
HOUSING REVENUE ACCOUNT - BUDGET 2001/02

Report of the Director of Housing and Chief Financial Officer

1. Summary

- 1.1 This report summarises the financial position of the Housing Revenue Account (HRA) for 2000/01 and 2001/2002 and sets out the options for Members in deciding the 2001/02 rent level. The 2001/02 base budget currently shows a deficit of £421,000.
- 1.2 As with last year, the report includes a 3 year forecast for the Committee to be aware of how this year's position impacts on later years.

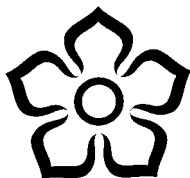
2. Recommendation

- 2.1 The Scrutiny Committee and Cabinet are recommended to:-
- i) note the estimated working balance of £1.786m at the start of 2001/02; and the base budget for 2001/02 as detailed in Appendix A;
 - ii) consider the issues outlined in the background information of this report and decide any expenditure increases and reductions, and the level of rents to be applied for 2001/02.
 - iii) consider and decide on the revised level of miscellaneous payments and charges to be applied in 2001/02, as detailed in Appendix 'D'.

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 £1.8m.
- 3.2 The government sets a limit on the amount of rent it will pay into the HRA for the Housing Benefit costs of people on low incomes. This is called the rent cap. If actual rents are above the cap, as at present, the shortfall between the actual rent due and the amount the government will pay is called the rent cap penalty.
- 3.3 The Council's strategy over the last 2 years has been to reduce the rent cap penalty by freezing rents. This report shows that reserves and cost restrictions

are sufficient to allow for a rent freeze next year or even a rent cut of 1% which would remove all rent cap penalties.



Leicester
City Council

ALL WARDS AFFECTED

**HOUSING SCRUTINY COMMITTEE
CABINET**

**10 January 2001
15 January 2001**

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SUPPORTING INFORMATION & APPENDICES

1. BACKGROUND

1.1 Revised Assessment for 2000/01

As shown in Appendix A, the original budget for 2000/01 forecast a credit working balance of £1.305m to be carried forward into 2001/02. Current forecasts indicate that this balance will be £1,786m which is a £481,000 favourable variance compared to the original budget.

1.2 While there are several compensating variances within the above figure, the main feature of the current monitoring is expected large savings on the repairs budget; these are due to lower day-to-day repairs costs (reflecting capital improvements to the housing stock), continuing DSO recruitment problems and some capitalisation of revenue repairs costs to utilise projected underspends on the 2000/01 Housing Capital Programme.

1.3 A detailed report on the revised position for 2000/01 will be presented shortly to meetings of the Housing Scrutiny Committee and the Cabinet.

2. BASE BUDGET FOR 2001/2002

2.1 Appendix A also shows the 2001/2002 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 2001/2002 budget and the corresponding original budget for 2000/01.

2.2 Details of the variances are:

(a) Dwellings-Rents

The reduction in rental income of £600,000 is primarily 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-dwellings rents (i.e. garages, shops and land), district heating charges and interest on HRA mortgages and cash balances. The adverse variance of £162,000 comprises relatively small reductions in all of the above income budgets, including reduced interest receivable on the declining mortgage portfolio.

(c) Subsidy – Major Repairs Allowance (MRA)

As a result of the introduction of resource accounting, there are a number of presentational changes to the HRA. Part of HRA capital expenditure will now be 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.

(d) Landlord Services

The increase of £385,000 covers general allowances for inflation and also the effect of the average 40% increase in prices for the gas used at the district heating sites, reflecting current conditions in the market for non-domestic gas supplies.

(e) Revenue Repairs

The reduction of £550,000 reflects lower day-to-day repairs costs due to the improving condition of the HRA stock.

(f) Capital Repairs (MRA)

Again, this is a presentational change due to resource accounting and has no impact on the HRA (see above).

(g) Capital Financing expenses

The reduction of £371,000 is mainly due to savings on leasing charges, as the final payment on longstanding central heating leasing arrangements was made in 2000/01.

