MILTON KEYNES COUNCIL

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Report considered by Cabinet – 18 December 2013

HOUSING REVENUE ACCOUNT BUDGET - 2014/15 TO 2017/18

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Executive Summary:

To request Cabinet recommend to Council the budget for the Housing Revenue Account (HRA) for 2014/15.

This report sets out the Housing Revenue Account (HRA) Revenue Budget covering the period 2014/15 to 2017/18. The draft Housing Revenue Account budgets were considered at Cabinet on 27th November 2013 as part of the draft Budget and Medium Term Financial Plan. This report provides an update on this position and the proposed average rent increase for 2014/15.

The report also highlights the main medium term risks and issues which may impact these budget assumptions.

1. Recommendations

1.1 That the Council be recommended to approve the Housing Revenue Account Budget for 2014/15 and note the implications for future years for the delivery of the Council's priorities.

1.2 That the Council be recommended to approve the increases in rents, service charges and other fees and charges as follows and as detailed in Annex C:

(a) A 3.5% increase in average rents for 2014/15 with tenants being informed in line with statutory responsibilities under the Housing Act 1985;

(b) a 3.5% increase in service charges for 2014/15 in line with the average rent increase;

(c) a 3.5% increase in garage rents in line with the average rent increase; and

(d) an increase in Shared Ownership rents of 4% for 2014/15 in line with the contractual obligations of the lease.

2. Issues

2.1 The Housing Revenue Account (HRA) is a ring-fenced account, which is used for income and expenditure relating to 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).

2.2 The Housing Revenue Account for 2014/15 has been developed in accordance with the context and resource assumptions detailed in the Medium Term Financial Plan, as reported to Cabinet on 27th November 2013.

2.3 There was a major change to the financing of the Housing Revenue Account from April 2012, due to the implementation of the Housing Self-Financing regime. This change means the Council has taken on a significant amount of debt (£170.4m) in exchange for not paying future Housing Subsidy. This means the future resources and spend of the HRA are now based on local decisions. This change is anticipated to be beneficial to the HRA over the long-term.

2.4 The move to self-financing affects the Housing Revenue Account in the following ways:

- The HRA now funds the costs of borrowing for the initial debt settlement. The Council has chosen to incorporate this debt into the Council's overall borrowing portfolio, creating a single pool and charging interest to the HRA in proportion to the debt it holds, estimated at 4.18% for 2014/15.

- The payments for Housing Subsidy have now ceased.

- The Major Repairs Allowance ceased. Future capital expenditure is now funded through revenue contributions to capital based on the long-term asset management needs of the housing stock and the funding available in the HRA.

- The development of a 30 year business plan supporting the delivery of the HRA under the new arrangements. This makes assumptions regarding the level of income available and the key risks facing housing service delivery within this timeframe.

2.5 The HRA Budget for 2014/15 has been prepared on the basis of the corporate planning assumptions. In addition the following planning assumptions specific to the HRA have been made:

HRA Planning Assumptions

Income

(a) Dwelling Rents

2.6 Under self financing, the determination of rent is a decision of the Council. However, the debt settlement figure assumes that rent is set in line with the Rent Restructuring Guidance and that convergence takes place by March 2016. Based on this Guidance average rents would be expected to increase by 3.7% (RPI as at Sept 2013 plus 0.5%) for 2014/15.

2.7 This is an important assumption under self financing, as rent and other income are the only long-term income resources for the HRA. Any reduction in rent levels below that assumed under Rent Restructuring will reduce the capacity for the HRA to fund investment in housing stock.

2.8 As part of the Comprehensive Spending Review 2013, Government announced a consultation on the proposal that social rents would increase by CPI plus 1% for the ten years from 2015/16 to 2024/25. Budget assumptions for the medium term have therefore assumed rent increases in line with this proposed change.

2.9 The higher rent will increase the income to the HRA in 2014/15 and in the medium term. Based on a proposed average rent increase of 3.5% in 2014/15, average rents would increase to £87.70 per week. This equates to an average rent increase of approximately £2.97 per week. A Local Rent Policy is currently being developed for the HRA which will influence rent setting from 2015/16.

2.10 Rent increases for shared owners are 4.0% (this is contractual, based on the previous year's (2013/14) council house rent increase). This equates to an average rent of £80.67 per week which is an increase of £3.10 per week, although this is dependant upon the share owned by the tenant.

