MLTON KEYNES COUNCIL

9 FEBRUARY 2010

Wards Affected: All Wards

REPORT CONSIDERED BY CABINET 26 JANUARY 2010

HOUSING REVENUE ACCOUNT BUDGET REPORT – 2010/11 TO 2013/14

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Purpose:

To request Cabinet to recommend to Council the budget for the Housing Revenue Account (HRA).

Background:

This is the Budget Report for the Housing Revenue Account covering the period 2010/11 to 2013/14.

The draft Housing Revenue Account budgets were considered at Cabinet on 22 December 2009. This report provides an update including the Government's Draft Subsidy Determination for 2010/11, issued on 10 December 2009 and the proposed rent increase for 2010/11.

1. Recommendations

1.1 That the Council be recommended to approve the Housing Revenue Account budget for 2010/11 and its implications for future years within the framework of the Council's existing corporate priorities.

1.2 That the Council be recommended to approve an increase in average rents of 0.73% for 2010/11 as the Council moves towards Government formula rent by 2012/13 and that tenants be informed in line with statutory responsibilities under the Housing Act 1985.

1.3 That the Council be recommended to approve an increase in Shared Ownership rents of 2.75% for 2010/11 in line with the contractual obligations of the lease.

Comments and Recommendations from the Cabinet Member (Adult Social Care and Housing) Councillor Chris Williams:

The Cabinet Member supports the recommendations.

2. Summary

2.1 This report sets out the detailed information as follows:

(a) **Annex A** shows the 2010/11 budget and future years' projections for 2011/12, 2012/13 and 2013/14. The budgets include average rent increases of 0.73% in 2010/11, the level expected in order to remain in line with the Government's required weekly rent target.

(b) **Annex B** shows information on rent increases and potential future rent levels.

(c) **Annex C** identifies the main budget changes for 2010/11

(d) **Annex D** analyses the movement in budgets from 2009/10 to 2010/11

3. Issues & Choices

3.1 The Housing Revenue Account (HRA) is ring-fenced and accounts for the provision of housing by the council to tenants and leaseholders. It is funded by rents rather than from Council Tax (which supports other services).

3.2 The HRA budget and medium term financial plan (MTFP) have been based on the 10 key MTFP Financial Principles as approved by Cabinet in September 2009, to ensure that a robust, sound and realistic Medium Term Financial framework is embedded in financial plans.

3.3 **Annex A** shows the 2010/11 and future years budgets for the HRA compared to actual spending for 2008/09 and projected spending for 2009/10.

3.4 The budget has been prepared on the basis of the corporate planning assumptions as detailed in the Revenue and Capital Strategy report to Cabinet on 22 December 2009. For 2010/11 the budget is a projected net deficit of £160k. The main budget changes are in relation to:

(i) the net impact of the Draft Subsidy Determination £146k

(ii) cost of Prudential Borrowing £225k

(iii) reduced Revenue Contributions to Capital (£265k)

(iv) the increase in forecast spend on repairs and maintenance £870k

(v) rent increase (£338k)

(vi) reduction in bad debt provision (£205k)

A summary of the movements from the 2009/10 budget to 2010/11 are shown at Annex D.

3.5 In addition to the corporate planning assumptions, other changes specific to the HRA are as follows:

3.6 **HRA Planning Assumptions – 2010/11**

a) **Income - Dwelling Rents:**

(i) Under the framework for social rent reform, all local authority rents have to converge to a weekly figure calculated using a Government formula for each dwelling. The Council's rents continue to follow the Government's Target rent level.

(ii) In accordance with the Government's rent restructuring guidance, individual property rent increases are constrained to RPI + 0.5% plus £2 per week. The overall impact would be that the Council's rents would increase by an average of 0.73%. Rent increases for individual properties will vary in achieving this average.

(iii) **Annex B** illustrates the proposed average weekly rent level in line with the expected increase in the Government's Target rent and assumptions on future years rent increases.

(iv) An average rent increase for tenants of 0.73% equates to approximately £0.54 per week. The average rent would therefore be £74.52 per week.

