

Leicester
City Council

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**Cabinet
Council**

**27 January 2003
30 January 2003**

HOUSING REVENUE ACCOUNT – BUDGET 2003/04

Report of the Corporate Director of 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 2002/03 and 2003/04 and sets out the options for Members in deciding the 2003/04 rent level. The 2003/04 base budget currently shows a deficit of £1.848m.

2. Recommendations

2.1 Cabinet is recommended to:

- (i) note the estimated working balance of £3.083m at the start of 2003/04, and the base budget for 2003/04 as detailed in Appendix A;
- (ii) consider the issues outlined in the background information of this report, and in particular the comments of the Housing Scrutiny Committee and the Housing Management Board outlined at paragraph 8;
- (iii) recommend to Council the level of rents to be applied for 2003/04; and
- (iv) recommend to Council the revised level of miscellaneous payments and charges to be applied in 2003/04, as detailed in Appendix B.

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 HRA balances, which have been estimated to be £3.083m at 1st April 2003.

3.2 The Government expects all authorities to commence property - specific rent restructuring in 2003/04. On average, this would be consistent with a uniform rent increase of 2.68% for Leicester's HRA. However if this increase is

applied, Members' will have to use £368k from reserves to balance the account, if they wish to avoid cuts in services.

4. Legal Implications

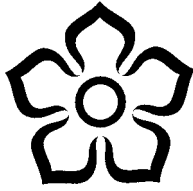
There are no legal implications

5. Report Author/Officer to contact:

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DECISION STATUS

Key Decision	Yes
Reason	Part of Policy and Budget Framework
Appeared in Forward Plan	Yes
Executive or Council Decision	Council



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SUPPORTING INFORMATION

1. Revised Assessment for 2002/03

1.1 As shown in Appendix A, the original budget for 2002/03 forecast a credit working balance of £2.767m to be carried forward into 2003/04. Current forecasts indicate that this balance will be £3.083m which is a £316,000 favourable variance compared to the original budget.

1.2 This net favourable variance of £316,000 comprises:-

(i) An adverse variance of £489,000 brought forward

The working balance brought forward at 1st April 2002 was £489,000 less than the level forecast when the original budget was prepared. Reasons for this variance were given in the 2001/02 HRA Outturn report presented to the August 2002 meeting of the Housing Scrutiny Committee.

(ii) A favourable variance of £930,000 on the 2002/03 accounts

This is mainly due to increased dwellings rents from accounting in 2002/03 for all of the rents to be collected for the week commencing Monday 31 March 2003, rather than accruing most of the income into 2003/04. The extra income is essentially a “windfall” gain from the extra rent week, which occurs every five years. There will be no adverse impact on the rents collected in 2003/04, which will merely revert to a standard 52 weeks (50 collection weeks) rent year.

(iii) An adverse variance of £125k to support expenditure in the Housing Capital Programme

This is a timing issue and is due to the requirements to pay a percentage of the overall costs of replacing the Housing

Benefit/Local Taxation and Housing Management Systems on exchange of contracts.

- 1.3 A detailed report on the revised position for 2002/03 will be presented to a later meeting of the Housing Scrutiny Committee and Cabinet.

2. **Financial Implications**

Base Budget for 2003/04

- 2.1 Appendix A also shows the 2003/04 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 2003/04 budget and the corresponding original budget for 2002/03.

- 2.2 Details of the variances are:-

(i) **Rents – Dwellings**

The reduction in rental income of £735,000 is due to the HRA having a lower dwellings stock, because of “Right to Buy” sales and other stock reductions such as Braunstone “Six Streets”.

(ii) **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 £69,000 is mainly due to extra interest on higher cash balances, offset by reduced interest on the declining mortgage portfolio.

(iii) **Subsidy – Major Repairs Allowance (MRA)**

This element of Housing Subsidy is now included in the account, as a presentational change since the introduction of resource accounting to the HRA in 2001/02. Part of HRA capital expenditure is now included 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 amount of MRA Subsidy for 2003/04 is £402,000 less than that for 2002/03 partly because of the reduced HRA stock, but mainly due to Government changes in regional cost factors, which have benefited London and Southern Councils at the expense of all other Councils such as Leicester. This reduced funding for HRA capital expenditure for 2003/04 is included in the Housing Capital Programme report elsewhere on this agenda.

(iv) **Landlord Services**

The increase of £400,000 covers allowances for pay awards and price inflation, including large increases in building insurance costs.

