c

HRA Budget

milton keynes council

21 December 2021

The Housing Revenue Account (HRA) Budget (Annex to Draft Council Budget and Medium-Term Financial Plan 2022/23 to 2025/26)

Introduction

The Housing Revenue Account Business Plan (HRABP) sets out how we intend to achieve our ambitions to maintain and improve our existing housing stock, regenerate local estates, build new council homes and improve the services we deliver to our tenants. The HRA BP is the overarching strategic document that sets out what our anticipated resources and investment priorities are and reflects the renewed ambitions of the council to build more council homes and to bring our existing homes up to a decent standard with a clear focus on carbon reduction and sustainability. During 2020/21 and ahead of setting the final HRA budget in February 2021, we undertook a significant update of the plan, including consulting with tenants and fully updating our 30-year financial model, to ensure that we can make robust decisions on future investment whilst also ensuring the HRA remains viable into the future, which is particularly important in the context of increasing economic uncertainties. Both reports were approved by Cabinet and Full Council in February 2021.

Given the substantial update to the plan as part of setting the 2021/22 budget, a rolling refresh will now be undertaken, and any future updates will be included as part of the draft and final updates to the wider Council Budget and Medium-Term Financial Plan. This report will therefore outline the stages to completing the refresh of the HRA and the impact of this on the budget as well as borrowing headroom.

The HRA affordable borrowing limits are based on the ability of the HRA to fund debt costs (interest and repayment) and therefore changes to the operating surplus within the HRA will impact on our future debt capacity (i.e. the maximum amount we can borrow). In the context of our ambitions for Housing, it is therefore important to ensure we have good management of our budgets and performance of our services, we mitigate arising pressures where possible and capital schemes are delivered on time and on budget. However, it is important to note that the HRA is constrained by its resources, the majority of which are outside of our control (including rent setting policy which accounts for 95% of the income received in the HRA), therefore prioritisation of investments will be required to ensure that the borrowing headroom is not breached and the HRA remains financially viable into the long term.

1. HRA Draft Budget Overview – Medium Term Financial Plan

1.1 The HRA is a ring-fenced account – this means that any resources generated (made up of a combination of tenants' rent and service charges, capital receipts and prudent levels of debt finance) can only be spent on specific expenditure as determined in the Department of Levelling Up, Housing & Communities "Operation of the HRA Ring-Fence" guidance, last updated in November 2020.

1.2 The first stage to setting the HRA budget is to establish all associated costs of running the service, including staffing costs, revenue repair costs as well as its resources (namely tenants' rent and service charges), allowing for periods of voids and bad debts.

1.3 The draft adjustments to the revenue budget total (£2.506m) in 2022/23, i.e., a reduction in revenue costs / additional income and (£10.355m) across the MTFP, summarised as follows (together with the full detail which is shown in section 6.3).

Summary of Revenue Adjustments	**2022/23 £m**	**2023/24 £m**	**2024/25 £m**	**2025/26 £m**
Contractual & Inflationary Pressures	0.740	0.654	0.516	0.530
General Pressures	1.527	(0.120)	(0.365)	0.000
Reversal of Previous One-Off Costs	(2.539)	0.000	0.000	0.000
Savings / Budget Reductions	(0.150)	(0.050)	(0.070)	0.000
Stock Adjustments	(0.213)	(1.053)	(0.230)	0.263
Rent Increases	(1.912)	(2.780)	(2.206)	(2.040)
Technical Budget Amendments	0.000	0.000	0.000	0.000
Treasury Management	0.044	(0.397)	(0.509)	0.000
Revenue Contribution to Capital	2.506	3.747	2.859	1.243
Total	0.000	0.000	0.000	0.000

- The reconciling adjustments between the Business Plan and the MTFP are included in Rent Increases above but have been fully allocated against the individual cost headings within the draft MTFP.