(h) Negative Subsidy

The worsening of the Council’s negative subsidy position by £562,000 is due to the way in which the Government has indexed the factors in the subsidy calculation for 2001/02.

(i) Rent Cap Penalty

The favourable variance of £770,000 is due to:-

- (i) the Government has increased the Council's rent-cap by 3.8% for 2001/02 and the figures presented do not include an actual rent rise; and
- (ii) rent-cap penalties will apply to a maximum of 59% of rental income in 2001/02 rather than 60% which applied in 2000/01.

The result of these changes is that, prior to any rent increase for 2001/02, rent cap penalties will be £770,000 less than the 2000/01 level.

3. POSSIBLE SERVICE DEVELOPMENT FOR 2001/02

- 3.1 Discussions have already taken place with the Tenants Associations, via the "Tier One" Consultative meeting, on the following service development proposal for 2001/02:-

It is proposed to establish a team of six staff to provide a full support service to Tenant Compacts. This has been costed for 2001/02 at £124,000, including an allowance for office accommodation and related expenses. As the services of these support workers will be generally available to all residents of estates (including tenants of Housing Association and those who have purchased their homes under 'Right to Buy'), Government rules allow these costs to be borne by the General Fund and there is therefore a corresponding growth bid in the 2001/02 Housing General fund budgets which, if approved, would cover the HRA for the new costs involved.

4. MEETING THE DEFICIT ON THE 2001/02 HRA

- 4.1 The deficit of £421,000 on the 2001/02 HRA can be met by one or a combination of the following:-

- a) a charge against balances
- b) budget reductions
- c) capitalisation of repairs costs; and/or
- d) an increase in rents

- 4.2 As noted in Section 1.1, it is estimated that HRA balances will stand at £1.786m credit at the end of 2000/01. This is substantially below the "prudent" level of £2.0m to £2.5m recommended by the District Auditor. Therefore it is the view of officers that Members should think very carefully before using these balances in 2001/02. Should Members decide they wish to use some balances then careful consideration will have to be given as to the level and to the future financial position as set out in the 3 year plan.

- 4.3 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 frontline services are to be maintained. Ongoing cuts of £4.7m were made in 1997/98, which represented a 13% cut, and budget increases from that time have been below inflation (coinciding with rent-freezes from 1999/2000 onwards) which have represented further cuts.

- 4.4 The HRA currently funds £700,000 of window-fitting costs as part of the revenue repairs budget; this could be re-classified as capital expenditure and charged instead to the Housing Capital Programme. This would obviously save costs on the HRA but use up capital resources, leading to less resources being available to tackle the £160m repairs backlog. Resources provided by the Government for the 2001/02 Housing Capital Programme have been increased by some 18% over the current year and Members may wish to relieve pressure on the HRA by capitalising up to £700,000 of expenditure currently included in the 2001/02 base budget.
- 4.5 The final option available to meet the budget deficit is to increase rents. However, the Council's ability to generate additional income will again be limited by the Government's 'rent-capping' system in 2001/02. Although the rent cap has been increased by 3.8% for 2001/02, since Leicester's average rent is already above the new cap, it means that subsidy penalties will immediately be incurred if rents are increased. Also, the system has been slightly relaxed so that the HRA will benefit from 41% of any rent increase, rather than the 40% that was previously the case. The net income yield from a range of rent rise options are given in Appendix B, together with the total rent cap payment to the Government for each option.
- 4.6 For Members' information, it can be noted that if rents were **reduced** by 1% to cap in 2001/02, a net loss of £228,000 income would be suffered, which would increase the deficit on the base budget from £421,000 to £649,000.
- 4.7 The views of the Tenants Associations on the issues of service developments, capitalisation of repairs costs and the rent level will be reported to Members at the Scrutiny Committee meeting and Cabinet meetings.

