

Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Housing Scrutiny Committee
Cabinet
Council

15th January 2004
19th January 2004
29 January 2004

HOUSING REVENUE ACCOUNT – BUDGET 2004/05

Report of the Corporate Director of Housing and Chief Finance Officer

1. Purpose of Report and Summary

- 1.1 This report summarizes the financial position of the Housing Revenue Account (HRA) for 2003/04 and 2004/05, and seeks the approval of members to setting rents for 2004/05 on the basis of the Government's "formula rents".

2. Recommendations

- 2.1 Housing Scrutiny Committee is recommended to consider the issues raised in this report and pass any comments on to the meeting of the Cabinet.
- 2.2 It is suggested that Cabinet recommended the following to Council:-
- (i) note the estimated working balance of £2.011m at the start of 2004/05, and the base budget for 2004/05 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 which will be reported at the meeting.
 - (iii) approve the setting of rents for 2004/05 on the basis of "formula rents", giving an average rent rise of 3.36% (although individual rents will be different), but utilizing permitted tolerances to restrict large increases in accordance with the resolution of the 21st July 2003 meeting of the Cabinet;
 - (iv) approve the revised level of miscellaneous payments and charges to be applied in 2004/05, as detailed in Appendix C.
 - (v) approve the proposed service developments for 2004/05 as detailed in Section 6 of the 'Supporting Information'.

- (vi) approve the 'prudential indicators' for the HRA as detailed in Section 8 of the 'Supporting Information'.
- (vii) approve that £0.5m included in the 2004/05 HRA base budget be used to facilitate the inclusion of £6m of additional HRA capital expenditure in the 2004/05 Housing Capital Programme, to be financed by unsupported borrowing under the Prudential Framework and £1m as a RCCO.

3. Financial Implications (Graham Troup)

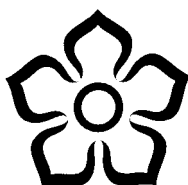
- 3.1 The Council has to balance expenditure with rent income in the ring-fenced HRA each year. This can be assisted by drawing on HRA balances, which have been estimated to be £2.011m at 1st April 2004.
- 3.2 Most authorities have already commenced property-specific rent restructuring (i.e. setting rents on the basis of the Government's formula rents). With the implementation of the authority's new rent accounting system in 2003/04, the Government will expect Leicester to set rents on the new formula basis for 2004/05. This will produce an **average** increase of 3.36% in rental income, equivalent to £1.791m, although the actual increase will vary between individual properties.

4. Report Author/Officer to contact:

Dave Pate, Principal Service Director (Housing Resources) Ext. 6801
 Graham Troup, Principal Accountant (HRA). Ext. 7425.

DECISION STATUS

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



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Housing Scrutiny Committee
Cabinet
Council

15th January 2004
19th January 2004
29th January 2004

HOUSING REVENUE ACCOUNT – BUDGET 2004/05

SUPPORTING INFORMATION

1. Report

Revised Assessment for 2003/04

- 1.1 As shown in Appendix A, the original budget for 2003/04 forecast a credit working balance of £2.715m to be carried forward into 2004/05. Current forecasts indicate that this balance will be £2.011m, which is a £704,000 adverse variance compared to the original budget.
- 1.2 This net adverse variance of £704,000 comprises:-
- (i) An adverse variance of £798,000 brought forward
The working balance brought forward at 1st April 2003 was £798,000 less than the level forecast when the original 2003/04 budget was prepared. This was mainly due to an enforced change of accounting treatment regarding the extra rent week in 2003/04.
 - (ii) A favourable variance of £94,000 on the 2003/04 accounts
This is largely explained by the following two main variances:-
 - (a) reduced capital financing costs of about £0.5m due to the very high levels of 'Right to Buy' (RTB) capital receipts, the 75% set-aside proportion of which effectively reduces outstanding HRA debts.
 - (b) the above is offset by reduced income from dwellings rents of some £0.3m due to the high current levels of RTB sales.
- 1.3 A detailed report on the revised position for 2003/04 is being presented separately to this meeting of the Cabinet.