1.4 A full summary of the core assumptions within the business plan, including rationale for changes and overall impact of any changes on the business plan period, are included in section 6.4 and a summary of the main changes are as follows:

Area	Comments
Inflation (CPI)	Both cost and income inflation have been increased in line with the actual September 2021 inflation rates, and latest forecasts from our Treasury Advisors. This is driven by the wider economic outlook.
Provision for Voids	Voids performance is currently a challenging area of operation. Both MKC and the contractor are working together to find a solution to the issues we currently face but with several voids classed as major, this will take time to reduce. As such, an increase in voids has been reflected in the early years of the BP but with a target set to reduce the voids rate over a five-year period.
Prudential Minimum Balance	The base level of the minimum balance remains the same, however an inflationary increase is now being applied to this for future years, which requires an additional contribution from revenue on an annual basis (linked to the inflation increases).
Provision for Bad Debts	Another area of concern given the current economic climate with regards to inflation and upcoming tax increases and the impact this may have on tenants. As such, the bad debt provision for the first three years has been increased before reducing back down to current levels.
Loss of Stock	Significant future investment is required in existing Housing Stock to maintain current, and future decency. We have several major voids and we are currently developing an Asset Management Strategy (AMS) which will inform future investment decisions, and this may result in removal of stock.

1.5 Housing Revenue Account 2021/22 and 2022/23 Budgets:

HRA Budgets	**Approved 2021/22 Budget £m**	**Forecast 2021/22 Outturn £m**	**Forecast 2021/22 Variance £m**	**Proposed 2022/23 Budget £m**
Dwelling Rents	(53.925)	(53.661)	0.264	(56.653)
Non-Dwelling Rents	(0.319)	(0.319)	-	(0.319)
Leaseholders' Service Charges	(0.800)	(0.800)	-	(0.793)
Fees & Charges	(1.406)	(1.406)	-	(1.395)
Interest Receivable	(0.069)	(0.069)	-	(0.051)
Total Income	**(56.519)**	**(56.255)**	**0.264**	**(59.211)**
Repairs & Maintenance	10.864	11.213	0.349	11.162
General Management	13.061	12.024	(1.037)	11.699
Special Services	3.158	3.182	0.024	3.264
Rents, Rates, Taxes & Other Charges	0.043	0.369	0.326	0.294
Depreciation and Impairment	13.800	13.800	-	13.995
Bad Debts Provision	0.614	0.427	(0.187)	0.847
Capital Transfers	4.230	4.491	0.261	6.156
Interest & Repayment of Debt	10.749	10.749	-	11.726
Revenue Contribution to Balances	0.000	0.000	0.000	0.068
Total Expenditure	**56.519**	**56.255**	**(0.264)**	**59.211**
Total Housing Revenue Account	**0**	**0**	**0**	**0**

*Special services includes: cleaning and caretaking and sheltered housing

1.6 We must also set aside a prudent level for ongoing stock component replacement (bathrooms, kitchens, energy components etc.) and this is shown as “Depreciation and Impairment” in the budget summary.

1.7 Given that we have earmarked all uncommitted reserves in the HRA to improve the condition of our existing housing stock, any new capital development schemes or changes to existing schemes that come forward, will be funded by borrowing. In the budget, we must be able to finance the interest costs associated with this borrowing, as well as set aside a prudent amount for repayment of debt. This is shown as “Interest and Repayment of Debt” in the budget summary. We also must increase our prudent minimum reserves annually, in line with inflation to reflect the increased cost based and therefore risk, in the HRA. This element is shown as “Revenue Contribution to Balances”.

1.8 Should there be any surplus revenue funds, when all the above costs are considered, any excess will be transferred to capital to fund our ongoing planned maintenance programme, as well as reduce any future borrowing costs.

2. HRA Budget Setting Approach

2.1 The setting of the HRA budget for the medium term (22/23 to 25/26) and the 30-year business plan period will take place in two stages.

2.2 The first stage will involve a refresh of all core assumptions within the plan (contractual and pay inflation, rent increases, per Government rent setting policy), a refresh of any pre-agreed pressures and savings (that have an impact on the current MTFP) and other pressures which cannot be avoided or mitigated. The business plan will also be updated to include any development schemes that were been approved during the year, since the budget was set. This substantially forms the draft budget presented in this report.

2.3 The second stage of updates will include a full review of the capital programme, any choice revenue pressures and the impact these have on the HRA debt cap and borrowing headroom. The capital programme review will include a review of our planned maintenance programme for existing stock and our new build and regeneration programmes, whereby we will reassess the timing on delivery of schemes (including any slippage), overall costs and inclusion of new schemes that have been approved internally between the draft and final budget.

2.4 The HRA's ability to invest in new capital schemes is constrained by its ability to service its debt and repay its borrowings, which is determined after the core revenue budget is set. Any available headroom at the time of setting the final budget in February 2022, will be available for new schemes that can come forward and be agreed in-year (subject to overall scheme value for money assessment and an assessment of the impact any scheme will have on the 30-year business plan period).