(v) Revenue Repairs

The reduction of £200,000 represents a substantial real decrease in costs between the two financial years, taking inflation into account (c£1m). This reflects lower day to day repairs costs due to the improving condition of the HRA dwellings stock following major capital investment over recent years.

(vi) Capital Repairs (MRA)

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

(vii) Contribution to Bad Debts Provision

This has increased by £50,000 to allow for increased write-offs as bad debts are identified and written-off more efficiently.

(viii) Capital Financing

The reduction in capital financing costs of £673,000 reflects the move away from loan financing of capital expenditure by the Government (with credit approvals being largely replaced by MRA subsidy as noted earlier), and a small decrease 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).

(ix) Revenue Contribution to Capital

The 2003/04 budget allows for a contribution of £500,000 towards the cost of systems changes necessary to meet the requirements of rent restructuring, as already agreed by Cabinet.

(x) Negative Subsidy

The worsening of the Council's Negative Subsidy position by £685,000 is almost entirely due to the lower capital financing charges of £673,000, as referred to above. However, it should be noted, as a matter of considerable concern, that Leicester's tenants have to pay some £10m to the Government each year under the current subsidy rules – equivalent to £18 per week on each tenants rent.

3. Legal Implications

There are no legal implications associated with this report.

4. Service Developments for 2003/04

4.1 There are no service developments proposed for 2003/04.

5. The Government's Proposals for Rent Restructuring

5.1 The main features of rent restructuring were reported to the December 2002 meetings of the Housing Scrutiny Committee and Housing Management Board.

5.2 A uniform rent increase of 2.68% would be consistent with the overall impact of introducing rent restructuring in 2003/04. It should be noted that authorities opting for a uniform rent-increase rather than property specific rent restructuring in 2003/04 will suffer no direct financial penalties in that year as a result. However, the Government intends to introduce property specific rent capping in 2004/05 and, depending on what (if any) tolerances it allows around formula rents under this system, rent-cap penalties may be suffered from 2004/05.

6. Meeting the Deficit on the 2003/04 HRA

6.1 The deficit of £1.848m on the 2003/04 base budget can be met by one, or a combination of the following:-

- (a) a charge against balances
- (b) budget restrictions, or
- (c) an increase in rents (for Members' information, the deficit is equivalent to a 3.35% increase).

6.2 As noted in Section 1.1, it is estimated that HRA balances will stand at £3.083m at the end of 2002/03. 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. It is the view of Council Officers' that these balances should certainly not fall below £1.5m. Therefore Members do have some scope to utilise balances in 2003/04.

6.3 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 increases since that time, have been substantially below inflation (5% over 5 years), representing further cuts in real terms.

6.4 The final option available to meet the budget deficit is to increase rents. Rents can be increased by an average of 3.72% for 2003/04 without rent-cap penalties being incurred. However, the Government expects Authorities to introduce rent-restructuring in 2003/04 and this is consistent with an average

rent increase of 2.68%. The Council has discretion for a lower increase, but this would obviously forego potential rent income and store up major problems for future years under rent restructuring. Conversely, the Council has discretion for a higher increase than 2.68%, but again this could lead to problems in future years, particularly with the introduction of property-specific rent capping in 2004/05.

- 6.5 Introducing rent restructuring in 2003/04, or having a uniform rent increase consistent with this of 2.68%, would produce additional rental income of £1.480m leaving £368,000 to be met from budget reductions or from balances.

7. Associated Charges, Miscellaneous Charges and Payments

7.1 The recommendations for the levels of associated and miscellaneous charges and payments to be applied in 2003/04 are given in Appendix B.

8. Comments from the Housing Scrutiny Committee and Housing Management Board

8.1 Housing Scrutiny Committee

The Housing Scrutiny Committee recommended that an increase of between 2.68% and 3.3% should be applied to rents, and the charge for District Heating and Hot Water and the Leicestercare service should be increased by a percentage that ensures they remain self-financing.

8.2 Housing Management Board

The Housing Management Board felt that rents should increase by 2.68% with the shortfall coming from reserves, and the charge for District Heating and Hot Water and the Leicestercare service should be increased by a percentage that ensures they remain self-financing.

9. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph Within Supporting information	References
Equal Opportunities	Yes	Para 8.1	
Policy	No		
Sustainable and Environmental	No		
Crime and Disorder	No		
Human Rights Act	No		
Elderly/People on Low Income	Yes	Para 8.1	

9.1 Equal Opportunity Implications

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.