(v) Rent increases for shared owners are 2.75% (this is contractual, based on the 2009/10 council house rent increase). This equates to an average rent of £70.46 per week, an increase of £1.89 per week, although this is dependant upon the share owned by the tenant.

(vi) Tenants will be informed of the rent increase in line with statutory responsibilities under the Housing Act 1985.

(b) **Income - Garage Rents**
An inflationary increase of 2.5% is assumed dependant upon customer price sensitivity.

(c) **Income - Leaseholders' Service Charges**
Leaseholders' service charges are estimated to increase in line with higher costs of providing the service, and an increased number of leaseholders following sale of flats under Right to Buy. In 2009/10 there has been a significant slippage in completion of window replacement works the expected level of income from recharging of window costs is therefore higher in 2010/11. This income has been reflected in capital by a corresponding reduction in revenue contributions to capital (RCCO).

(d) **Expenditure – General Management & Special Services**
Budgets updated based on current levels of spend for landscaping and cleaning which has released £222k back to the HRA reserve.

(e) **Expenditure - Housing Subsidy and Housing Benefit transfers**
Housing Subsidy is based on a notional Housing Revenue Account which is the net amount the Government assess local authorities should charge in rents and estimated expenditure on management and maintenance etc, not what they actually do. For Milton Keynes, this notional HRA Account has a

net surplus which results in a “negative” subsidy payable by the authority to the government.

Budgets for Housing subsidy and housing benefit transfers have been calculated in accordance with the Government’s Draft Subsidy Determination guidelines for 2010/11. For 2010/11 budget setting, the negative subsidy payment is assumed to be £18.3m (including the Major Repairs Allowance).

Housing Benefit transfer payments are made to the General Fund and are the difference between actual rents and the rent that Government will allow us to claim back in benefits. As the authority’s rents move closer to convergence with the Government’s expected rent level, these payments to the General Fund will reduce. In 2010/11 the payments are expected to reduce by £400k to £1.5m.

The estimated impact of these on the Housing Revenue Account is a net increase in cost of £146k. This figure may change following the announcement of the final Subsidy Determination due during January.

(f) **Expenditure – Transfers to Capital**

Ongoing contributions are still required to support the completion of the Decent Homes programme and other capital Health and Safety works. Based on current capital bids and the proposal to undertake prudential borrowing of £3m to address backlog issues, a contribution of £2.8m will be required from revenue in 2010/11.

4.7 The budget pressures for 2010/11 are listed at Annex C. The main areas being:

(a) **Repairs and Maintenance**

(i) Projected repairs expenditure in 2009/10 is estimated at £10,931k, an increase of £1,664k from the approved 2009/10 budget. This is largely due to increased cost of voids, the level of reactive repairs and asbestos works. Forecast spend in 2009/10 also includes one-off funding estimated at £739k for the demolition of the Briar & Bramley sites, currently expected to take place in late 2009/10. It is anticipated that there will be sale receipts from disposal of the Briar site, which will be used to fund the capital programme allowing for a reduction in level of revenue contributions to capital. This is not currently reflected in the 2010/11 budgets as it is uncertain when the sale may take place.

(ii) The repairs budget for 2010/11 has been increased by £870k to reflect the underlying pressure from the 2009/10 forecast spend. However, this increase in budget is potentially not sustainable in the longer term (requiring £3.5m over the four years). For 2011/12 onwards, the budget currently remains at the 2009/10 budgeted level including inflation only as the Housing service wish to continue monitoring repairs trend data and analyse the impact of the Government’s Subsidy review during 2010/11 before establishing any ongoing additional budget commitment in this area.

(b) Prudential Borrowing

To support the completion of the Decent Homes programme and other ongoing pressures within the capital programme, there is a proposal to undertake £3m of prudential borrowing which will require ongoing funding from revenue at an annual cost of approximately £225k.