2.5 The HRA business plan operates within the envelope of resources available, mostly generated through tenants' rent and service charges. Rent setting policy is not within local authority control and is determined by the rent standard, which outlines that rents can be uplifted by a maximum CPI plus 1% annually. The current rent standard ends in 2024/25 and it is not clear what the new policy will be, but for business planning purposes, we have assumed the current uplifts will continue. For context, the value of the additional 1% uplift, totals circa £400m over the life of the business plan.

2.6 Due to the complexity and importance of the HRA business plan, the final plan will be subject to independent expert review. This will take place ahead of the final budget.

3. HRA Budget Overview – The 30 Year Business Plan

3.1 The updates to core assumptions, technical adjustments relating to the HRA and unavoidable revenue pressures have been included in the draft 30-year business plan.

3.2 When the budget was originally set in February 2021, the 30-year business plan showed that the council could invest in meeting the decent homes standard and build 290 homes (the snapshot approved capital programme at the time) and will have a surplus of £110m at the end of the business plan period. At 2025/26 the affordable debt cap was set at £500m and borrowing stood at £282m leaving headroom of £218m.

3.3 The business plan was then refreshed in July 2021, to incorporate the cost of the Lakes Estate Regeneration Project which has a capital budget of £62m. The impact of including this project into the plan, reduced the overall position at the end of the business plan period to a small deficit of £14m and the borrowing position increased to £350m, leaving headroom of £150m.

3.4 The impact of the changes as part of the draft budget on the HRA business plan results in a slight reduction in the reserves position at the end of 30 years, to a deficit position of £17m. This represents the latest snapshot based on the changes outlined in this report and will be revised again ahead of the final budget, where capital budget amendments will be included.

3.5 Like all areas, the HRA is constrained by the availability of its resources which are also impacted by national government policy. These impact the ability to reinvest funding in stock improvement, regeneration and the provision of new build council housing. These include:

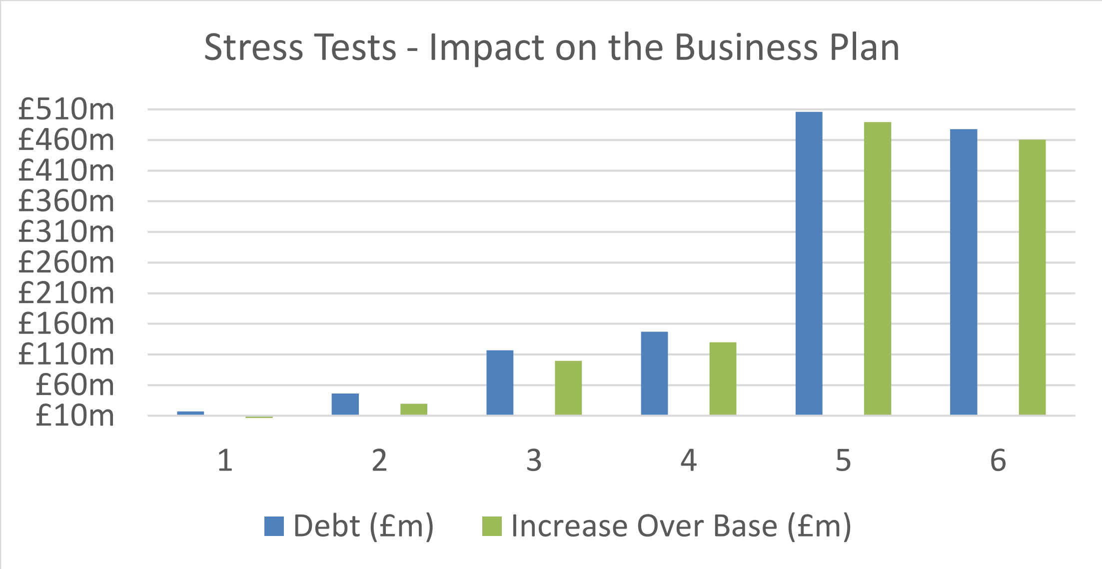
- **Right to Buy** – all properties built through the HRA can be subject to right to buy. Whilst we do receive a receipt when a tenant purchases their property, this does not cover the cost of the initial investment and the HRA can still be left with outstanding debt but then no future operating surpluses that can fund the cost of interest and repayment of the debt. We therefore have to allow for a risk provision in the business plan which reflects this and therefore impacts the availability of resources for future investment.

