



AREA

PORTFOLIO AREA: FINANCE AND RESOURCES

Date of Meeting: 26 NOVEMBER 2001

Public

Key Decision: Yes

Recorded in Forward Plan: Yes

Inside Policy Framework

Title: HOUSING REVENUE ACCOUNT (HRA) REVENUE ESTIMATES
2002/03

Report of: THE CITY TREASURER

Report reference: FINANCIAL MEMO 2001/02 NO 103

Summary:

This report considers the revised revenue estimates for 2001/02 together with the estimates for 2002/03 in respect of the Housing Revenue Account. The report is compiled in the light of the City Council's agreed budget strategy for 2002/03.

Recommendations:

The Executive is requested to approve the estimates for the purpose of formulating a recommended budget to Council subject to further consideration on 17 December 2001 when it is hoped that the subsidy and guideline rent parameters for 2002/03 will have been announced.

The Executive will consider the following on 17 December 2001:

- (i) The level of dwelling rents to be applied in 2002/03.
- (ii) The desired level of year end balances.
- (iii) The rent for garages.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: None

HOUSING REVENUE ACCOUNT REVENUE ESTIMATES 2002/03

1. BACKGROUND INFORMATION AND OPTIONS

- 1.1 This report summarises the revenue estimates for the Housing Revenue Account (HRA). The HRA is outlined below with more detail being shown in Appendix "A". A detailed analysis of the changes between the Original and Revised estimates for 2001/02 and the base estimate for 2002/03 can be found at Appendix "A1".

<u>2000/01</u>		<u>2001/02</u>	<u>2001/02</u>	<u>2002/03</u>
<u>Actual</u>		<u>Original</u>	<u>Revised</u>	<u>Estimate</u>
<u>£000</u>		<u>£000</u>	<u>£000</u>	<u>£000</u>
21,395	Expenditure	26,525	27,503	26,050
21,727	Income	26,029	25,938	25,213
(332)	Deficit/(Surplus) In Year	496	1,565	837
3,322	Balance b/fwd	1,678	3,654	2,089
3,654	Balance c/fwd	1,182	2,089	1,252

- 1.2 These estimates have been compiled in accordance with the City Council's agreed budget strategy for 2002/03. They have been prepared on an outturn basis with assumptions built in regarding price changes for all goods and services; in particular the pay award due in April 2002 has been assumed at 3%. The estimates are cash limited at these amounts which mean that, once approved, Budget Holders must operate within this budget.
- 1.3 Where estimates have not been contained within agreed cash limits then this is indicated in the relevant section of this report.
- 1.4 The estimates are presented to the Executive in a summarised format. A set of papers containing all the detailed estimate provisions is available from the City Treasurer's Department on request.

- 1.5 Members should note that while these estimates have generally been finalised, some budgets may be subject to change before the estimate cycle is completed. This principally relates to the 'Central Administration' recharges which still have to be finally agreed between service departments.

2. LARGE SCALE VOLUNTARY TRANSFER (LSVT)

- 2.1 As members will be aware, preparations are gathering apace in respect of the proposed LSVT of the City Council's housing stock. The current timetable predicts a ballot next summer with the transfer, assuming a positive result from the ballot, taking place in December 2002.
- 2.2 At this stage, the only prudent course is to estimate for a full year's Housing Revenue Account during 2002/03. The stock is still in the Council's ownership and will remain so until at least December 2002. Clearly if the LSVT proceeds, it will eventually be necessary to apportion HRA costs and income relating to 2002/03, depending upon the date of transfer. However until the result of the ballot is known, there will be no requirement to undertake such an exercise.
- 2.3 As for the costs to be incurred by the City Council in preparing for the LSVT, they are almost entirely borne by the General Fund and will be reflected as such in the General Fund balance. Only a limited amount of consultation expenditure is chargeable to the HRA.