2. Base Budget for 2004/05

2.1 Appendix A shows the 2004/05 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 2004/05 budget and the corresponding original budget for 2003/04.

2.2 Details of the main variances are:-

(i) Rents-Dwellings

The reduction in rental income of £1.704m is due to reductions in the HRA dwellings stock, mainly due to relatively high recent and forecast levels of 'Right to Buy' (RTB) sales, and the transfer of the 'Six Streets' in Braunstone.

(ii) Landlord Services

The increase of £829,000 covers allowances for pay awards and price inflation, including large increases in building insurance costs. Also accounting for a large part of the increase in costs is the termination of the water charges collection agreement with Severn Trent Water, with the loss of the £330,000 agency fee.

(iii) Repairs and Maintenance

The increase of £2.795m is due to the effect of construction-industry inflation (which for 2002/03 and 2003/04 has been running at some 7.5% pa and is forecast at 4.5% for 2004/05) and the reintroduction of the painting programme for rendered properties.

(iv) Capital Financing expenses

The reduction in capital financing charges of £4.378m is due to :-

(a) new Government rules take effect in 2004/05, whereby no repayment of principal is made on outstanding HRA loans; this accounts for a reduction of £3.572m in capital financing charges (but does not benefit the HRA since there is a similar reduction in subsidy payable by the Government – see below)

(b) the 75% set-aside element of high levels of RTB capital receipts have substantially reduced outstanding HRA loans leading to a reduction in interest charges of £0.738m.

(c) the balance of the reduction is £68,000 which is due to leasing charges ending in 2003/04.

(v) Prudential borrowing revenue costs or Revenue Contribution to Capital

£1.5m has been allowed in the 2004/05 base budget to supplement the 2004/05 HRA Capital Programme, either in the form of a revenue contribution or to cover the revenue costs of prudential borrowing. The new prudential borrowing system is described later in this report in Section 9.

(vi) Negative Subsidy

Overall the Negative Subsidy line is showing a favourable variance of £1.022m. This comprises:-

	£m
(a) Increase in 'Management and Maintenance' Allowances	-5.356
(b) Increase in 'Notional Rent'	+0.966
(c) Reduction in Capital Financing element of subsidy (mainly due to abolition of principal repayments, as noted above, saving £3.693m, offset by extra interest charge of £325,000)	+3.368
Net favourable variance	<u>-£1.022m</u>

Note that actual capital financing charges have decreased by £4.378m whereas the capital financing element of subsidy has 'only' decreased by £3.368m. This difference of £1.01m is a benefit to the HRA; it arises due to a Government concession in the 2004/05 subsidy calculation whereby, although actual HRA debt (and the interest charge thereon) is substantially reduced by the 75% 'set aside' element of the high levels of RTB capital receipts in 2002/03 and 2003/04, there is no corresponding reduction to the debt figure in the subsidy calculation.

FINANCIAL, LEGAL AND OTHER IMPLICATIONS

3. Financial Implications

3.1 These are covered in the body of this report.

4. Legal Implications

4.1 There are no legal implications associated with this report.

5. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	YES	12.1
Policy	NO	
Sustainable and Environmental	NO	
Crime and Disorder	NO	
Human Rights Act	NO	
Elderly/People on Low Income	YES	12.1

6. Possible Service Developments for 2004/05

6.1 Discussions have already taken place with tenants representatives, via the Housing Management Board, on the following service development proposals for 2004/05:-

(i) £140,000 for the appointment of 6 Void Officers

Void management was identified as a tenant priority through the Housing Management Best Value Review service assessment. There are currently 3 Voids officers employed within the Housing Department, in the Humberstone, Saffron and Braunstone areas of the city. It is now proposed that an extra 6 Void Officers are recruited to work across the city. They would be responsible for carrying out pre-termination inspections, inspecting all ready-to-let properties and improving customer care to prospective and new tenants. Including all 'oncosts', the cost of this proposal is £140,000 p.a. These will be sited within the Technical Services Branch and based at the depots.