- **Grant levels and process** – funding is available via Homes England to support investment in the delivery of new council housing, however there is no set amount and funding is based on individual bids. The process requires us to develop scheme appraisals and seek approval to proceed before a grant bid can be considered. However, it is difficult to assess whether a scheme is financially viable without confirmation of grant funding – this means that we would have to take forward schemes at risk and potential result in abortive costs if grant levels do not make a scheme viable. An amount is currently estimated on development schemes and included within the plan, but should this not materialise, the business plan will be adversely impacted.

- **Rent setting policy** – income from rent accounts for 95% of our income in the HRA and the setting of rents is determined by Government. At present we can increase rents by CPI plus 1% each year, however in 2016, as part of the Government's Welfare Reform, there was a rent reduction of 1% per year. This lasted for four years from 2016/17 to 2019/20 which not only had the effect of reducing the rent roll, but we then also lost inflationary growth that would have ordinarily been received. This year, it was confirmed that the Local Housing Allowance rate would also be frozen.

  This impacts the availability of resources in the business plan and the rent reduction and combined loss of inflation had the effect of reducing resources by c£300m over the 30-year business plan. Rent levels significantly affect the value for money assessment when considering developing new schemes – this is against a current backdrop of increasing costs in the construction sector at present.

3.6 The business plan is a long-term plan with a number of external factors which can influence the level of resources, hence why it is important, particularly in the current economic climate that we undertake regular refreshes so we can consider the best information as part of our investment decisions. A number of the factors are not fixed, and link to areas such as inflation or government policy. We consider these elements together and assesses ourselves against the Sector Risk profile in order to stress test the sensitivity of these elements within the plan. The following table, shows the sensitivity of relatively minor changes in some of the individual factors across key elements within the plan:



Scenario	Description
1	Current **BASELINE** version
2	Cost inflation 1% extra year 1, reducing to 0.7% year 2, year 0.3%, year 4 back to as before
3	Reduce rent inflation by 1% for the first three year
4	Increased cost inflation and reduced income inflation for first three years
5	Increased cost inflation for first three years and income inflation at CPI only for life of the plan
6	Rents at CPI for whole of BPM

4. Borrowing Strategy & Treasury Management

4.1 During the last update of the business plan (February 2021), we also set out our approach to borrowing within the HRA, and where Council approved a proposal to adopt a two-pool approach for managing debt. This meant that we would split out debt relating to the General Fund and the HRA, thereby ensuring future decisions can be made independently, reflecting the different needs and investment requirements in the HRA. This change is in line with regulations and supports greater investment into the HRA.

4.2 Since the removal of the national debt cap, Local Authorities are no longer constrained by a prescribed upper limit to borrowing and instead must assess borrowing plans against the CIPFA Prudential Code for Capital Finance principles of affordability, sustainability, and prudence. We set our own prudential indicators within the HRA for the medium-term when the 2021/22 budget was set. There is no plan to review or change these indicators for 2022/23.

4.3 To ensure that we maximise additional investment through the HRA but that we don't put the long-term viability of the HRA at risk, we have put in place the following measures:

- An **affordable borrowing limit** is determined by the amount that the HRA can afford to borrow. This limit is set based on the overall available operating surplus in the HRA. We then use an interest cover ratio (ICR) of 1.25. This means that we need to be able to cover loan interest costs with a margin of 25% on top (in other words we need to be able to cover loan interest costs one and a quarter times over). This provides a risk margin to allow for things like interest rate rises and unexpected costs that may arise in year in both the revenue and capital budgets.
- We make a **voluntary minimum revenue provision** to ensure new investment funded through debt is sustainable, by setting aside each year a sum to be used to meet loan principal repayments when they fall due.

4.4 These measures are outlined in full in the Treasury Management Strategy, which will be refreshed and approved in February 2022 as part of the budget setting process.

4.5 In September 2021, Cabinet received an Integrated Borrowing Strategy report which set out the underlying considerations that influence the Council's borrowing decision making and in particular, the common practice of internal borrowing.

4.6 As outlined in paragraph 1.7 above, we have previously earmarked all uncommitted reserves to improve the condition of our existing housing stock, and the HRA's capital investment plans are expected to be fully funded by borrowing. At the same time, the General Fund is expected to hold substantial cash-backed reserves. Under a two-pool approach to managing debt, the HRA's borrowing requirement may be funded by internal loans from the General Fund. This will generate for the General Fund a return on its cash resources above that it could achieve in traditional treasury management investments in the current economic climate, as well as reduce exposure to credit risk. Internal loans will be based upon the lending terms and priced at PWLB-equivalent loan rates that the HRA would be subject to if it borrowed externally. A margin may be applied to reflect the transfer of external financing and interest rate risk to the General Fund, where appropriate.

