ANNEX N

[illegible]

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1. [illegible]

1.1 That the Council be recommended to approve the proposed 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. [illegible]

2.1 This report sets out the detailed information as follows:

(a) [illegible]shows the 2010/11 budget. The numbers 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) [illegible]shows information on rent increases and potential future rent levels.

(c) [illegible]entifies the main budget changes for 2010/11

(d) [illegible]nalyses the movement in budgets from 2009/10 to 2010/11

3. [illegible]

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 [illegible] shows the 2010/11 and future years budgets for the HRA compared to actual spending for 2008/09 and projected spending for 2009/10. 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. In addition assumptions specific to the HRA are as follows:

3.4 [illegible]

a) [illegible]

(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, rent increases are constrained to RPI + 0.5% plus £2 per week. The overall impact would be that MKC rents would be constrained to an average increase of 0.73%.

(iii) [illegible] 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 which is an increase of £1.88 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) [illegible] An inflationary increase of 2.5% is assumed dependant upon customer price sensitivity.

(c) [illegible] 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 transfers to capital (RCCO).

(d) [illegible] – [illegible] & [illegible]
Budgets updated based on current levels of spend for landscaping and cleaning which has released £222k back to the HRA reserve.

(e) [illegible]
Housing subsidy and housing benefit transfers have been calculated in accordance with DCLG draft determination guidelines. Subsidy is an amount paid by councils to the Government for reallocation to other local authorities. For 2010/11 budget setting the Limit and Guideline rent convergence date is assumed to be 2012/13. The overall impact is a net increase in cost of £146k. This figure may change following the announcement of the final determination.

(f) [illegible]
Ongoing contributions are still required to support the completion of the Decent Homes programme and other capital Health & 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.

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

(a) [illegible]

(i) Projected repairs expenditure in 2009/10 is estimated at £11,079k, an increase of £1,792k from the approved 2009/10 budget of £9,287k. 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 £770k 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 forecasts. 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.

[illegible]
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.

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

(a)

- 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 has been reviewed and reduced in line with rent increases, the profile of the leasehold window and digital TV works and associated recharges to tenants and aged debt analysis.

5

It is considered prudent to maintain a level of 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	(50,105)	(52,868)	(53,189)	(53,911)
Expenditure	50,274	51,216	52,387	53,211
Net in Year Expenditure	**170**	**(1,652)**	**(802)**	**(700)**
Reserve b/fwd	(4,317)	(4,147)	(5,799)	(6,601)
Reserve c/fwd	**(4,147)**	**(5,799)**	**(6,601)**	**(7,301)**

6.

6.1 The HRA is the key resource for providing services to tenants both directly and in partnership. The key plan is the Housing Service Plan which has two objectives, the second of which is to “maximise resources and align them better against demand" This is critical to achieving against objective one which is to "continuously remove waste from the way we work to meet these priority customer demands more effectively" Within this objective five of the seven key customer demands rely solely on the HRA for resources and therefore the long term sustainability of the HRA is key to delivering these objectives.

6.2 The Government’s deadline for completion of the Decent Homes programme is 2011. It is currently unclear whether central Government will replace this with other similar targets when the programme ends.

6.3 Through asset management planning, the emphasis will continue to be placed on improving the Council's housing stock which will include addressing fuel poverty issues particularly within the non-standard council homes; effective asbestos management, including the requirements from new legislation ***etc………***Based on current trends of increased spend on repairs and maintenance and any continuation of the Decent Homes programme beyond 2011, there will continue to be challenges in managing within the financial resources available.

6.4 In maximising the use of resources available, further efficiencies are planned in the streamlining of the Access to Housing services. A mid-term review of the MITIE contract for repairs and maintenance will also ensure the Council is still obtaining value for money.

6.5 Following the conclusion of the consultation on the Housing Revenue Account reform at the end of October 2009, the government is currently preparing the ground for a voluntary offer to local authorities in February 2010 which for Milton Keynes could consist of taking on more debt in place of current negative subsidy payments. The financial impact of this offer will be established when received from government. Members and tenants will be engaged appropriately but it is expected to take effect from April 2011.

6.6 Continuing challenges will be the expectations from tenants and from the newly formed Tenants Services Authority (TSA) as the new regulator for Council Housing in England.

7 [illegible]

7.1 Policy

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

7.2 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

7.3 Carbon and Energy Management

There are no implications as a result of this report.

7.4 Legal

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

7.5 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

FORECAST 4-YEAR DRAFT HRA BUDGETS (INCLUDING 0.73% RENT INCREASE)

