

BRIEFING NOTE

TO: Budget and Resources Scrutiny Committee

HRA 2019/20 Draft Budget Proposals

Author: Extract from the Draft 2019/20 Budget Report to Cabinet on 4 December 2018

Dated: 27 November 2018

Please note that this is an extract from the much larger report on the whole of the 2019/20 budget presented to Cabinet on 4 December, therefore the numbering of the tables and the annexes has been left as they appear in the original report.

1. HOUSING REVENUE ACCOUNT

- 1.1 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.
- 1.2 There was a major change to the financing of the HRA from April 2012, due to the implementation of the “Self-Financing” regime. This change meant the Council took on £170m of debt in exchange for no longer paying negative Housing Subsidy. Income and expenditure of the HRA is now based largely on local rather than national decisions, and reflects investment informed by the HRA Business Plan and Asset Management Plan.
- 1.3 A further major change was announced in the October 2018 budget, when the “Debt Cap” which had limited councils’ ability to borrow to invest in housing was abolished. Councils are now able to borrow for housing purposes under the same “Prudential Code” regime as applies to borrowing for non-housing purposes. Officers are currently assessing how this change can help accelerate delivery of the Council Plan objectives to deliver new council housing and regeneration.

HRA Planning Assumptions & Policy Choices

- 1.4 The draft HRA Budget for 2019/20 has been prepared on the basis of the corporate planning assumptions. In addition, the following planning assumptions and policy choices specific to the HRA have been made, as detailed in **Annex Q**:

Income:

a) Dwelling Rents

- 1.5 The Government incorporated into the Welfare Reform and Work Act 2016 a reduction in social housing rents of 1% per year for the four years commencing April 2016, until April 2020. This is therefore the last year of rent decreases fixed by statute.
- 1.6 Rent decreases complying with the 1% cut will continue to decrease income for the HRA in 2019/20. Average rent will decrease to £86.07 per week, an average decrease of £0.87 per week.

- 1.7 The rent decrease for shared owners will be 1.00%; this is contractual, based on last year's council housing rent decrease. This would mean an average rent of £82.82 per week (a decrease of £0.84 per week) although this figure varies with the share owned by the tenant.
- 1.8 The rent decreases will reduce HRA income by £0.481m in 2019/20.
- 1.9 The government announced on 4 October 2017 that its social rent policy will be to revert to increases of CPI + 1% on the expiry of the current policy, for five years from April 2020. The rent income budget will therefore revert to increasing annually from April 2020.
- 1.10 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 plans for welfare reform this money will increasingly be paid directly to the resident as part of Universal Credit, now being rolled out in Milton Keynes, for them to make rent payments. 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 (including the "bedroom tax") reduces the income available to some tenants, which increases the risk of non-payment. Actions to mitigate these risks are set out in **Annex R**.
- 1.11 The budgeted level of collection for all rental income has been reviewed and, due to the risks in relation to income collection, it remains prudent to assume a level of 93% for 2019/20. All debts will continue to be rigorously pursued through prompt, proactive and robust processes. Income collection remains a priority and is demonstrated by the 2017/18 year end BVPI66a collection rate (covering rent income only) of 97.01%.

b) Right to Buy Sales

- 1.12 The draft budget provides for 50 Right To Buy (RTB) sales in 2019/20, based on recent and current year activity, which reduces the rent income expected by £0.186m.

c) Garage Rents

- 1.13 Following research of other local authorities' garage rents and consideration of the marketability of housing garages in Milton Keynes, it is recommended that there is no change in 2019/20.

d) Leaseholders' Service Charges and Major Works Recharges

- 1.14 Leaseholders' service charge income is estimated in line with costs of providing the service, and in accordance with the terms of the leases. Recovery of costs for leaseholders liabilities for major works is assumed in full.

e) Tenants' Service Charges

- 1.15 General Needs tenants' service charges were reviewed for 2016/17, and Sheltered Housing tenants' were reviewed for 2017/18, and will continue to move closer to covering the costs of providing the various services as the product of the 1% rent cut is, as agreed, applied as a cap to service charge increases. Proposals will be brought forward during 2019/20 to deal with any remaining shortfalls on the expiry of the 1% rent cuts.

Expenditure:

f) Repairs and Maintenance

- 1.16 Additional costs of £0.030m are expected as a pressure from increased lift repairs as a result of Anti-Social Behaviour (pressure HP11).

g) General Management, Special Services & Other Property Costs

- 1.17 Additional investment of £0.277m is planned in environmental improvements for housing estates (HP5).
- 1.18 Additional budget of £0.367m is provided for a dedicated Tenancy Sustainment Team to mitigate the ongoing and increasing risks of welfare reform (HP8).

h) Interest and repayment of borrowing

- 1.19 Interest charges are expected to decrease by £0.157m in line with the Council's overall cost of borrowing as a result of capital financing and Treasury Management operations and increased interest earned on HRA balances.

i) Funding for Capital Investment

- 1.20 The HRA is charged with depreciation each year, which reflects the cost of wear and tear on HRA assets (principally the housing stock). The depreciation charge is paid into the Major Repairs Reserve, which finances the costs of major repairs.
- 1.21 The Council also makes further contributions from the HRA toward the costs of capital improvements, based upon an Asset Management Plan which assesses the costs of maintaining and renewing all the building elements within the housing stock, and of the regeneration programme. The contribution is expected to decrease by £2.093m, from £13.242m to £11.148m, reflecting the net movement in other HRA budgets.

j) Contribution to Earmarked Reserves

- 1.22 As a result of the recent review of the council's policy on risk reserves, risks are now being considered as part of the Chief Financial Officer's annual review of the HRA Prudent Minimum Balance. No further contributions are therefore planned to specific risk reserves.

Summary of the Draft HRA Budget

- 1.23 Table 18 shows the summary draft 2019/20 budget for the HRA. The draft 2019/20 HRA Budget is compared to the 2018/19 Budget in **Annex O**.

Table 18: Summary of the draft HRA Budget

| Item | 2019/20 £m |
|--|-----------------------|
| Income: | |
| Dwelling rents | (52.016) |
| Other income | (3.072) |
| Total income | (55.088) |
| Expenditure: | |
| Repairs and maintenance | 10.560 |
| General Management & Special Services | 11.313 |
| Interest and repayment of borrowing | 7.963 |
| Funding for future capital repairs (depreciation charge) | 13.490 |
| Funding for future capital improvement works (RCCO) | 11.149 |
| Contribution to provision for bad debt | 0.614 |
| Total Expenditure | 55.088 |
| Net budget for the year | - |

- 1.24 The minimum level of prudent HRA reserve to cover unforeseen adverse circumstances has been assessed at £5.786m. The medium term projection in **Annex Q** indicates that HRA reserves will remain above this minimum level for the medium term planning period. The overall working balance is forecast to remain at £7.259m for the period ending 31 March 2020.

Annexes:

Annex O – HRA 2018/19 Outturn Forecast

Annex P – HRA Pressures and Income 2019/20

Annex Q – Medium Term Forecast to 2023

Annex R – HRA Risk Matrix and Prudent Minimum Balance