



Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:
Housing Scrutiny Committee
Cabinet

20 January 2005
24 January 2005

HOUSING REVENUE ACCOUNT – BUDGET 2005/06

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 2004/05 and 2005/06, and seeks the approval of Members to setting rents for 2005/06, again based on the Government's "formula rents".

2. Recommendations

- 2.1 **Housing Scrutiny Committee** is recommended to consider the issues raised in this report and the views of the Housing Management Board and pass any comments on to the meeting of the Cabinet.
- 2.2 The **Cabinet** is asked to consider the report and any comments from the Housing Scrutiny Committee and recommend Council to:-
- (i) note the estimated working balance of £2.646m at the start of 2005/06, and approve the base budget for 2005/06 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 2005/06 on the basis of "formula rents";
 - (iv) approve the revised level of miscellaneous payments and charges to be applied in 2005/06, as detailed in Appendix C;
 - (v) approve the 'prudential indicators' for the HRA as detailed in Section 8 of the 'Supporting Information';
 - (vi) approve that £400,000 be added to the 2005/06 HRA budget (and £1,140,000 p.a. in future years) to facilitate the inclusion of £12m of additional HRA capital

expenditure in the 2005/06 Housing Capital Programme, to be financed by unsupported borrowing under the Prudential Framework; and

- (vii) Approve that a further £1.5m Capital Expenditure charged to Revenue Account (in addition to the £1m already included in the base budget) be added to the 2005/06 HRA budget to supplement the 2005/06 HRA Capital Programme.

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 are estimated to be £2.646m at 1st April 2005.
- 3.2 Leicester commenced property-specific rent restructuring (i.e. setting rents on the basis of the Government's formula rents) in 2004/05. The continuation of this process in 2005/06 will produce an average increase of 3.4% in rental income, equivalent to £1.813m. (Graham Troup)

4. Legal Implications

- 4.1 There are no legal implications associated with this report. (Joanna Bunting)

4. Report Author/Officer to contact:

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

DECISION STATUS

Key Decision	Yes
Reason	Significant in terms of its Effect on communities Living or working in any One ward of the city
Appeared in Forward Plan	Yes
Executive or Council Decision	Cabinet



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SUPPORTING INFORMATION

1. Revised Assessment for 2004/05

- 1.1 As shown in Appendix A, the original budget for 2004/05 forecast a credit working balance of £2.944m to be carried forward into 2005/06. Current forecasts indicate that this balance will be £2.646m which is a £298,000 adverse variance compared to the original budget.
- 1.2 This net adverse variance of £298,000 is primarily due to audit reductions to prior-years' subsidy claims, which effectively become a charge on the 2004/05 accounts.
- 1.3 A detailed report on the revised position for 2004/05 is being presented separately to the January round of committees.

2. Base Budget for 2005/06

- 2.1 Appendix A shows the 2005/06 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 2005/06 budget and the corresponding original budget for 2004/05.
- 2.2 Details of the main variances are:-
- (i) Rents –Dwellings
The reduction in rental income of £1.770m is due to reductions in the HRA dwellings stock, mainly from 'Right to Buy' (RTB) sales.
 - (ii) Landlord Services
The increase of £700,000 covers allowances for pay awards and price inflation, as well as the full-year effect of service developments approved for 2004/05.

- (iii) Repairs and Maintenance
This shows only a small increase of £205,000 (i.e. a reduction after allowing for inflation) reflecting lower maintenance costs resulting from high levels of recent capital investment in the housing stock.
- (iv) Negative Subsidy
The reduction in Negative Subsidy of £1.8m is again due to much improved allowances for 'Management and Maintenance' in the Government's subsidy settlement for 2005/06.

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 Within Supporting information	References
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. Service Developments for 2005/06

6.1 No service developments are proposed for 2005/06.

7. Rent-setting under the Rent Restructuring system

7.1 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.

- 7.2 The continuation of rent restructuring will give an average rent increase of 3.4% for 2005/06, producing additional income of £1.813m above the level 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), full usage has been made of the Government's permitted 5% tolerances to limit, as far as possible, large increases in rent levels.

8. Prudential Code – Impact on the HRA

- 8.1 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 following CIPFA's code of practice.
- 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. 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.
- 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. Indicators relating to the HRA are included in this report for approval by the Council.
- 8.4 The impact on unsupported borrowing of the budget proposals contained in this report are set out in paragraph 8.6. The indicators recommended below fully reflect:-
- (i) Recommendations made in this report regarding unsupported borrowing for investment in the HRA housing stock.
 - (ii) The Housing Capital Programme recommended for 2005/06 (elsewhere on this agenda).
- 8.5 Indicators relating to the HRA are grouped into the following categories:
- Affordability
 - Prudence

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

Affordability

- (i) The actual ratio of financing costs to net revenue stream for 2003/04 and estimates for the current year and for the period 2005/06 to 2007/08 are:-

	2003/04 Actual	2004/05 Estimate	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
HRA Ratio	24.6%	15.3%	17.0%	19.0%	20.2%

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

	2005/06 Estimate	2006/07 Estimate	2007/08 Estimate
HRA Rent (£47.02)	£0.28*	£1.11*	£1.55*

*based on 2005/6 average recommended weekly rent of £47.02.