3. ESTIMATE ASSUMPTIONS

3.1 Council House Sales

- 3.1.1 The following level of sales has been reflected in the rent income estimates:

	<u>Forecast Sales</u>
	No.
Original Estimate 2001/02	130
Revised Estimate 2001/02	170
Original Estimate 2002/03	180

- 3.1.2 The stock of houses will be smaller in 2002/03 than in the previous year due to the impact of both Right to Buy sales and the Raffles Area Strategy. However it has always been the considered view of the Director of Housing that the impact of these factors on repair and maintenance requirements will be minimal especially in the context of an ageing stock and increasing demands for repairs.
- 3.1.3 The implications for the capital programme of forecast sales both in this year and in 2002/03 will be the subject of a separate report on total capital resources which will be considered elsewhere on the agenda.

3.2 Bad Debt Provision

3.2.1 A provision of £335,300 has been made in both 2001/02 and 2002/03 against any need for the write off of uncollectable rent arrears. This sum is reviewed annually in accordance with Audit Commission guidelines. In 2000/01 the provision made was £286,190. This includes provision made for any irrecoverable housing benefit overpayments.

3.3 Voids

3.3.1 The following void levels have been assumed:-

	%
2001/02 Original Estimate	6.50
2001/02 Revised Estimate	8.45
2002/03 Original Estimate	8.80

3.3.2 The issue of voids and low demand remains one of the most difficult housing management issues presently facing the City Council. It is a problem that is not confined to this area but in contrast it is one that is facing many providers of social housing in the whole of the North of England.

4. HOUSING SUBSIDY SYSTEM

4.1 The long anticipated introduction of Resource Accounting into the Housing Revenue Account took place on 1 April 2001. Coupled with the injection of the Major Repairs Allowance (MRA), this represented the biggest change to the housing subsidy system since the present arrangements began in 1990.

4.2 However it appears that yet further changes to the subsidy system can be anticipated from 2002/03. The principal driver of these changes is the system of rent restructuring that is to be introduced from 1 April 2002. The aim of the new policy is to attempt to ensure that social rents on similar houses in the same area will be the same, no matter who is the landlord. It does though not necessarily mean that local authority and RSL rents will completely converge due to there being objective differences between stock in the two sectors. A period of up to ten years is envisaged for rent convergence to take place.

4.3 At the time of writing, even the draft subsidy variables for 2002/03 are not yet available and they will not be known until later in November. Indications are that there will be some substantial changes to the main subsidy variables as a means of introducing the rent convergence policy. Set out below are the principal subsidy allowances for 2001/02:

	<u>2001/02</u>
	£
Management Allowance per property	266.63
Maintenance Allowance per property	624.41
Guideline Rent per property	1,881.44
Allowed Percentage for Voids	2%

- 4.4 In previous years, the City Council has normally benefited from increased Management and Maintenance Allowance each year but these have been more than offset by the rise in the (much larger) assumed guideline rent per property. As a result the authority has usually lost subsidy year on year, although the losses have varied considerably.
- 4.5 The Major Repairs Allowance will also be paid in 2002/03. In 2001/02 this cash sum amounted to £3,991,540 (£490.06 per property). A similar sum, allowing for inflation and stock changes, is anticipated for 2002/03. However present indications are that the sums paid for the Tenants Compact and Resource Accounting totalling £63,000 will not be received in 2002/03.
- 4.6 **As a result, the amount provisionally estimated for HRA subsidy receivable in 2002/03 must be viewed with considerable caution. It is based on a net reduction of some £300,000 on the amount due for 2001/02 but only when the DTLR issue the draft information for 2002/03 can a more informed estimate be inserted. If this becomes available prior to the meeting on 26 November, the appropriate information will be circulated to members.**

5. RENT RESTRUCTURING

- 5.1 Mention was made in the previous paragraph of the issue of rent restructuring and the fact that its implementation will be effected through the workings of the HRA subsidy system. The implications for the City Council will only become clearer once the initial subsidy information has been issued to authorities. However it is fair to say that the implementation exercise looks likely to pose considerable administrative problems for any social landlord, whether local authority or housing association.
- 5.2 The issue of rent restructuring will therefore have to be addressed as part of the rent setting process although the government do stress that the overall level of its rents is a matter for each authority. The Director of Housing has also commented on this issue in para 14.