4.7 The specific mechanics of internal loans such as the drawdown, timing and duration will be set out in the Treasury Management Strategy.

5. Rent & Service Charge Policy

5.1 The Rent and Service Charge Policy was updated and approved in February 2021 and an update to this policy will be included for approval with the final budget in February 2022, when we formally agree our rent charges for 22/23. The policy will include a general refresh of terminology and references, ensuring this is fully up to date together with two other updates:

- We will now include a request for delegated authority for setting of rents should the budget not be approved in the normal annual February meeting. By law we are required to provide at least 28 days' notice to tenants of their rent charges but in the event of the main budget not being approved or delayed, we would not currently be able to meet this requirement. This is intended only in the event of the main budget not being approved and the setting of rents would be delegated to the Director of Finance and Resources in conjunction with the lead member.
- Within the current Rent Standard, in addition to the CPI + 1% uplift, there is further provision within the standard which allows a +5% tolerance to be applied to social rents on either first let or re-let. Given the pressures in the HRA (meeting decent homes standards in our stock, delivery of regeneration and new build council housing, together with the limited local impact we have on rent setting) and together with the fact that rents in MK are currently significantly lower than the Local Housing Allowance (LHA) rate, we have included this revision in the latest update of our Rent and Service Charge Policy. This will apply to all future re-lets from 1 April 2022.

5.2 We are acutely aware of the financial pressures facing our communities and tenants with the economic impacts of COVID still being felt by many (including the impact on employment and the ending of the furlough scheme, universal credit reductions and utility and general inflation increasing daily household costs). As a result, a debt hardship fund for tenant rent is currently being considered and work is underway to determine an appropriate budget level and criteria for this initiative. As a result of this it is not yet included within the draft HRA Business Plan, but this will be included for the final budget, which will be set alongside the rent increase, in February 2022.

6. HRA Budget Supplementary Information – Annexes

6.1 HRA Balances:

The current balances position in the HRA reflects the Prudent Minimum Balance that is assessed as appropriate to hold, based on risk assessments within the HRA. For the draft budget this is assumed to remain in line with the assessment for 2021/22 but will be reassessed and reported in detail as part of the final budget.

HRA Balances	**Forecast 2021/22 Outturn £m**	**Proposed 2022/23 Budget £m**
Balance Brought Forward	(7.259)	(7.259)
Surplus/Deficit for the year	0	0
Revenue Contribution to Balances	0	(0.067)
Transfers from earmarked reserves	0	0
Balance Carried Forward	**(7.259)**	**(7.326)**

6.2 HRA Budget Risk Matrix:

A summary of risks relevant to the HRA is included below.

Impact	5					
	4			**H3, H10**		
	3	**H6**	**H2**			
	2		**H4, H9**	**H1, H5**		
	1		**H7**	**H8**		
		1	2	3	4	5
		Likelihood				

No.	Risk Title/Description	Control	Residual Risk Level
H1	Reduction in rental income due to the roll-out of Universal Credit and changes in the Welfare Reform and Work Act, reducing the ability of the HRA to finance investment in the housing stock.	The impact of changes will be closely monitored and the levels of bad debt provision will be included in the plan based on the latest information to date. Stress testing of the business plan will be undertaken to assess any changes to government rent setting policy, to assess implications on the business plan.	6
H2	The total impact of overspends on capital projects would need to be met by the HRA in a single financial year. In light of the potential major development work planned in the HRA for the medium term through the regeneration programme, this is a significant risk.	Capital projects are managed through the Council's MK Approach, allowing potential overspends to be identified and mitigated individually as they arise. Provision has been made within the calculation of the Minimum Revenue Balance to enable any unavoidable in-year impacts to be covered.	6
H3	The current housing stock needs significant investment, both in Planned Maintenance and through a programme of regeneration. Both of these will require significant investment and may involve innovative delivery models to leverage external financial resources.	Funding for a five-year Planned Maintenance programme has been included in the HRA Business Plan. Work is continuing on development of the regeneration programme, for which specific proposals for each priority area will be costed and financially risk-assessed before being submitted for residents' approval through ballots.	12
H4	Insurable events in excess of Insurance Fund provision.	Provision has been made within the calculation of the Minimum Revenue Balance to enable any in-year impacts to be covered.	4
H5	In-year legislative pressures, which may be heightened as a result of some urgent changes that resulted in immediate implementation (e.g. Covid measures)	Provision has been made within the calculation of the Minimum Revenue Balance to enable immediate in-year impacts to be covered.	6

