

Minutes of the meeting of the BUDGET AND RESOURCES SCRUTINY COMMITTEE held on WEDNESDAY 4 JANUARY 2023 AT 19:00 hrs

- Present:** Councillor Hume (Chair)
Councillors Cannon, Geary, Imran, M Khan, Long (substituting for N Khan), Taylor and Wardle
- Apologies:** Councillor N Khan (Councillor Long substituting),
Councillor Clarke
- Officers:** N Hutchin (Head of Finance), C Arnold (Housing Finance Manager),
A Hodgson (Rent & Service Charge Consultant), E Richardson
(Overview and Scrutiny Officer)
- Also present:** Councillors Clarke and Verma observing via Teams
L Wheaton (Political Assistant)

BR28 DECLARATIONS

As a matter of transparency, Councillor M Khan advised that he was a private sector landlord in Milton Keynes.

BR23 HOUSING REVENUE ACCOUNT (HRA) DRAFT 2023/24 BUDGET

The Committee received a very comprehensive presentation on the current position of the Housing Revenue Account (HRA) and the implications for the HRA's budget in 2023 from the Head of Finance and her colleagues.

The main topics covered by the presentation were an overview of the HRA budget (ie a recap of the position as at December 2022), pressures and core assumptions, identified savings, an overview of the rent setting process, the outcome of the Government's rent cap consultation, a recap of how the Council's ability to borrow against the HRA (borrowing headroom) worked, the Treasury Overview of the HRA and the next steps to prepare the final budget for presentation February 2023.

During the discussion following the presentation, the Committee noted that:

- a) That the 7% rent cap only applied to existing tenants. Any relets of council houses made after the start of the cap could be

charged at the standard rate of CPI + 1%. On average between 500 – 700 council houses were relet each year;

- b) “Other Income” included non-dwelling rents such as garages and some commercial properties, service charges for cleaning communal areas in blocks of flats etc. The Head of Finance agreed to supply a detailed breakdown of “Other Income” in writing;
- c) The 5% labour inflation was an element of the Mears contract for repairs and maintenance and had been calculated using the construction industry’s standard indices;
- d) The interest rate on non-fixed rate borrowing had been estimated at 2.4% in February 2022. By December 2022 this had risen to 4.5%;
- e) Debt funding within the HRA was through loans, generally via the Public Works Loan Board (PWLB) and not mortgages against properties;
- f) The Council revalued its assets every 5 years;
- g) The Council’s previous policy of trying to keep rents as low as possible for its tenants had probably been an erroneous approach which was making the current financial position of the HRA harder to manage;
- h) The changes in the Council’s housing stock profile due to the demolition of The Gables and Mellish Court had had a significant impact on rental income;
 - i) Rent increases on shared ownership properties was always a year behind that of council owned properties;
 - j) The Council could only use 40% of its Right to Buy receipts to build replacement houses, which was not sufficient for a 1-4-1 replacement rate;
 - k) A revised mapping project was being undertaken to assess whether non-housing assets such as landscaping or open spaces belonged to the HRA or the General Fund as this would determine how any maintenance and improvement works were funded;
 - l) Debt recovery rates in the HRA averaged 99.3%, with the provision for bad debt set at 1%.

As part of the presentation, the Head of Finance explained that the HRA borrowing cap was calculated based on the amount of debt the HRA could afford to finance, covering both the cost of financing the

debt, the interest, and the repayment of the debt. The HRA's annual operating surplus determined the available resource for interest and debt repayments. The Council applied an interest cover ratio of 1.25 which ensured that interest costs could be covered one and a quarter times to allow for interest rate fluctuations and other unknowns. A number of the fixed term loans were due to mature over the coming years, presenting a re-financing risk due to the current higher rates of borrowing. The HRA Business Plan assumption is that the Council will take short-term loans initially, until such time that interest rates settle down again to make long-term borrowing viable.

She also explained that although the real cost of service charges fluctuated during the year the rate charged to tenants was a fixed rate to allow them to budget accordingly. Any overspend or underspend was calculated at the end of the financial year and the following year's charge adjusted accordingly. The Council was looking to establish a working group of interested tenants to discuss with them what service charges should cover and review whether the Council is charging for things tenants deem unnecessary, or if there were items not currently covered by service charges they would like to see included, although there would always have to be a minimum level of service charges to cover essential items.

Finally, the Committee was advised that although challenging, and facing some long-term uncertainty, the HRA remained financially stable and a balanced budget for 2023/24 would be achieved. However, the current volatility and uncertainty meant that the Council would need to undertake a more regular approach to decision making / approval of expenditure in the HRA in order to respond to adverse impacts (such as higher materials inflation) but also to ensure that if the position improves, or there is more clarity on current uncertainties, the Council does not wait until the annual budget process to bring forward new investment decisions.

RESOLVED –

That the Committee's recommendations on the Housing Revenue Account draft 2023/24 budget be included in its report to Cabinet on 7 February 2023.

THE CHAIR CLOSED THE MEETING AT 21:05

The documents and presentations referred to in these minutes can be found on the Council's Committee Management Information System (CMIS) at: [Milton Keynes City](#)

[Council CMIS: Budget & Resources Scrutiny Committee - January 2023 Challenge Meetings](#)

The recording of this meeting is available to view for 6 months on the Council's YouTube Channel at: [Budget and Resources Scrutiny Committee, Milton Keynes City Council – Wednesday 4 January \(19:00\) - YouTube](#)

DRAFT