsidy position by £1.15m is partly due to the lower capital financing charges of £944,000. The remaining net adverse variance of £206,000 is mainly due to the ending of the subsidy allowances for introducing resource accounting (£99,000) and tenant compacts (£32,000) with the remaining variance of £75,000 due to the impact of various changes to subsidy factors.

## **2. Legal Implications**

There are no legal implications associated with this report.

## **3. Possible Service Developments for 2002/03**

3.1 Discussions have already taken place with tenants representatives, via the Tenant Management Board, on the following service development proposals for 2002/03:-

- i) £10,000 for developing Tenants Associations, and
- ii) a sum to be determined later for Customer Care initiatives – this will be the subject of a detailed report to a future meeting.

## **4. The Government's Proposals for Rent Restructuring**

4.1 The Government has recently confirmed its intention to introduce the first phase of rent restructuring from 1 April 2002. The main features of the restructuring are:

- i) a number of local authority dwelling rents will change, some up and some down, over the next ten years. This is to make them more reflective of the market in the particular local authority area

and so that, at the end of this period, local authority rents will be more in step with housing association rents; and

- ii) individual rents will be calculated on a formula based 70% on relative county manual earnings (with an adjustment for the number of bedrooms in the property) and 30% on the relative value of the property.
- 4.2 Therefore although some rents will be increasing in real terms for the next ten years, due to the introduction of “formula rents” at the individual property level, individual tenants will experience different levels of rent increases (or even rent decreases) over this period.
- 4.3 The Government has acknowledged that many or most local authorities will be unable to amend their computerised rent-systems in time to introduce rent restructuring in 2002/03. It has recommended these authorities to adjust their overall rent levels so that the average rent is consistent with the first phase of rent restructuring having been introduced. For Leicester, this would mean a uniform rent-increase of 2.96% being introduced for 2002/03.
- 4.4 In Leicester, the rent system uses customised software developed in-house and requires very substantial amendments and testing to incorporate property valuation data to calculate the new formula rents. Therefore it will not be possible to produce formula rents for an introduction of rent restructuring on 1<sup>st</sup> April 2002, and Members may wish to approve a uniform rent-increase for the year, in-line with the Government’s recommendation.
- 4.5 It should be noted that authorities opting for a uniform rent-increase rather than rent-restructuring in 2002/03 will suffer no financial penalties. However, current indications are that rent-capping at the individual property level will be introduced in 2004/05 and that authorities not making the required progress towards rent-restructuring by that time will suffer financial penalties.

## **5. MEETING THE DEFICIT ON THE 2002/03 HRA**

- 5.1 The deficit of £1.669m (excluding the cost of any approved service developments) on the 2002/03 HRA can be met by one, or a combination of, the following:-
- a) a charge against balances
  - b) budget reductions; or
  - c) an increase in rents
- 5.2 As noted in Section 1.1, it is estimated that HRA balances will stand at £3.187m at the end of 2001/02. This level is consistent with what the District Auditor would regard as a “prudent” level for Leicester’s HRA, particularly given current uncertainties regarding the impact of rent

restructuring. Therefore it is the view of officers that Members should think very carefully before using these balances in 2002/03.

- 5.3 The second option for meeting the estimated deficit is to make reductions in the base budget. However, the scope for such cuts is limited if front-line services are to be maintained. Ongoing cuts of £4.7m were made in 1997/98 (representing a 13% cut) and budget decreases from that time (coinciding with rent-freezes or reductions from 1999/2000 onwards) have represented further real cuts.
- 5.4 The final option available to meet the budget deficit is to increase rents. Following the rent-reduction for 2001/02 and the Government's increase of Leicester's rent-cap for 2002/03, rents can be increased by 5% for 2002/03 without rent-cap penalties being incurred. However, as noted earlier, the Government is recommending that any uniform rent-increase be consistent with rent restructuring, which is a 2.96% increase for Leicester.
- 5.5 Appendix B shows the additional income generated from a number of rent-increase options, including the Government's favoured 2.96%. This level of increase would produce additional income of £1.609m leaving a small deficit of £60,000 on the 2002/03 HRA to be met from balances.
- 5.6 The views of the Tenants Associations on the issues of rent levels and service developments will be reported to Members at the Scrutiny Committee and Cabinet meetings in January 2002.

## **6. ASSOCIATED CHARGES, MISCELLANEOUS CHARGES AND PAYMENTS**

The recommendations for the level of associated and miscellaneous charges and payments to be applied in 2002/03 are given in Appendix C.