2.11 The impact of not increasing housing rents in 2014/15 would be a loss of £1.5m income to the HRA. Over 5 years this would equate to a loss of income of c£9.3m which impacts on the ability of the HRA to fund works and improvements to the housing stock.

2.12 The national welfare reform changes are currently a risk to some of the income in the HRA. Under the current arrangements the rent for those people in receipt of Housing Benefit is paid directly to the Council, under the Government proposals for welfare reform this income will be paid directly to the resident, to then make payment of rent. This means income which was previously guaranteed to the HRA may now not be collected. In addition the general reduction in benefits through welfare reform will reduce the income available to some tenants, which may increase the risk of non payment.

2.13 Due to these increased risks in relation to income collection, the budgeted level of collection for all rental income from 2013/14 onwards was reduced from 93% to 92%. Non housing benefit related income collection for 2012/13 was 94%. The forecast for 2013/14 is that collection will be at least 94% by year end. However, the impact of Universal Credit will potentially have a downward effect on this collection rate so the reduction to 92% remains prudent to assume until the impact of these changes is known. However, all debts will continue to be rigorously pursued in line with the debt recovery undertaken within Housing and the wider Council Debt Project.

(b) Right to Buy Sales

2.14 The Government made changes to the Right to Buy Scheme in April 2012 which increased the maximum discount offered to tenants to £75,000. Local Authorities were also allowed to retain part of the receipt from Right to Buy property sales, which will fund future house building. Right to Buy sales increased during 2012/13 to 65 and are expected to reduce to around 50 in 2013/14. Assumptions for 2014/15 budget have therefore been reduced to 45, which reduces the rent income expected in 2014/15 by £0.098m.

(c) Garage Rents

2.15 An inflationary increase of 3.5% is recommended in line with the proposed main housing stock rent increase.

(d) Leaseholders' Service Charges & Major Works Recharges

2.16 Leaseholders' service charges are estimated in line with costs of providing the service. Recovery of costs for major works in respect of leaseholders is also assumed.

2.17 Other fees and charges have been reviewed in line with the Council's income policy to ensure charges are based on the full recovery of cost.

2.18 A full list of the proposed HRA fees and charges are set out at Annex C.

Expenditure

(e) Repairs and Maintenance

2.19 The repairs and maintenance budgets for 2014/15 reduces by £0.41m to £10.1m. This movement reflects the capital nature of some repairs and maintenance projects being undertaken in 2014/15 which requires a transfer of funds to the capital programme.

(f) General Management, Special Services& Rents, Rates & Taxes

2.20 Revenue savings of £0.078m in 2014/15 are expected. Additional pressures are expected from utility and pay inflation but are more than offset by a reduction in charges for support services such as Communications, Performance and MKSP services.

(g) Housing Benefit transfers

2.21 Housing Benefit transfer payments are made to the General Fund and are the difference between actual rents and the rent limit that Government will allow us to claim back in benefits. As the Council's rents move closer to convergence with the Government's Target Rent level, these payments to the General Fund reduce. In 2014/15 the payments are expected to reduce to nil as rents are expected to be below the Government's Limit rent level.

(h) Debt Financing Costs

2.22 Under the new self financing regime the Council has taken on additional borrowing of £170.4m. Interest charges are estimated at £10.9m for 2014/15 based on an assumed interest rate of 4.18%. It is anticipated that principal repayment of the loan will commence from 2018/19 onwards which will enable resources in the medium term to be focussed on the Regeneration programme.

(i) Depreciation & Capital Investment

2.23 Under self-financing a local assessment of capital spending needs is being undertaken, which will determine the level of ongoing improvement works to individual properties compared to major renovation, refurbishment or replacement works. This assessment of capital spending needs will also determine the depreciation the Council will need to set aside in addition to contributions from revenue for major capital investment. This depreciation charge will fund the future maintenance work. This is different to the General Fund position, where depreciation charges are notional.

2.24 The budget for 2014/15 assumes an increase in the provision for deprecation to £14m. For the medium term the budget proposes a prudent approach by increasing the provision further to £15.4m by the end of 2017/18 to ensure sufficient resources are available for future replacement works, as asset management information indicates a higher than average maintenance spend.