No.	Risk Title/Description	Control	Residual Risk Level
H6	Civil emergency/disaster	Provision has been made within the calculation of the Minimum Revenue Balance to enable in-year impacts to be covered.	3
H7	Abnormal weather conditions	Provision has been made within the calculation of the Minimum Revenue Balance to enable in-year impacts to be covered.	2
H8	Claims for disrepair costs may further increase, as claims agents may continue to expand their solicitation of claims by tenants..	Provision has been made in the budget for an estimated amount of claims, and staff and processes put in place to enable effective responses. Planned capital and revenue expenditure may need to be amended to reduce the incidence and/or value of claims.	3
H9	If additional external HRA borrowing is required to finance planned new build and regeneration, interest rates in the future may exceed costed rates and adversely impact the financial viability of schemes.	Financial viability will be sensitivity-checked to assess exposure to interest rate fluctuations as investment appraisals are developed. Borrowing will be subject to the Prudential Code regime and sound Treasury Management practices will be followed to minimise risk.	4
H10	The costs of works and service delivery may continue to be adversely affected by the economic outlook on inflation rates.	The business plan has been updated with the latest assumptions on inflation estimates but this is difficult to predict, so a provision has been made within the calculation of the Minimum Revenue Balance to enable in-year impacts to be covered. Stress testing will also be undertaken to ensure potential impact of changes on the plan is known.	12

6.3 Housing Revenue Account Technical, Contractual & Previously Agreed Budget Amendments 2022/23+

New Ref	Lead Officer	Proposal Description	Risk Level	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Reason
HT01	Technical	Contractual Inflation (utilities, insurance and revenue repairs contractual inflation)	Amber	520	501	360	371	Technical Adjustments
HT02	Technical	Pay inflation (assumed at 2% per annum but actual amount is subject to agreed pay award)	Amber	149	152	155	158	Technical Adjustments
HT03	Technical	National insurance levy 1.25% (social care reform) - it is not yet clear if there will be offsetting grant for LA costs and if there is, whether this can be allocated to ring-fenced budgets (i.e. HRA, DSG, PH).	Amber	71	1	1	1	Technical Adjustments
HT04	Stephen Young	Additional cost of insurance in the HRA (increased premium costs due to concerns from the insurers on housing losses mainly in relation to major damage, including floods and fires). Amount is estimated and to be confirmed by insurance.	Amber	277	0	0	0	Contractual
HT05	Stephen Young	The current repairs and maintenance contract ends in April 2024 and as a result external specialist consultancy and additional Asset Management resource is required to consider options for the service from 2024 and imbed the preferred solution. This pressure was agreed in 2021/22 and there is £100k currently in the base budget. Future years amounts have been amended to reflect likely costs based on other review of major contracts of this scale.	Amber	135	0	(235)	0	Contractual
HT06	Robin Bates	A saving was put forward in 20/21 for ending the Rentsense contract (our tool for analysing and managing tenant debt) on the expectation that the ongoing improvements to the housing system (Northgate) would be able to produce this information. The Northgate system improvements are underway but until that is complete, the Rentsense software is required so the budget is being reinstated in order to be able to continue to effectively manage debt, whilst the system improvement works continue.	Green	80	0	0	0	Technical Budget Correction