(ii) £24,000 for a Contract Monitoring Officer

Environmental management of our estates was also identified as a tenant priority through the Housing Management Best Value Review service assessment. The Housing Management service currently has contracts with other providers to maintain estates e.g. grounds maintenance. These contracts are currently monitored on an ad-hoc basis and no penalties are charged for poor performance. The proposal is to recruit a Contract Monitoring Officer to monitor the contracts in a structured manner and become a central point for addressing complaints. Both these areas of work will be conducted in partnership with tenants to ensure their needs are met, and penalties will be charged where contracts are not adhered to. Including all 'oncosts', the cost of this proposal is £24,000 p.a.

(iii) £34,000 for two Community Development Officers

The Community Development Team was set up in October 2001. There are currently six officers, one working in each of the six Community Association areas in the city. The Community Development Manager is centrally based and has the strategic lead.

The officers have had a major impact on developing and supporting tenants and residents associations in the city. The aim of the team is to work in partnership with its tenants to improve the quality of housing services. Much of this work relates to BV74 and 75 and to the aims of the Communities Plan under sustainable communities.

The team has also been part of supporting participation from the Leicester Federation of Tenants Associations.

The work of the team has developed rapidly and is now at a point where there is not sufficient staff time, in some areas of the city, to work with new groups or new initiatives.

This is particularly true in the Centre of the city. Currently there is one Community Development Officer, (CDO), who also works half time for the LFTA. This means that there is only 18½ hrs to work with the five current TARAs. There are large areas of the Centre CA where we need to look at developing TARAs and many of these areas have high proportions of traditionally hard to reach groups, such as members of the BME communities in the city.

The Humberstone CA is another area where additional resources are needed. It covers a very large area and there are a large number of TARAs. Some of these are new and therefore require a higher level of support.

In order to develop and resource a strategy to ensure hard to reach groups are included in participation, and to ensure that the city has adequate coverage for TARA development and support, the team needs an additional two officers. This would mean that there would be one fulltime officer in the Centre CA, the Humberstone CA would be divided in two and the CDO working from the LFTA half time, would lead on citywide hard to reach groups for the other half of their post.

These posts would be funded 30% HGF and 70% HRA

7. Rent-setting under the Rent Restructuring system

- 7.1 In accordance with Government guidance, most authorities commenced the rent restructuring process (whereby 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) in 2003/04. However, this was delayed in Leicester pending the introduction of the authority's new rent accounting system during 2003/04. The Government will expect Leicester to now commence the movement towards restructured rents in 2004/05.
- 7.2 This will be equivalent to an average rent increase of 3.36% for 2004/05, which will produce additional income of £1.791m above the figures shown in Appendix A.
- 7.3 Appendix B gives details of the impact of rent restructuring on average rents for different categories of property. In accordance with the decision of the 21st July 2003 meeting of the Cabinet (following the advice of the Housing Scrutiny Committee and the Housing Management Board), any extreme changes in rent levels have been limited, utilizing the Government's permitted 5% tolerances.

8. Prudential Code – Impact on the HRA

- 8.1 The Local Government Act 2003 replaced the 1989 Local Government and Housing Act that had previously set out the capital regulations, which authorities had to follow. The introduction of the "Prudential Framework" from 1 April has replaced detailed regulation with a self governance system of capital control, based upon authorities following CIPFA's code of practice, with a reduced amount of regulation.

- 8.2 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. Each 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.
- 8.3 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.
- 8.4 Indicators relating to the HRA are included in this report for approval by Council. Indicators relating to the General Fund will be recommended to Council as part of the budget setting report on 25th February.
- 8.5 The impact on unsupported borrowing of the budget proposals contained in this report are set out in paragraph 9.7 The indicators recommended below fully reflect:-
- Recommendations made in this report regarding unsupported borrowing for investment in the HRA housing stock.
 - The housing capital programme recommended for 2004/05 (elsewhere on today's agenda, including future estimates of government supported borrowing up to 2006/07 as set out in that report).
- 8.6 Indicators relating to the HRA are grouped into the following categories:-
- Affordability
 - Prudence

Council is asked to agree the following 5 indicators which relate to HRA spending, 4 of which are statutory and one is locally determined.