(j) Contribution to Earmarked Reserves

2.25 When reviewing the potential financial risks to the HRA a number of issues have been identified, where it would be prudent, to begin to develop some earmarked provision. It is therefore recommended that the annual contributions of £0.850m continue to be made to specific reserves as follows:

Table 1: Contributions to Earmarked HRA Reserves

Reserve	**Reason**	**Contribution (Per Year) £m**
Impairment Reserve	To allow the potential costs of impairment to fixed assets to be phased over a number of years, to prevent a major rent increase.	0.250
Debt Refinancing Reserve	To phase the costs of any significant increases in debt financing costs	0.100
Major Project Costs	To provide for major variations in the costs of capital schemes, as additional borrowing cannot be undertaken.	0.500
Total Annual Contributions to Earmarked Reserves		**0.850**

2.26 Table 2 shows the summary Budget for the Housing Revenue Account. The 2014/15 HRA Budget is compared to the 2013/14 Budget in Annex A.

Table 2: Summary of the Housing Revenue Account Budget

	2014/15 £m
Income:	
Dwelling Rents	53.297
Other Income	4.302
Total Income	**57.599**
Expenditure:	
Repairs and Maintenance	10.104
General Management	8.916
Interest and Repayment of Capital Debts	10.857
Funding for Future Replacement Capital Works (provision for depreciation)	14.010
Contribution to Capital Improvement works (RCCO)	8.321
Contribution to Earmarked Reserves	0.850
Other expenditure	4.541
Total Expenditure	**57.599**
Net budget for the year	**0.000**
Forecast Reserve Balance - brought forward from 2013/14	*4.569*
Reserve Balance - carried forward to 2015/16	*4.569*

2.27 The minimum level of prudent HRA reserve has been assessed at £4.5m to cover any unforeseen circumstances. The reserve level at the end of 2014/15 is forecast to be £4.5m which is in line with maintaining a minimum reserve level. The medium term projection in Annex A indicates HRA reserves will remain at this level for the medium term planning period.

3. Robustness and Risks

3.1 A critical element of the Medium Term Financial Plan and Budget is to ensure that the financial consequences of risk are adequately reflected in the Council's finances. In preparing the HRA Budget for 2014/15, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report.

3.2 Where the impact is not known this has been highlighted as a risk. These risks are summarised in the HRA budget risk register for 2014/15 at Annex B.

3.3 Development of the Regeneration Strategy will result in significant benefit to tenants as well as some potential risks. These will continue to be assessed as the programme develops and will form part of the MTFP updates going forward.

3.4 Specific risks associated with any future budgets will be flagged in the year they occur.

3.5 The forecast (Period 8) for the Housing Revenue Account (HRA) is to maintain balances at £4.5m at 31st March 2014, which is in line with maintaining a minimum prudent level of £4.5m. The minimum prudent level for the HRA has been reviewed as part of the development of this draft Budget.

4. Annexes

4.1 The following are appended to this report:

Housing Revenue Account Budget 2014/15 to 2017/18	Annex A
HRA Budget Risk Register	Annex B
HRA Fees and Charges	Annex C

5. Implications

5.1 Policy

The Council's HRA Budget is the financial expression of all the Council's policies and plans.

5.2 Resources and Risk

No	Capital	Yes	Revenue	No	Accommodation
No	IT	Yes	Medium Term Plan	Yes	Asset Management

All implications are outlined within the report

The forecast (Period 8) for the Housing Revenue Account (HRA) is to maintain balances at £4.5m at 31 March 2014, which is in line with the minimum prudent level of £4.5m.

The minimum prudent level for the HRA has been reviewed as part of the development of this Budget and remains at £4.5m.

A budget risk register is available at Annex B to this report

5.3 Carbon and Energy Management

There are no direct carbon and energy management implications as a result of this report. However, the Housing service plan including proposed capital schemes funded from revenue contributions, to be agreed at Cabinet in February 2014, may have Carbon and Energy Management implications and those documents will set these out

5.4 Legal

The Council must set the budget in accordance with the provisions of the Local Government Finance Act 1992 and approval of a sound budget each year is a statutory responsibility of the Council.

5.5 Other Implications

Yes	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
No	Carbon and Energy Policy				

Background Papers: None