New Ref	Lead Officer	Proposal Description	Risk Level	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Reason
HT07	Robin Bates	The budget meets the costs of the IT team supporting the housing management system (Northgate (now NEC). This is not a new charge but a budget had never been allowed for this cost, instead being funded by underspends elsewhere in the budget (income). The budgets have now been realigned to correctly reflect this.	Green	103	0	0	0	Technical Budget Correction
HT08	Stephen Young	Revenue costs arising from fire safety issues at Tower Blocks (including provision of 24/7 Warden Service, Rent Loss & compensation to tenants and additional staffing) up to 31 March 2022 can now be removed from the budget as the decant and demolition is due for completion during 2021/22.	Green	(2,452)	0	0	0	Legislative
HT09	Will Rysdale	YourMK governance budget no longer required after dissolution of YourMK (should have been removed in 19/20).	Green	(60)	0	0	0	Technical Adjustments
HT10	Stephen Young	Funding for legal disrepair case compensation against the Council (budget at the start of the programme in 2020/21 was £240k and will be reduced annually as claims are resolved).	Amber	(40)	(40)	0	0	Demand
HT11	Steve Young	An element of the budget pressure from 21/22 (£191k) in relation to Personal Protective Equipment (PPE), Information Technology (IT), and other equipment including software cost and licenses for the enlarged client function in the Asset Management & Investment team were one off costs and so can now be removed from the budget.	Amber	(54)	0	0	0	Demand
HT12	Steve Young	An element of the budget pressure from 21/22 (£25k) in relation to Personal Protective Equipment (PPE), Information Technology (IT) field equipment, and cordless battery powered equipment for the Estate Caretaking team were one off costs and so can now be removed from the budget.	Green	(22)	0	0	0	Demand
HT13	Steve Young	An element of the budget pressure from 21/22 (£22k) in relation to Personal Protective Equipment (PPE), Information Technology (IT) field equipment for the Estate Cleaning team, and block window cleaning services were one off costs and so can now be removed from the budget.	Green	(11)	0	0	0	Legislative

New Ref	Lead Officer	Proposal Description	Risk Level	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Reason
HT14	Jane Harrison	Budget pressure agreed in 21/22 for additional investment in the maintenance and upkeep of local areas (£275k) had additional funding planned in earlier years then tapered down to reflect decreasing backlogs.	Amber	(50)	(10)	(70)	0	Policy Choice
HT15	Steve Young	Additional cost of council tax for void properties. The HRA is charged for any council tax during void periods. There is a small budget of £38k but costs to date are £270k and in 20/21 there was an overspend of £150k. There are currently c.34 properties reported as major voids (fire, flood and structural) and this budget excludes the cost of planned decommissions (such as the Tower blocks and Serpentine Court). It is proposed that this budget pressures is reduced as void turnaround times improve and major structural voids are addressed.	Amber	250	(120)	(130)	0	Demand
HT16	Technical	Corporate Recharges - adjusted to reflect increased costs across these areas	Amber	182	0	0	0	Technical Adjustments
HT17	Technical	Stock Movements	Amber	(587)	(508)	(252)	112	Technical Adjustments
HT18	Technical	Rent Increase	Amber	(2,141)	(2,819)	(2,235)	(1,910)	Technical Adjustments
HT18	Technical	Fees and Charges Inflationary Income	Amber	(4)	(4)	(4)	(4)	Technical Adjustments
HT19	Technical	Given the current economic climate with high inflation, additional National Insurance contributions and the recent budget announcements expected to cause some families additional cost pressures, alongside a squeeze on income from the end of furlough and the additional Universal Credit payment, we are expeting to see an increase in bad debt overall in the early years of the plan. In mitigation, MKC are in the process of a full implementation of the RentSense system which, through the use of predictive analytics and in conjunction with other measures at our disposal, will allow for earlier intervention.	Amber	230	42	38	(122)	Technical Adjustments

New Ref	Lead Officer	Proposal Description	Risk Level	2022/23 £000s	2023/24 £000s	2024/25 £000s	2025/26 £000s	Reason
HT20	Technical	Contingency to cover unforeseeable expenditure arising as a result of either changes to Government Policy, external economic pressures, changes to legislation and general budget volatility in the annual revenue budgets. In year, there have been some significant variations to budget and a detailed review of budgets is underway, which once complete, may reduce the level of contingency.	Amber	500	0	0	0	Technical Adjustments
HT21	Technical	Depreciation & Impairment	Final Budget	0	0	0	0	Technical Adjustments
HT22	Technical	Treasury Management	Final Budget	28	(412)	(494)	TBC	Technical Adjustments
HT23	Technical	Interest	Final Budget	16	15	(15)	TBC	Technical Adjustments
HT24	Technical	Various Technical Adjustments arising as a result of Business Plan Treatment around unit numbers.	Final Budget	374	(545)	22	151	Technical Adjustments
HT25	Technical	RCCO (Revenue Contribution To Capital Outlay) - *this is the remaining amount available in the revenue budget to be transferred to capital for investment.*	Final Budget	2,506	3,747	2,859	1,243	Technical Adjustments
		Housing Revenue Account Technical, Contractual & Previously Agreed Budget Amendments 2022/23+		**0**	**0**	**0**	**0**	