6. CONTRIBUTIONS FROM THE GENERAL FUND

- 6.1 Contributions to the HRA from the General Fund are only allowable where it can be clearly demonstrated that this reflects the cost of provision within the HRA of tangible benefits to non tenants. Thus the HRA bears the cost of maintaining amenity and play areas on Council Estates but the benefit of such areas is clearly one that is enjoyed by tenants and non tenants alike. On the basis of estimated non tenants on City Council Estates, a recharge of £105,810 has been estimated for 2002/03.

7. NEW POLICY INITIATIVES

- 7.1 Council approved the New Policy Initiatives for 2002/03 during the budget cycle in February 2001. Set out below are the original allocations and current provision together with the commitment into 2002/03 where appropriate:

		<u>2001/02</u> <u>Original</u> £	<u>2001/02</u> <u>Revised</u> £	<u>2002/03</u> <u>Estimate</u> £
(i)	Supporting People ILM	6,950	3,630	7,480
(ii)	Housing Best Value	30,000	30,000	31,940
(iii)	Mediation Service	3,000	3,000	3,000
(iv)	Introductory Tenancies	17,370	11,200	18,480
(v)	Resource Accounting	25,000	25,000	-
(vi)	Supporting People - Preventative Care (2 year)	6,300	6,300	-
		<u>£88,620</u>	<u>£79,130</u>	<u>£60,900</u>

- 7.2 Prospective bids for 2002/03 have been considered by the Executive on 15 October and are not yet incorporated into the estimates as now presented.

8. THE LEVEL OF RENTS AND BALANCES 2002/03

- 8.1 The projected balance at 31 March 2003 before the application of any rent increase stands at £1,251,910. This makes no allowance for any variations in the base level of service, except for any commitments already agreed by Council. Nor does it take account of any savings that might be made elsewhere in the budget or of the income accruing from any rent increase.
- 8.2 In my view a minimum level of balances for the HRA in normal circumstances remains of the order of £1,000,000. This is consistent with the advice I have previously given to the Housing and Care Services Committee and has always been accepted Council policy. A balance of this sort of size is required partly as a working balance and also to provide a cushion against unexpected events. This sum represents less than 5% of total annual HRA expenditure.

- 8.3 However against the uncertain backdrop of LSVT and the need to fund the corporate implications for the General Fund, a rather higher level is required. As things stand at present, the City Council would be committed to £1,600,000 in respect of Housing Benefit payments alone (over the next three years) should the proposed LSVT take place. Any balance on the HRA at the time of transfer would be available as a resource to meet this and any other costs falling on the General Fund. I would therefore advise that the target balance for December 2002 should be some £1.6m to £2m.
- 8.4 Conversely if the stock remains in Council ownership, the continuing falls in stock levels and increasing void rates point to a continuing need to address the financial problems facing the HRA in the longer term as well as in 2002/03. This too supports the argument for a higher balance than has previously been the case.
- 8.5 The policy of virtual rent-capping, which was introduced in 1996/97, looks set to continue. In a nutshell, for subsidy purposes, this effectively restricts authorities to a rent increase that in cash terms is no higher than that set out in the subsidy guideline rent increase. In 2001/02, the City Council took the decision to impose a 'cap busting' rent increase which took the average rent to the level above the guideline rent. As a result the net benefit to the City Council is only some 40p in every £1 of excess rent increase as some 60% of rent payments are met by rent rebate subsidy and this is not payable on rents above the guideline level.
- 8.6 As a guide to the financial effect of any proposed increases, the following table sets out various options based on the current average rent of £42.83.

<u>Rent Increase</u> (per week)	<u>% Increase</u>	<u>Amount to be Raised</u>	<u>Projected Year End Bal</u>
		£	£
Nil	Nil	Nil	1,251,910 in hand
50p	1.2	71,000	1,322,910 in hand
£1	2.3	142,000	1,393,910 in hand
£1.50	3.5	213,000	1,464,910 in hand
£2.00	4.7	284,000	1,535,910 in hand
£2.50	5.8	355,000	1,606,910 in hand
£3.00	7.0	436,000	1,677,910 in hand

9. SUMMARY

- 9.1 The detailed estimates show a provisional projected balance in hand on the HRA at 31st March 2003 of £1,251,910. This is before taking account of any further enhancements to the service that Members may wish to consider outwith those that can be financed by a redirection of resources under the New Policy Initiatives. It is also prior to determining the level of any rent increase to be applied.