(a) **Affordability**

- (i) The **actual ratio of financing costs to net revenue stream** for 2002/03 and estimates for the current year and for the period 2004/05 to 2006/07 are:

	2002/03 £000 Actual	2003/04 £000 Estimate	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
HRA	27.8%	25.6%	20.2%	22.4%	24.1%

- (ii) The **estimated incremental impact on average weekly rents** of capital investment decisions proposed in the HRA Budget reports over and above capital investment decisions that have previously been taken by the Council are:

	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
HRA rent (£45.85)	£0.42	£0.85	£1.27

The average weekly rent recommended is £45.85 for 2004/05 (52-week basis).

Prudence

- (iii) The actual **capital expenditure incurred** in 2002/03 and estimates of capital expenditure to be incurred in the current financial year and for the period 2004/05 to 2006/07 (based upon the Council's HRA Capital Programme recommended to Council on 29th January) are:

	2002/03 £000 Actual	2003/04 £000 Estimate	2004/05 £000 Estimate	2005/06 £000 Estimate	2006/07 £000 Estimate
HRA	20,304	19,397	27,161	25,365	25,720

- (iv) **The Capital Financing Requirement** measures the authority's underlying need to borrow for a capital purpose. On 24 November 2003, the Cabinet agreed the latest CIPFA Code of Practice for Treasury Management in the Public Services. The Council has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowing and investments in accordance with its approved Treasury management strategy and practices. External borrowing arises as a consequence of all the financial transactions of the authority and not simply those arising from the capital spending. By contrast the Capital Financing Requirement reflects the authority's underlying need to borrow for capital purposes.

The actual capital financing requirement in 2002/03 and estimates of the capital financing requirement for the current financial year and for the period 2004/05 to 2006/07 (subject to agreement of the Housing Capital Programme by Council on 29th January) are:

	31/03/03 £000 Actual	31/03/04 £000 Estimate	31/03/05 £000 Estimate	31/03/06 £000 Estimate	31/03/07 £000 Estimate
HRA	173,922	162,240	168,049	174,049	180,049

- (v) CIPFA's Prudential Code for Capital Finance specifies **the requirement that over the medium term net borrowing will only be for capital purposes**, and that authorities should ensure that net borrowing does not, except in the short term, exceed the total of the Capital Financing requirement in the preceding year plus the estimates of any additional Capital Financing Requirement for the current and next two financial years. Based upon current capital commitments and proposals in this budget report, there are not anticipated to be any difficulties for the current or future years.

- (vi) **Local indicators**

	04/05 estimate £000	05/06 estimate £000	06/07 estimate £000
Historic Unsupported Borrowing b/fwd	0	6,000	11,880
New Unsupported Borrowing	6,000	6,000	6,000
Less Unsupported Borrowing repaid	0	(120)	(238)

Total Unsupported Borrowing c/fwd	6,000	11,880	17,642
-----------------------------------	-------	--------	--------

8.7 An additional £6m of HRA capital expenditure has been included in the draft 2004/05 Housing Capital Programme, to be financed by unsupported borrowing under the 'Prudential Framework'. This will result in £0.5m per annum of revenue costs in 2004/05 and future years. The required revenue budget is already included in the 2004/05 HRA base budget. It is the opinion of officers, having regard to the above indicators and indications by Government of future subsidy improvements, that the HRA will be able to meet the £0.5m ongoing revenue cost in future years.

9. Associated and Miscellaneous Charges

9.1 The recommendations for the levels of associated and miscellaneous charges and payments to be applied in 2004/05 are given in Appendix C.

9.2 In most cases, the increase recommended for 2004/05 is 3.3%, which, overall, will produce additional income for the HRA of £100,000.

10. Summarised Position for the 2004/05 HRA

10.1 The draft position for the 2004/05 HRA is as follows: -

	£000
Deficit on Base Budget (Appendix A)	1,326
Average rent increase under Rent Restructuring (3.36%)	(1,791)
Recommended increase in service charges (generally 3.3% per Appendix C)	(100)
Service Developments	198
Net position for 2004/05: Surplus	(367)
Balances b/fwd 01/04/04	(2,011)
Balances c/fwd 01/04/05	(2,378)

10.2 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 at 01/04/05 shown above are therefore £0.9m above the minimum. These 'extra' balances should be earmarked for future use, including: -

- a) meeting the government's decent homes standard (including meeting the revenue costs of unsupported borrowing under the 'Prudential Framework'); and
- b) introduction of Global Positioning System (GPS) within the Housing Repairs Trading Services.