6.4 Housing Revenue Account – Core Assumptions (Detail)

Assumption	Old Baseline (Average 30 year)	2022/23	2023/24	2024/25-2026-27	2027+	Comment
Price inflation (CPI)	2.88%	3.10%	4.00%	2.60% - 2.00%	2.00%	CPI at September 2021 is 3.1% and current forecasts indicate an increase to 4% during 23/24 before falling back to 2.6% in 24/25 and 2% in 25/26 (based on the Chancellors recent statement in the autumn budget).
Rent inflation (CPI+1%)	3.83%	4.10%	5.00%	3.60% - 3.00%	3.00%	Current rent policy allows for CPI + 1%. This has been modelled across the life of the Business Plan, linked to assumptions above.
Building inflation (BCIS)	RPI + 0.46%	RPI + 0.50%	RPI + 0.50%	RPI + 0.50%	RPI + 0.50%	No change from previous year.
Interest Rate on borrowing	3.83%	2.50%	2.50%	2.50% - 3.25%	3.25%	No change from previous year.
Interest Rate on balances	1.71%	0.10%	0.10%	0.25% - 2.00%	2.00%	No change from previous year.
RTB sales (total not avg.)	32.35	30	27	24-18	15	Quantity of good quality stock has been eroded in previous years through RTB. This has resulted in less stock likely to be attractive for RTB.
Prudent Minimum Balance	£7.259m (TBC)	£7.3m	£7.3m	£7.6m	£7.8m	No significant movement on risk profile of HRA so remains the same as last year. This will be increased annually linked to inflation (i.e., growing size of the budget).
Provision for Voids	0.90%	0.90%	0.80%	0.7%-0.6%	0.50%	Voids performance is currently challenging due to several issues around quality of stock, processes, and performance, all of which are currently being reviewed in order to reduce this cost. Early years of the business plan currently reflect performance with a targeted reduction built in.
Provision for Bad Debt	1.27%	1.50%	1.50%	1.50%-1.25%	1.25%	Given the current economic climate and expected cost pressure increases, alongside a squeeze on income, we are expecting to see an increase in Bad Debt in the early years of the plan. Mitigating actions identified, together with the Chancellors stated aim of reducing taxes by the end of this Parliament will lead to an improvement in general economic conditions, and reduction in Bad Debt back to near current levels.
Loss of Stock through Rationalisation	0	10	10	10	10	Condition of stock is expected to result in units being lost as the Asset Management Strategy informs our future investment decisions.

Assumption	Old Baseline (Average 30 year)	2022/23	2023/24	2024/25-2026-27	2027+	Comment
Voluntary Repayment of Debt (VRP)	1%	1%	1%	1%	1%	No change from previous year (based on new debt taken).
General Contingency	£500k	£500k	£500k	£500k	£500k	No change from previous year.

6.5 Housing Revenue Account Draft Budget - MTFP

HRA Budgets	**Approved 2021/22 Budget £m**	**Proposed 2022/23 Budget £m**	**Proposed 2023/24 Budget £m**	**Proposed 2024/25 Budget £m**	**Proposed 2025/26 Budget £m**
Dwelling Rents	(53.925)	(56.653)	(59.980)	(62.467)	(64.265)
Non-Dwelling Rents	(0.319)	(0.319)	(0.319)	(0.319)	(0.319)
Leaseholders' Service Charges	(0.800)	(0.793)	(0.792)	(0.792)	(0.792)
Fees & Charges	(1.406)	(1.395)	(1.392)	(1.392)	(1.393)
Interest Receivable	(0.069)	(0.052)	(0.035)	(0.053)	(0.145)
Total Income	**(56.519)**	**(59.211)**	**(62.517)**	**(65.023)**	**(66.914)**
Repairs & Maintenance	10.864	11.162	11.432	11.485	11.754
General Management	13.061	11.699	11.849	12.003	12.157
Special Services	3.158	3.264	3.327	3.341	3.427
Rents, Rates, Taxes & Other Charges	0.043	0.294	0.182	0.058	0.059
Depreciation and Impairment	13.800	13.995	13.932	13.925	14.302
Bad Debts Provision	0.614	0.847	0.890	0.923	0.798
Capital Transfers	4.230	6.156	6.989	9.995	10.529
Interest and Repayment of Capital Debt	10.749	11.725	13.622	13.095	13.732
Revenue Contribution to Balances	0	0.068	0.293	0.198	0.157
Total Expenditure	**56.519**	**59.211**	**62.517**	**65.023**	**66.914**
Total Housing Revenue Account	**0**	**0**	**0**	**0**	**0**