4.8 Budget savings for 2010/11 are listed at Annex D, summarised as follows:

(a) **General Management, Special Services and Rents Rates and Taxes.**

- Efficiency savings of (£76k) have been achieved which are operational adjustments whilst the level of service within the management and special services areas are maintained in line with current standards.

- A further potential saving of (£62k) in respect of grass cutting service for certain groups of tenants will impact on approximately 800 users and will require a policy decision to cease this service. This is the subject of a separate report to January Cabinet.

(b) **Bad Debt Provision**
Bad debt provision has been reviewed and reduced by £205k. This is in line with the expectation of a reduction in rent debts due to increases in Housing Benefit and improved rent collection as well as the re-profiling of debt in relation to the leasehold window and digital TV works and associated recharges to tenants and aged debt analysis.

5. HRA Reserve and Medium Term Financial Plan

5.1 It is considered prudent to maintain a level of Housing Revenue Account reserve at around £2.4 million (£200 per dwelling) to cover any unforeseen circumstances. The summarised budgets shown below, indicate reserves are expected to remain above that level within the MTFP period up to 2013/14.

	Budget 2010/11 £000	**Budget 2011/12 £000**	**Budget 2012/13 £000**	**Budget 2013/14 £000**
Income	(50,115)	(52,882)	(53,214)	(53,942)
Expenditure	50,274	51,216	52,387	53,211
Net in Year Expenditure	**160**	**(1,666)**	**(827)**	**(731)**
Reserve b/fwd	(4,729)	(4,569)	(6,235)	(7,062)
Reserve c/fwd	**(4,569)**	**(6,235)**	**(7,062)**	**(7,793)**

5.2 Full detail on the Medium Term Financial Plan will be included in the budget report to February Cabinet. However, it should be noted that this may need to be significantly revised in the light of the changes to the Housing Subsidy arrangements due to be published in February 2010.

6. Implications

6.1 Policy

The recommendations of this report are consistent with the Council's Revenue and Capital Strategies.

6.2 Resources and Risk

Projections for 2010/11 budget indicate a surplus based on current assumptions.

Identified risks which may impact on the budget figures presented are:

- Increase or decrease in Right to Buy sales currently budgeted at 20 dwellings. Each additional dwelling sold results in lost rent of approximately £3,500 for a full year. Capital programme bids have been put forward based on 20 sales in 2010/11, based on current year trends.
- Empty Homes. The number of empty homes coming back has been stable for the past few years at around 950 per year. However the average cost of void repairs has increased by 12% over 2007-08. Evidence is that empty homes are now requiring more work to ready them for re-letting. Work is in progress to try to overcome this in order to understand why the previous trend has changed so dramatically and the outcome of this review, will inform budget setting for 2011/12 onwards. The increased spend on responsive repairs and asbestos management and removal is built into the 2010/11 budget only, with future years subject to the outcome of the review.
- Contributions to capital – in recent years there have been shortfalls in funding from reduced Right to Buy sales and spending pressures on the Housing capital programme funded by increased contributions from revenue, over and above that budgeted for. Although the proposed prudential borrowing of £3m may relieve some of this pressure, the long term underinvestment in the stock means that higher levels of revenue contributions may still be required.
- The constraints around the HRA subsidy regime and the absence of significant external funding for key programmes, such as Decent Homes, requires that a fundamental review of the future Housing position needs to be undertaken. This will be informed by any proposals to change the Housing Subsidy regime and consideration of regeneration opportunities going forward.

N	Capital	Y	Revenue	N	Accommodation
N	IT	Y	Medium Term Plan	N	Asset Management

6.3 Carbon and Energy Management

There are no implications as a result of this report.

6.4 Legal

There are no significant legal implications arising as a result of this report.

6.5 Other Implications

All implications are outlined within the report.

N	Equalities / Diversity	Y	Sustainability	N	Human Rights
N	E-Government	N	Stakeholders	N	Crime and Disorder

N	Carbon and Energy Policy				

Background Papers: Officer Working Papers

Revenue & Capital Strategy 2010/11 report to 22 Dec Cabinet