10. CONSULTATION

Overview and Scrutiny as part of the budget process.

11. STAFFING/RESOURCES COMMENTS

Not applicable.

12. FINANCIAL COMMENTS

Included in the main body of the report.

13. LEGAL COMMENTS

Not applicable.

14. CORPORATE COMMENTS

14.1 The Director of Housing has been involved in the preparation of these estimates and is in agreement with the conclusions and recommendations. He comments further on the issue of rent restructuring and service charges.

14.2 HRA – Rent Restructuring/Supporting People

Further to report H099-2001, which outlined proposed charging increases for 2002/03, additional guidance has been issued by the DTLR in respect of both Rent Restructuring and Supporting People.

14.3 Rent Restructuring

Rent restructuring is due to commence on 1 April 2002, where the target rent for an individual property will be based upon its valuation plus an average earnings calculation. When calculating this target rent all embedded or pooled costs (service charges) must be removed from the gross rent. It should also be noted that the delivery of the decent home standard (new national indicator from 2002/03) is to run in parallel to rent restructuring.

14.4 Service Charges

The DTLR guidance states that "local authority landlords will be expected to set service charges which are reasonable and transparent". This statement on its own is self explanatory, however the difficulty lies with the definition of what is a "service charge", as it is not fully defined in law. The non-legalistic approach to the definition of service charges is "a service beyond or over and above what a tenant normally pays for occupying their home". Additionally service charges can either be fixed or

variable. The DTLR did state that guidance would be issued in October 2001 over services that would fall into this category, however this has still not been issued and despite repeated attempts to determine when it can be expected no date has been forthcoming.

As clear government guidance is not yet available and the only option open is to use the non-legalistic definition which would mean that the following should be considered to fall into the category of service charges (based on 2001/02 estimates).

	Type	Budget	Income	Deficit
Careline	Fixed	617,000	537,000	80,000
Housing Visitors	Variable	150,000	30,000	120,000
Individual Garden Maintenance	Variable	61,600	0	61,600
APD Garden Maintenance	Fixed	123,000	1,500	121,500
Allotments	Variable	21,500	5,250	16,250
Totals		973,100	573,750	399,350

Another area, which should incur a service charge, is the maintenance of amenity & play areas. Currently this work (gross cost £213,500) is funded from the HRA with a contribution from the GF, based on the historical RTB sales. However it could be questioned why council tenants should pay for a public facility.

14.5 Supporting People

From 1 April 2003 the DTLR state that it will be illegal to "rent pool" the costs in respect of support services from the HRA.

In the interim landlords must identify services, or parts of, that fall within the Supporting People regime and provide an estimate of 2001/02 expenditure by March 2002. A further audited return of actual expenditure must be provided by September 2002.

However the DTLR is also recommending that landlords freeze current charges at 2000/01 levels in real terms (cost of living increases only). The decision now is whether to increase the costs only by RPI or by a greater amount as currently approved.

It should also be noted that the DTLR does not expect landlords to reduce rents as a result of the additional income that will in future come via Supporting People changes. However landlords are limited in the areas where the freed rent resources from this initiative, possibly in the region of £250,000, can be spent;

- achieving decent home standard
- improving housing management
- improving application of BV and TP Compacts.

14.6 Rent Increase

In light of the above and the impending LSVT, it is recommended rent restructuring be delayed and that a blanket rent increase be applied to all dwellings as in previous years. At present it is not possible to determine the actual increase required to achieve the minimum balance required, until the DTLR publish subsidy allowances (expected December 2001). However it should be noted that DTLR rent restructuring proposals state that individual rents can increase by a maximum of RPI +1.5% (4% in 2002/2003) together with an additional £2.00 per week in order to achieve convergence (total maximum increase 8.5%).