10. Background Papers – Local Government Act 1972

- a) Budget Book 2002/03
- b) HRA Closing down files F2M/1111
- c) Housing Subsidy Claims files Ref F2M/P813
- d) Revised Draft HRA Subsidy Determination 2003/04 (ODPM, 2/12/02)

- e) HRA Budget Files Ref. F2M/9999
- f) Report of the Corporate Director of Housing and Chief Finance Office
"Revenue Budget Monitoring 2002/03 – Period 5" to
Cabinet 5/11/02 and Housing Scrutiny Committee 12/12/02.

11. Consultations

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

12. Aims and Objectives

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

13. Report Author

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APPENDIX A**HOUSING REVENUE ACCOUNT**

2001/02 Actual £000		2002/03 Original Budget £000	2003/04 Base Budget £000	Variance £000
	<u>Income</u>			
54,967	Rents - Dwellings	55,959	55,224	+ 735
2,853	Other Income	2,731	2,800	- 69
12,875	Subsidy MRA	13,159	12,757	+ 402
70,695	Total Income	71,849	70,781	+1,068
	<u>Expenditure</u>			
12,862	Landlord Services	12,900	13,300	+ 400
19,404	Revenue Repairs	19,500	19,300	- 200
12,875	Capital Repairs (MRA)	13,159	12,757	- 402
1,135	Contribution to Bad Debt Provision	750	800	+ 50
17,015	Capital Financing	16,058	15,385	- 673
0	Revenue Contribution to Capital	0	500	+ 500
7,198	Negative Subsidy	9,902	10,587	+ 685
70,489	Total Expenditure	72,269	72,629	+ 360
(206)	(Surplus) Deficit for Year	420	1,848	+1,428
(2,492)	Working Balance B/Fwd	(3,187)	(3,083)	
(2,698)	Working Balance C/Fwd	(2,767)	(1,235)	

Notes:

1. In the variance column, a favourable variance (i.e. reduced expenditure or increase 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.

**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 2½% 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 2½% 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 Pass Books or Rent Cards

The charge for general replacement of pass books or rent cards is intended to cover the cost involved in supplying and updating the new document. The current figure at £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 tenant's 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

No increase has been applied to the list of miscellaneous payments for a number of years and It has now reached the situation that the current level of payments are out of line with the cost of decorating a room. It is therefore, the opinion of officers that the current level of payments should be increased to make them more appropriate.

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

<u>DISTRICT HEATING</u>		<u>CURRENT CHARGE 2002/2003</u>	<u>PROPOSED CHARGE (2½% INCREASE) 2003/2004</u>
		£	£
1 bedroom dwelling	HEATING	4.88	5.00
	HOT WATER	2.44	2.50
2 bedroom dwelling	HEATING	6.12	6.27
	HOT WATER	3.06	3.14
3 bedroom dwelling	HEATING	7.30	7.48
	HOT WATER	3.65	3.74
4 person dwelling	HEATING	8.52	8.73
	HOT WATER	4.26	4.37
<u>GOSCOTE HOUSE</u>			
Small bedsit	HEATING	3.66	3.75
	HOT WATER	1.83	1.88
1 bedroom flat	HEATING	4.30	4.41
	HOT WATER	2.15	2.20
2 person flat	HEATING	4.88	5.00
	HOT WATER	2.44	2.50

OTHER SERVICES

	<u>CURRENT</u> <u>2002/2003</u>	<u>RECOMMENDED</u> <u>2003/2004</u>
Electric Cookers and Fridges (per week)	1.00*	1.00*
<u>LeicesterCare</u>		
- Council Tenant	2.21	2.27
- Private Tenant	2.63*	2.70*
<u>Miscellaneous Charges</u>		
Use of guest room (WAAs) per night	2.50*	2.50*
Replacement pass book 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>2002/2003</u>	<u>RECOMMENDED</u> <u>2003/2004</u>
<u>Miscellaneous Payments</u>		
Disturbance Allowance		
- Improvement Programme	100.00	100.00
Decorating Allowances		
- After 'chased-in' rewiring	100.00	125.00
<u>Other</u>		
- Lounge	50.00	60.00
- Dining Room	50.00	60.00
- Kitchen	50.00	50.00
- WC (where separate)	33.00	35.00
- Hall (in flats)	33.00	40.00
- Hall (stairs/landing)	50.00	70.00
- Large Bedroom	50.00	60.00
- 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