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting Information
Equal Opportunities	Yes	Yes para 7.1
Policy	No	No
Sustainable and Environmental	No	No
Crime and Disorder	No	No
Human Rights Act	No	No
Elderly/People on Low Income	Yes	Yes para 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**

- a) Budget Book 2001/02
- b) HRA Closing down files Ref.F2m/1111
- c) Housing Subsidy Claims files Ref: F2M/P813
- d) Draft Housing Subsidy Determination 2002/03 (DTLR, 26/11/01)
- e) HRA Budget files Ref: F2M/9999
- f) Report of the Director of Housing and Chief Financial Officer on "Budget Monitoring 2001/02 Housing Revenue Account and Housing DSO" to Housing Scrutiny Committee (6/12/01).

## **9. Consultations**

9.1 This is a joint report of the Director of Housing and Chief Financial Officer. No other departments have been consulted on this report.

## **10. AIMS & OBJECTIVES**

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

## **11. Report Author**

Dave Pate, Principal Assistant Director, Resources: Ex: 6801  
Graham Troup, Principal Accountant: Ex: 7425



APPENDIX A

**HOUSING REVENUE ACCOUNT**

<b>2000/01 Actual £000</b>		<b>2001/02 Original Budget £000</b>	<b>2002/03 Base Budget £000</b>	<b>Variance £000</b>
	<b>Income</b>			
55,895	Rents-Dwellings	54,956	54,350	+ 606
2,841	Other Income	2,638	2,731	- 93
0	Subsidy-MRA	12,875	13,159	- 284
<b>58,736</b>	<b>Total Income</b>	<b>70,469</b>	<b>70,240</b>	<b>+ 229</b>
	<b>Expenditure</b>			
12,238	Landlord Services	12,606	13,290	+ 684
19,226	Revenue Repairs	19,183	19,500	+ 317
0	Capital Repairs (MRA)	12,875	13,159	+ 284
17,715	Capital Financing	16,970	16,026	- 944
	Payments to Government			
6,884	Negative Subsidy	8,784	9,934	+1,150
1,356	Rent Cap	0	0	0
<b>57,419</b>	<b>Total Expenditure</b>	<b>70,418</b>	<b>71,909</b>	<b>+1,491</b>
(1,317)	(Surplus)/Deficit for Year	(51)	1,669	+1,720
(1,175)	Working Balance B/fwd	(1,786)	(3,187)	
(2,492)	Working Balance C/fwd	(1,837)	(1,518)	

**Notes:**

1. In the variance column, a favourable variance (i.e. reduced expenditure or increased income) is denoted by a negative sign, while an adverse variance (i.e. increased expenditure or reduced income) is denoted by a positive sign.
2. Credit (i.e. favourable) balances are denoted by brackets.
3. **The above table does not include the cost of any service developments shown in paragraph 3.1**

APPENDIX B

**RENT INCREASE OPTIONS 2002/03**

Type of Dwelling	Current Average Rent	Rent Increase			
		+1%	+2%	+2.96%	+3%
1 Bed House	£43.25	£0.43	£0.87	£1.28	£1.30
1 Bed Flat	£39.86	£0.40	£0.80	£1.18	£1.20
2 Bed House	£45.01	£0.45	£0.90	£1.33	£1.35
2 Bed Flat	£45.00	£0.46	£0.91	£1.35	£1.37
3 Bed House	£47.50	£0.48	£0.95	£1.41	£1.43
3 Bed Flat	£52.14	£0.52	£1.04	£1.54	£1.56
4+ Bed House	£54.49	£0.54	£1.09	£1.61	£1.63
<b>All dwellings</b>	<b>£44.93</b>	<b>£0.45</b>	<b>£0.90</b>	<b>£1.33</b>	<b>£1.35</b>
<b>Change to total rent income</b>		<b>£0.544m</b>	<b>£1.087m</b>	<b>£1.609m</b>	<b>£1.631m</b>

**NOTES ON ASSOCIATED CHARGES, MISCELLANEOUS CHARGES  
AND MISCELLANEOUS PAYMENTS**

The Council makes a number of associated and miscellaneous charges to certain tenants in addition to their rent and these charges need to be reviewed along side the Housing Revenue Account when considering the rent position each year.

**District Heating**

Members have taken a number of initiatives in recent years to improve the efficiency and effectiveness of district heating schemes. These measures have helped to keep the cost of this service down to below inflation increases over a number of years. However, at the January 2001 meeting of the Housing Scrutiny Committee Members asked that, in future, the District Heating Schemes become self-financing. Officers have checked the account, which shows that broadly the schemes are self-financing, and therefore a 3% increase would maintain this position during the next financial year.