15. RECOMMENDATIONS

The Executive is requested to approve the estimates for the purpose of formulating a recommended budget to Council, subject to further consideration on 17 December 2001 when it is hoped that the subsidy and guideline rent parameters for 2002/03 will have been announced.

The Executive will consider the following on 17 December 2001:

- (i) The level of dwelling rents to be applied in 2002/03.
- (ii) The desired level of year end balances.
- (iii) The rent for garages.

16. REASONS FOR RECOMMENDATIONS

As stated above.

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HRA SUMMARY:2002/2003

PREVIOUS
EXPENDITURE
2000/01
£

OBJECTIVE ANALYSIS

ORIGINAL
ESTIMATE
2001/02
£

REVISED
ESTIMATE
2001/02
£

ORIGINAL
ESTIMATE
2002/03
£

EXPENDITURE

ESTABLISHMENT COSTS

1,835,706	MANAGEMENT & SUPPORT SERV	1,848,430	1,882,360	1,726,760
1,932,206	HOUSING PROVISION	2,132,650	2,172,200	2,185,340
5,901,251	TENANCY SERVICES	6,216,550	6,648,440	6,372,460
9,669,163		10,197,630	10,703,000	10,284,560

RENT REBATES

9,226,747	STATUTORY PAYMENTS	9,962,490	9,708,100	9,708,100
9,226,747		9,962,490	9,708,100	9,708,100

CAPITAL FINANCING COSTS

28,215	LEASING CHARGES	29,390	29,440	29,440
464,343	DEBT-PRINCIPAL	457,620	453,890	420,740
1,886,477	- INTEREST	1,767,480	1,762,380	1,622,000
29,437	- MANAGEMENT	28,080	28,120	34,380
0	DEPRECIATION	3,991,540	3,991,540	3,860,200
90,300	PREMIA COSTS	90,300	90,300	90,300
2,498,772		6,364,410	6,355,670	6,057,060
0	REVENUE CONT CAPITAL OUTLAY	0	735,800	0

21,394,682	TOTAL EXPENDITURE	26,524,530	27,502,570	26,049,720
3,654,260	BALANCE C/F	1,182,080	2,089,100	1,251,910
25,048,942		27,706,610	29,591,670	27,301,630

HRA SUMMARY:2002/2003

PREVIOUS EXPENDITURE 2000/01 £	OBJECTIVE ANALYSIS	ORIGINAL ESTIMATE 2001/02 £	REVISED ESTIMATE 2001/02 £	ORIGINAL ESTIMATE 2002/03 £
	<u>INCOME</u>			
	<u>DWELLING RENTS</u>			
16,031,158-	GROSS RENTS	16,483,540-	16,387,240-	16,416,690-
286,193	PROV. FOR BAD DEBTS	335,300	335,300	335,300
15,744,965-		16,148,240-	16,051,940-	16,081,390-
	<u>OTHER RENTS</u>			
74,560-	SHOPS	76,970-	85,320-	85,320-
133,664-	GARAGES	144,640-	142,950-	146,260-
5,223-	ALLOTMENTS	5,250-	5,250-	5,250-
11,876-	MISC	9,200-	10,600-	10,600-
225,323-		236,060-	244,120-	247,430-
	<u>FEEES & CHARGES</u>			
78,410-	PDU SURCHARGES	83,370-	78,310-	79,090-
9,849-	SERVICE CHARGES	3,980-	2,690-	580-
182,321-	CARELINE (PRIVATE)	178,780-	178,780-	193,420-
0	SUPPORTING PEOPLE CARE CHARGE	109,000-	78,500-	78,530-
270,580-		375,130-	338,280-	351,620-
	<u>INTEREST</u>			
3,050-	'RTB' MORTGAGES	3,300-	2,390-	2,200-
210,000-	INVESTMENT INTEREST	77,500-	170,000-	90,000-
213,050-		80,800-	172,390-	92,200-
	<u>MISCELLANEOUS</u>			
167,330-	RECHARGE OF STAFF TIME GF,RTB	169,820-	198,810-	207,470-
12,415-	L'HOLD FLAT SERVICE CHARGES	12,000-	13,400-	13,700-
486,000-	OTHER	0	235,000-	0
665,745-		181,820-	447,210-	221,170-
17,119,663-	INCOME C/F TO NEXT PAGE	17,022,050-	17,253,940-	16,993,810-