The average weekly rent recommended is £47.02 for 2005/06 (52-week basis). In practice, this indicator (which is intended to show the effect of rent increases arising from capital investment) cannot achieve its purpose as rents are set by the Government's rent formula.

Prudence

- (iii) The actual capital expenditure incurred in 2003/04 and estimates of capital expenditure to be incurred in the current financial year and for the period 2005/06 to 2007/08 (based upon the HRA Capital programme recommended to Council on 27th January) are:-

	2003/04 Actual £000	2004/05 Estimate £000	2005/06 Estimate £000	2006/07 Estimate £000	2007/08 Estimate £000
HRA Capital Spend	20,342	28,013	37,716	25,685	25,685

- (iv) The Capital Financing Requirement measures the Authority's underlying need to borrow for a capital purpose. On 24th 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 cash flows 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 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 2003/04 and estimates of the Capital Financing Requirement for the current financial year and the period 2005/06 to 2007/08 (subject to the agreement of the Housing Capital Programme by Council on 27th January) are:-

	31/3/04 Actual £000	31/3/05 Estimate £000	31/3/06 Estimate £000	31/3/07 Estimate £000	31/3/08 Estimate £000
HRA Capital Financing Requirement	160,211	172,020	188,987	199,777	210,355

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, assuming the present subsidy regime remains significantly unchanged.**

(v) Local Indicator

	05/06 estimate £000	06/07 estimate £000	07/08 Estimate £000
Historic Unsupported borrowing b/fwd	6,000	17,760	23,050
New Unsupported Borrowing	12,000	6,000	6,000
Less Unsupported Borrowing Repaid	(240)	(710)	(922)
Total Unsupported Borrowing c/fwd	17,760	23,050	28,128

- 8.6 An additional £12m of HRA capital expenditure has been included in the draft 2005/06 Housing Capital Programme to be financed by unsupported borrowing under the 'Prudential Framework'. This will result in £400,000 of revenue costs in 2005/06 and £1,140,000 per annum in future years. It is the opinion of officers, having regard to the above indicators and the improved subsidy position of the Authority, that the HRA will be able to meet the £1,140,000 p.a. ongoing revenue cost in future years. To assist Members in making the decision on whether or not to utilize the Prudential Borrowing Framework in 2005/6, 2006/7 and 2007/8 officers have put together a prediction of the HRA up to 2008/9 (see Appendix D), which clearly shows the figures proposed are both affordable and prudent within the context of the HRA.

9. Capital Expenditure charged to Revenue Account (CERA)

- 9.1 Given the further substantial improvement in the HRA's subsidy position for 2005/06 there is scope – in addition to the proposed £12m prudential borrowing for 2005/06 – for the HRA to make a CERA of up to £2.5m (i.e. £1.5m in addition to the £1m already included in the base estimate) to supplement the HRA Capital Programme. This will further help to ensure that the Council meets the Decent Homes target and Business

Plan developed under the Stock Options Appraisal, without (unlike prudential borrowing) committing any revenue resources beyond 2005/06.

10. Associated and Miscellaneous Charges

- 10.1 The recommendations for the levels of associated and miscellaneous charges and payment to be applied in 2005/06 are given in Appendix C.
- 10.2 In most cases, the increase recommended for 2005/06 is 3.4% which, overall, will produce additional income for the HRA of £106,000.

11. Summarised Position for the 2005/06 HRA

- 11.1 The draft summarized position for the 2005/06 HRA is as follows:

	£000	
Deficit on base budget	439	
Average rent increase under Rent Restructuring (3.4%)	(1,813)	
Recommended increase in service charges (generally 3.4% per Appendix C)	(106)	
2005/06 cost of £12m prudential borrowing recommended for 2005/06 (£1,140,000 p.a. in future years)	400	
Additional £1.5m recommended CERA for 2005/06 (in addition to £1m included in base budget)	1,500	
	<hr/>	
	420	deficit
	Balances b/fwd 1/04/05	<hr/> (2,646)
	Balances c/fwd 31/3/06	<hr/> (2,226)

- 11.2 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 31/3/06 shown above are therefore some £0.726m above the minimum. These 'extra' balances should be earmarked for future use, including:-

- (a) to help meet the Government's Decent Homes Standard by 2010;
- (b) to allow for any future restriction of rental income due to the operation of the Government's rent restructuring system; and
- (c) for the introduction of a Global Positioning System for the Housing Repairs Trading Services.