Members are also reminded that, following discussions with HM Customs and Excise, it has been confirmed that tenants, linked to the Council's district heating schemes, will not be subject to VAT on fuel. However, should Committee decide to meter the supply of heat and hot water at a future date, then tenants would be responsible for VAT on their supply.

**Other Charges**

(i) **Electric Cookers and Fridges**

The charge for electric cookers and fridges is intended to reflect the cost of replacing and servicing these facilities. At the present time the current charge is considered adequate to cover the costs and therefore, no increase is recommended this year.

(ii) **LeicesterCare**

Members have previously agreed to make the charge for the LeicesterCare service self-financing. This was achieved by increasing the charge above inflation over a three-year period. The increase of 3% recommended this year will maintain that position.

(iii) **Use of Guest Room (WAAs)**

The charge for use of the guest room at Warden Assisted Schemes is not capable of precise calculation. However, it is the officers' opinion that any increase in the current charge of £2.50 per night would discourage its use and

lead to problems for staff and residents. Therefore, no increase is recommended this year.

(iv) **Replacement Mortgage Card or Rent Card**

The charge for mortgage card or rent card replacement is intended to cover the cost involved in supplying and updating the new document. The current charge of £1 is considered reasonable so no increase is recommended on this occasion.

(v) **Information on Mortgages and Property Types/Conditions etc**

The Department is receiving a growing number of requests for ad hoc information in connection with mortgages and property type/condition etc. As the work involved is very time consuming, it is felt appropriate to levy the charge on all requests for information in connecting with mortgages and property types and condition etc, excluding those requests from tenants for information in connection with tenants statutory rights under Right to Buy legislation.

The current charge of £50 is considered adequate and reflects the cost of the work involved at the present time and, therefore, no increase is recommended for next financial year.

**Miscellaneous Payments**

It is the opinion of officers that the current level of payments are reasonable, therefore, Members are recommended to apply no increase next year.



**REVIEW OF ASSOCIATED, MISCELLANEOUS CHARGES AND MISCELLANEOUS PAYMENTS**  
**ASSOCIATED CHARGES**

<b><u>DISTRICT HEATING</u></b>		<b><u>CURRENT</u></b>	<b><u>PROPOSED</u></b>
		<b><u>CHARGE</u></b>	<b><u>CHARGE</u></b>
		<b><u>2002/2002</u></b>	<b><u>(3% INCREASE)</u></b>
			<b><u>2002/2003</u></b>
		£	£
1 bedroom dwelling	HEATING	4.74	4.88
	HOT WATER	2.37	2.44
2 bedroom dwelling	HEATING	5.94	6.12
	HOT WATER	2.97	3.06
3 bedroom dwelling	HEATING	7.08	7.30
	HOT WATER	3.54	3.65
4 person dwelling	HEATING	8.28	8.52
	HOT WATER	4.14	4.26
<b><u>GOSCOTE HOUSE</u></b> (per week)			
Small bedsit	HEATING	3.54	3.66
	HOT WATER	1.77	1.83
1 bedroom flat	HEATING	4.16	4.30
	HOT WATER	2.08	2.15
2 person flat	HEATING	4.74	4.88
	HOT WATER	2.37	2.44

**OTHER SERVICES**

	<b>CURRENT</b>	<b>RECOMMENDED</b>
	<b>2001/2002</b>	<b>2002/2003</b>
Electric Cookers and Fridges (per week)	1.00*	1.00*
LeicesterCare - Council Tenant	2.15	2.21
- Private Tenant	2.55*	2.63*
<b><u>Miscellaneous Charges</u></b>		
Use of guest room (WAAs) per night	2.50*	2.50*
Replacement mortgage card or rent card	1.00	1.00
Providing information on Mortgages and/or Property Types/Conditions etc.	50.00	50.00

\*Includes Value Added Tax

	<u>CURRENT</u>	<u>RECOMMENDED</u>
	<u>2001/2002</u>	<u>2002/2003</u>

**Miscellaneous Payments**

Disturbance Allowance

- Improvement Programme	100.00	100.00
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Decorating Allowances

- After 'chased-in' rewiring	100.00	100.00
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**Other**

- Lounge	50.00	50.00
- Dining Room	50.00	50.00
- Kitchen	50.00	50.00
- WC (where separate)	33.00	33.00
- Hall (in flats)	33.00	33.00
- Hall (stairs/landing)	50.00	50.00
- Large Bedroom	50.00	50.00
- Middle Bedroom	50.00	50.00
- Small Bedroom	33.00	33.00
- Bathroom	33.00	33.00

Grants to victims of Harassment (Disturbance Allowance paid in addition to removal, disconnections & reconnections)	100.00	100.00
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