5. THREE YEAR PLAN

- 5.1 Appendix C shows the 3 year plan for the HRA and the assumptions which have been made in the forecast.
- 5.2 The 3 year plan helps the Committee to consider expenditure and income levels, the deficit and negative subsidy, enabling a more informed consideration of our approach to rent levels and the rent cap.
- 5.3 The underlying trend, indicated by the plan, is for a relatively small deficit to be incurred for each of the years under review, even when the Authority is able to increase rents fully in line with movements in the rent cap.

This is due to the continual withdrawal of subsidy by the Government.

6. ASSOCIATED CHARGES, MISCELLANEOUS CHARGES AND PAYMENTS

- 6.1 The recommendation for the level of associated and miscellaneous charges and payments to be applied in 2001/02 are given in Appendix D.
- 6.2 In connection with the LeicesterCare Service, it has been assumed the Council will, as the final phase of a 3 year strategy, make the scheme self financing and therefore the revised charge has been built into the draft estimates before Members, raising additional income of £65K.

7. Equal Opportunities Implications

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

8. Policy Implications

There are no policy implications associated with this report.

9. Legal Implications

There are no legal implications associated with this report.

10. Sustainable and Environmental Implications

There are no direct sustainable and environmental implications associated with this report.

11. Crime and Disorder Implications

11.1 This report has no crime and disorder implications.

12. Consultations

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

13. Aims & Objectives

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

13.2 The rent-setting process aims to balance the affordability of rents with the quality of service provided to tenants, especially the living conditions of their homes.

14. HUMAN RIGHTS ACT

14.1 The report has no Human Rights Act implications.

15. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

- a) Budget Book 2000/01
- b) HRA Closing down files Ref: F2m/1111
- c) Housing Subsidy Claims files Ref: F2M/P813
- d) Draft Housing Subsidy Determination 2001/02 (DETR, 31/10/00)
- e) HRA Budget files Ref: F2M/9999
- f) Report of the Director of Housing and Chief Financial Officer on "Budget Monitoring 2000/01 Housing Revenue Account and Housing DSO" to Housing Scrutiny Committee (22/11/00)

16. AUTHORS OF REPORT

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HOUSING REVENUE ACCOUNT

Appendix A

HOUSING REVENUE ACCOUNT

1999/2000 Actual £000		2000/01 Original Budget £000	2001/02 Base Budget £000	Variance £000
	INCOME			
57,041	Rents - Dwellings	56,100	55,500	+600
2,857	Other Income	2,800	2,638	+162
0	Subsidy - MRA	0	12,875	-12,875
59,898	Total Income	58,900	71,013	-12,113
	EXPENDITURE			
12,144	Landlord Services	12,221	12,606	+385
20,534	Revenue Repairs	20,433	19,883	-550
0	Capital Repairs (MRA)	0	12,875	+12,875
18,431	Capital Financing	17,183	16,812	-371
	Payments to Government: -			
7,436	Negative Subsidy	8,380	8,942	+562
2,202	Rent Cap	1,086	316	-770
60,747	Total Expenditure	59,303	71,434	+12,131
849	Deficit for year	403	421	+18
(2,024)	Balances brought forward	(1,708)	(1,786)	
(1,175)	Balances carried forward	(1,305)	(1,365)	

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.

Rent Change Options 2001/02

Weekly Rent Change *	%	-1	0	+1	+2	+3	+4	+5
		(To cap)	(Rent Freeze)					
	£	-0.45	0.00	0.45	0.90	1.35	1.80	2.25
Change to rent income	£000	-544	0	544	1,088	1,632	2,176	2,720
Deduct: Change to rent-cap penalty **	£000	-316	0	316	632	948	1,264	1,580
Net Impact on HRA Income 2001/02	£000	-228	0	228	456	684	912	1,140

* Based on 2001/02 average weekly rent for Council dwellings.