12. Equal Opportunities Implications

- 12.1 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.

13. Background papers – Local Government Act 1973

- 13.1 (a) Budget Book 2004/05
(b) HRA Closing-down files Ref:F2m/1111
(c) Housing Subsidy claim files Ref: F2m/P918
(d) Draft HRA Subsidy Determination 2005/06 (ODPM, 9/11/04)
(e) HRA Budget files Ref F2m/9999
(f) Report of the Corporate Director of Housing and Chief Finance Officer on "Budget Monitoring 2004/05 Period 7 – HRA and Housing Repairs Trading Services" to Housing Scrutiny Committee 20/1/05.

14. Consultation

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

15. Aims and Objectives

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

16. Report Author / Officer to Contact

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Graham Troup, Principal Accountant (HRA) – Ext 7425.

HOUSING REVENUE ACCOUNT

2003/04 Actual		2004/05 Original Budget	2005/06 Base Budget	Variance
£000		£000	£000	£000
	<u>Income</u>			
54,692	Rents - Dwellings	55,091	53,321	+1,770
4,488	Other Income	4,570	4,520	+ 50
59,180	Total Income	59,661	57,841	+1,820
	<u>Expenditure</u>			
13,503	Landlord Services	14,327	15,027	+ 700
19,244	Repairs and Maintenance	22,095	22,300	+ 205
802	Contribution to Bad Debt Provision	800	800	-
14,939	Capital Financing costs	10,606	10,440	- 166
-	Prudential Borrowing costs	500	570	+ 70
-	Capital Expenditure charged to Revenue A/c.	1,000	1,000	-
10,400	Negative Subsidy	9,966	8,143	-1,823
58,888	Total Expenditure	59,294	58,280	-1,014
(292)	(Surplus)/Deficit for Year	(367)	439	+ 806
(2,285)	Working Balance b/fwd	(2,577)	(2,646)	
(2,577)	Working Balance c/fwd	(2,944)	(2,207)	

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 2004/05 – 2005/06

	2004/05	2005/06	
	Average weekly rent	Average weekly rent	Increase
	£	£	%
Bedsits	31.79	33.53	5.47
1 Bed House	44.78	45.76	2.19
1 Bed Flat	39.15	40.60	3.70
2 Bed House	48.59	50.24	3.40
2 Bed Flat	46.12	47.81	3.66
3 Bed House	52.10	53.91	3.47
3 Bed Flat	51.38	53.02	3.19
4+ Bed Dwellings	59.81	61.72	3.19
Total Stock	47.29	48.90	3.40

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 3.4% 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 3.4% in 2005/6.

(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 was increased from £50 to £60 last year and therefore, it is suggested that no change be made to this charge from next April.

Miscellaneous Payments

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

Prudential Borrowing (£6m in 2004/05, £12m in 2005/06, £6m in 2006/07 and £6m in 2007/08)

	2004/05 £000	2005/06 £000	2006/07 £000	2007/08 £000	2008/09 £000
Rent - Dwellings	55,091	55,134	55,400	55,600	55,800
Other Income	<u>4,570</u>	<u>4,626</u>	<u>4,680</u>	<u>4,730</u>	<u>4,780</u>
Total Income	<u>59,661</u>	<u>59,760</u>	<u>60,080</u>	<u>60,330</u>	<u>60,580</u>
Management	14,528	15,027	15,448	15,880	16,200
R & M	22,095	22,300	22,600	22,900	23,200
Bad Debt Provision	800	800	500	500	500
CERA	1,000	2,500	1,500	1,500	0
Capital Financing - supported	9,989	10,440	10,440	10,440	10,440
Capital Financing - unsupported	200	970 *	1,910 **	2,480 ***	2,850 ****
Negative Subsidy	<u>10,980</u>	<u>8,143</u>	<u>7,643</u>	<u>7,343</u>	<u>7,050</u>
Total Expenditure	<u>59,592</u>	<u>60,180</u>	<u>60,041</u>	<u>61,043</u>	<u>60,240</u>
(Surplus)/Deficit for year	(69)	420	(39)	713	(340)
Balance brought forward	(2,577)	(2,646)	(2,226)	(2,265)	(1,552)
Balance carried forward	<u>(2,646)</u>	<u>(2,226)</u>	<u>(2,265)</u>	<u>(1,552)</u>	<u>(1,892)</u>
In Year & ongoing revenue	200 *	570 **	570 ***	570 ****	570
Costs of Prudential Borrowing		+200	+570	+570	+570
		+200	+570	+570	+570
			+200	+570	+570
				+200	+570