11. Equal Opportunity Implications

- 11.1 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.

12. Background Papers – Local Government Act 1972

- 12.1 (a) Budget Book 2003/04.
(b) HRA closing – down files Ref: F2m/1111.
(c) Housing Subsidy claim files Ref: F2m/P813.
(d) Draft HRA Subsidy Determination 2004/05 (ODPM, 18/11/03).
(e) Final HRA Subsidy Determination 2004/05 (ODPM, 18/12/03).
(f) HRA Budget files Ref: F2m/9999.
(g) Report of the Corporate Director of Housing and Chief Finance Officer on 'Revenue Budget Monitoring 2003/04 – Period 7' to Cabinet on 19th January 2004 and Housing Scrutiny Committee on 15th January 2004.

13. Consultations

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

14. Aims and Objectives

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

15. Report Author/Officer to contact:

Dave Pate, Principal Service Director (Housing Resources) Ext. 6801
Graham Troup, Principal Accountant (HRA). Ext. 7425.

HOUSING REVENUE ACCOUNT

2002/03 Actual		2003/04 Original Budget £000	2004/05 Base Budget £000	Variance £000
£000				
	<u>Income</u>			
54,445	Rents - Dwellings	55,004	53,300	+1,704
4,442	Other Income	4,500	4,470	+ 30
58,887	Total Income	59,504	57,770	+1,734
	<u>Expenditure</u>			
13,363	Landlord Services	13,300	14,129	+ 829
19,728	Repairs and Maintenance	19,300	22,095	+2,795
601	Contribution to Bad Debt Provision	800	800	0
15,591	Capital Financing	14,984	10,606	-4,378
0	Prudential Borrowing revenue costs or Revenue Contribution to Capital	500	1,500	+1,000
10,017	Negative Subsidy	10,988	9,966	-1,022
59,300	Total Expenditure	59,872	59,096	- 776
413	(Surplus)/Deficit for Year	368	1,326	+ 958
(2,698)	Working Balance b/fwd	(3,083)	(2,011)	
(2,285)	Working Balance c/fwd	(2,715)	(685)	

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.

PROJECTED RENT MOVEMENTS 2003/04 TO 2004/05

	<u>2003/04</u>	<u>2004/05</u>	
	Average Weekly	Restructured	Increase
	Rent	Rent	
	£	£	%
1 Bed House	44.04	45.01	2.20
1 Bed Flat (inc. Bedsits)	37.43	38.82	3.71
2 Bed House	48.16	49.66	3.11
2 Bed Flat	45.56	47.11	3.41
3 Bed House	50.68	52.42	3.44
3 Bed Flat	50.59	52.15	3.08
4+ Bed Dwellings	58.17	59.96	3.08
Total Stock	46.13	47.68	3.36

NB: rents shown are on a 50-week basis.

**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 3.3% increase, in line with Government guidelines, would maintain this position during the next financial year.

Members are also reminded that, following previous discussions with HM Customs and Excise, it was confirmed that tenants, linked to the Council's district heating schemes, will not be subject to VAT on fuel. However, should Council 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

The Housing Department administers a plethora of charges associated with providing services to tenants as part of their rent. In line with Government Guidelines it is recommended that, except for the ones highlighted below, these all increase by 3.3% in 2004/5.

(i) 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 again this year.

(ii) Replacement Pass Books or Rent Cards

The charge for a replacement pass book or rent card 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.

(iii) Information on Mortgages and Property Types/Conditions etc

The Department continues to receive a large 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 connection 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 has not been increased for a number of years and therefore, it is suggested that the charge be increased to £60 from next April.

Miscellaneous Payments

The current list of payments is considered reasonable and therefore no increase is recommended on this occasion.