HRA SUMMARY:2002/2003

PREVIOUS
EXPENDITURE
2000/01
£

OBJECTIVE ANALYSIS

ORIGINAL
ESTIMATE
2001/02
£

REVISED
ESTIMATE
2001/02
£

ORIGINAL
ESTIMATE
2002/03
£

17,119,663-	INCOME B/F FROM PREVIOUS PAGE	17,022,050-	17,253,940-	16,993,810-
	CONTRIBUTIONS			
4,517,307-	GOVERNMENT-HRA SUBSIDY	8,894,180-	8,570,000-	8,100,000-
90,063-	GEN FUND-AM.AREAS/AR.OFFS	112,300-	113,470-	118,720-
4,607,370-		9,006,480-	8,683,470-	8,218,720-
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21,727,033-	TOTAL INCOME	26,028,530-	25,937,410-	25,212,530-
3,321,902-	BALANCE B/F	1,678,080-	3,654,260-	2,089,100-
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25,048,935-		27,706,610-	29,591,670-	27,301,630-
=====		=====	=====	=====

HOUSING REVENUE ACCOUNT SERVICES
ANALYSIS OF CHANGES FROM BASE ESTIMATE

	£	£
ORIGINAL BASE ESTIMATE 2001/02		<u>496,000</u>
1. Expenditure Adjustments		
Allowed Changes:		
- Salary Related	21,930	
- Reduction in Energy Costs	(20,980)	
- Other	<u>(7,650)</u>	(6,700)
Volume Changes:		
Rent Rebates (reduction in expenditure)	(254,390)	
Other	<u>(8,740)</u>	(263,130)
2. Income Adjustments		
Volume Changes:		
Housing Subsidy (reduced subsidy receivable)	324,180	
Rents (reduced)	94,700	
Supporting People Care Charges	30,500	
Investment Interest receivable	(92,500)	
Other	<u>(1,770)</u>	355,110
3. Internal Recharge Adjustments		
Decrease in Central Administration charges	(107,780)	
Increase in Central Democratic Process charges	34,080	
Increase / (decrease) in Recharge to Housing General Fund	<u>(28,190)</u>	(101,890)
ADJUSTED BASE ESTIMATE 2001/02		479,390
4. Non Recurring Items		
Budgets b/fwd from 2000/01(per Council 17 July 2001)		1,320,770
DSO Contribution		(235,000)
REVISED ESTIMATE 2001/02		<u>1,565,160</u>

APPENDIX "A1"

ADJUSTED BASE ESTIMATE 2001/02		479,390
5. Adjustments approved by Committee/Officers To Date		
Non Recurring New Policy Initiatives		
- Resource Accounting	(25,000)	
- Supporting People	(6,300)	(31,300)
6. Expenditure Adjustments		
Allowed Changes		
- Salary related changes	48,510	
- Reduction in budget provision re sale of ex Area Offices	(25,950)	22,560
Inflation Provision		
- General	161,840	
- Salary related	83,990	245,830
Volume Changes:		
Depreciation (reduced charge)	(131,340)	
Debt Costs	(167,270)	(298,610)
7. Internal Recharge Adjustments		
Increase /(decrease) in Central Administration charges	(54,650)	
Other (net)	(5,510)	(60,160)
8. Income Adjustments		
Corporate Charging Target		(33,690)
Volume Changes:		
Housing Subsidy (reduced subsidy receivable)	470,000	
Investment Interest receivable (reduced income)	80,190	
Rents: Loss of Rent (Right to Buy etc)	309,340	
Offset by Additional Rent (53 rent weeks)	(338,790)	(29,450)
Other		(7,570)
		513,170
BASE ESTIMATE 2002/03		837,190