** Compared to £316,000 penalty already incurred in 2001/02 at current rents (before any change).

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

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

District Heating

The Committee has 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, officers feel that a small increase could be applied this year and, therefore, Members have the option of either increasing the charge by 3% or holding it at the current level.

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 the 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 over a three-year period. Phases one and two have already been implemented and the revised charge shown for next year completes this exercise.

(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 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 majority of the current level of payments are reasonable. However the one exception is in connection with decorating after rewiring and therefore, Members are recommended to increase the allowance from ,60 to ,100.

REVIEW OF ASSOCIATED, MISCELLANEOUS CHARGES AND MISCELLANEOUS PAYMENTS
ASSOCIATED CHARGES

<u>DISTRICT HEATING</u>		<u>CURRENT CHARGE</u> <u>2000/2001</u>	<u>OPTION 1</u> <u>NO INCREASE</u>	<u>OPTION 2</u> <u>3% INCREASE</u>
		£	£	£
1 bedroom dwelling	HEATING	4.74	4.74	4.88
	HOT WATER	2.37	2.37	2.44
2 bedroom dwelling	HEATING	5.94	5.94	6.12
	HOT WATER	2.97	2.97	3.06
3 bedroom dwelling	HEATING	7.09	7.09	7.30
	HOT WATER	3.54	3.54	3.65
<u>GOSCOTE HOUSE (per week)</u>				
Small bedsit	HEATING	3.55	3.55	3.66
	HOT WATER	1.77	1.77	1.83
1 bedroom flat	HEATING	4.17	4.17	4.30
	HOT WATER	2.08	2.08	2.15
2 person flat	HEATING	4.74	4.74	4.88
	HOT WATER	2.37	2.37	2.44
4 person flat	HEATING	8.37	8.37	8.62
	HOT WATER	4.18	4.18	4.31

OTHER SERVICES

	<u>CURRENT</u> <u>2000/2001</u>	<u>RECOMMENDED</u> <u>2001/2002</u>
Electric Cookers and Fridges (per week)	1.00*	1.00*
LeicesterCare - Council Tenant	1.90	2.15
- Private Tenant	2.25*	2.55*
<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>2000/2001</u>	<u>RECOMMENDED</u> <u>2001/2002</u>
<u>Miscellaneous Payments</u>		
Disturbance Allowance		
- Improvement Programme	100.00	100.00
Decorating Allowances		
- After 'chased-in' rewiring	60.00	100.00
<u>Other</u>		
- 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

HOUSING REVENUE ACCOUNT 3 YEAR FORECAST

	2001/02	2002/03	2003/04
	£m	£m	£m
INCOME			
Rents - Dwellings	55.5	55.6	56.4
Other Income	2.6	2.6	2.6
Subsidy - MRA	12.9	12.9	12.9
Total Income	71.0	71.1	71.9
EXPENDITURE			
Landlord Services	12.6	12.8	13.1
Revenue Repairs	19.9	19.9	19.9
Capital Repairs (MRA)	12.9	12.9	12.9
Capital Financing	16.8	16.8	16.8
Payments to Government: -			
Negative Subsidy	8.9	9.2	9.4
Rent Cap	0.3	0.0	0.0
Total Expenditure	71.4	71.6	72.1
Deficit for year	0.4	0.5	0.2

Assumptions

1. No rent rise for 2001/02 and rent increases to cap for 2002/03 and 2003/04. Stock reductions due to RTB will offset additional income from rent increases.
2. Negative Subsidy based on Government indications for 2002/03 and 2003/04 per Comprehensive Spending Review.
3. Capital Financing costs remain at 2001/02 levels. These are fully 'reimbursed' by subsidy, therefore any changes would anyway be fully offset by changes in subsidy.
4. Rent cap, set by the Government, is assumed to increase by 3% per annum for 2002/03 and 2003/04 (again, per indications in the Government's Comprehensive Spending Review).
5. Landlord Services costs increase by 2% p.a.
6. Revenue repairs stay at 2001/02 levels to reflect capital improvements to the housing stock.