2008-09 Actuals £000's		2009/10 Budget £000's	2009/10 Forecast (Nov P8) £000's	2010/11 Budget £000's	2011/12 Budget £000's	2012/13 Budget £000's	2013/14 Budget £000's
	INCOME						
(44,580)	Dwelling rents	(45,800)	(45,670)	(46,138)	(47,449)	(48,972)	(50,290)
(697)	Garage Rents	(729)	(799)	(834)	(859)	(892)	(918)
(713)	Commercial Rents	(710)	(710)	(713)	(713)	(713)	(713)
(352)	Heating Charges	(450)	(450)	(453)	(467)	(485)	(499)
(618)	Leaseholders' Service Charges	(2,543)	(1,558)	(1,335)	(2,682)	(1,310)	(602)
(94)	Services & Facilities-Service Charges	(100)	(98)	(100)	(103)	(107)	(110)
(562)	Services & Facilities-Other Charges	(1,021)	(497)	(466)	(477)	(490)	(501)
(466)	Interest Receivable	(184)	(184)	(65)	(118)	(220)	(277)
(48,082)	**GROSS INCOME**	**(51,536)**	**(49,965)**	**(50,105)**	**(52,868)**	**(53,189)**	**(53,911)**
	EXPENDITURE						
9,280	Repairs & Maintenance	9,287	10,984	10,251	9,852	10,347	10,864
8,862	General Management	9,353	9,607	9,642	9,887	10,136	10,391
2,675	Special Services	4,202	3,178	2,876	3,116	3,315	3,539
418	Rents, Rates, Taxes & Other Charges	346	447	350	362	364	372
17,823	Housing Revenue Account Subsidy Payable	17,764	17,764	18,311	20,324	22,581	23,372
1,907	Housing Benefits Transfer	1,909	1,960	1,509	776	-	-
233	Bad & Doubtful Debts	751	518	547	681	710	400
4,305	Debt Charges Net of Mortgagors' Interest	4,005	4,005	3,975	4,139	4,226	4,273
3,357	Transfer to Capital Reserves	3,077	3,277	2,812	2,080	708	-
48,862	**GROSS EXPENDITURE**	**50,695**	**51,740**	**50,274**	**51,216**	**52,387**	**53,211**
780	**NET (SURPLUS)/DEFICIT FOR THE YR**	**(841)**	**1,775**	**170**	**(1,652)**	**(802)**	**(700)**
(6,715)	**Uncommitted Reserve Brought Forward**	(5,026)	(6,092)	(4,317)	(4,148)	(5,800)	(6,602)
(5,936)	**UNCOMMITTED RESERVE CARRIED FORWARD**	**(5,867)**	**(4,317)**	**(4,148)**	**(5,800)**	**(6,602)**	**(7,302)**

RENT INCREASES

Future Rent Increases

This table shows the proposed increase in average rents for 2010/11 and the impact on future year rent increases to achieve the average weekly rent level required in the government's proposals on Target Rent levels, based on an assumed levels of RPI in future years of 1.5% (plus Government uplift of 0.5%) in 2011-12 and 2.5% (plus 0.5%) in future years. Based on an increase of 0.73% in 2010/11, convergence with the Government's target rent will be in 2012/13.

2010-11	Average 0.73% Increase for tenanted stock	Average Weekly Rent (Tenants)	Increase in average weely rent over current rent level	Rent Increase for Shared Owners	Net Additional Rent Income £000 (including shared owners)
2009-10 - current average rent	-	£73.98			
2010-11	0.73%	£74.52	£0.54	2.75%	1,452
2011-12	3.00%	£76.76	£2.78	0.73%	1,675
2012-13	3.84%	£79.71	£5.73	3.00%	2,166
2013-14	3.00%	£82.06	£8.08	3.84%	1,326

Note - The proposed increase of 0.73% in 2010/11 generates additional income, after repaying excess benefits, of £1.45 million. Shared owners rent increase follows main tenanted stock increase for prior year, in line with contractual arrangements

RENT BUDGETS - DETAIL

NON STATUTORY INCOME	**2010/11 £**	**2011/12 £**	**2012/13 £**	**2013/14 £**	**COMMENTS**
Dwelling rents - gross	(46,504,923)	(47,845,935)	(49,384,098)	(50,714,357)	Increases based on 0.73% increase in 2010-11 and 3% in following years
less void loss	318,986	328,555	341,179	351,248	based on 80 properties void per week
less rent reduction due to less properties - RTB sales	47,938	68,380	70,918	73,109	estimated 20 sales in 2010-11 and 30 sales in 2011-12, 2012-13 & 2013-14
Budgeted net Dwelling Rents	**(46,138,000)**	**(47,449,000)**	**(48,972,000)**	**(50,290,000)**	
Commercial rents	**(713,000)**	**(713,000)**	**(713,000)**	**(713,000)**	estimated charges from review of leases.
Garage rents - gross	(1,340,854)	(1,380,846)	(1,434,008)	(1,476,335)	2.5% increase proposed in 2010-11 in line with current performance. Future years follow rent increase
less void loss	507,154	522,146	542,308	558,335	
Budgeted net Garage Rents	**(833,700)**	**(858,700)**	**(891,700)**	**(918,000)**	
TOTAL RENTAL INCOME	**(47,684,700)**	**(49,020,700)**	**(50,576,700)**	**(51,921,000)**	

HRA - COMPARISON OF 2009/10 BUDGET TO PROPOSED 2010/11 BUDGET

	2009/10 Budget £000's	2009/10 Revised Budget (P8) £000's	2010/11 Budget £000's	Change (2010/11 - Rev.2009/10) £000's	EXPLANATION OF MAIN MOVEMENTS
INCOME					
Dwelling rents	(46,901)	(45,800)	(46,138)	(338)	Based 0.73% increase and effect of RTB and voids.
Garage Rents	(729)	(729)	(834)	(105)	Based on 2.5% increase in 2010/11
Commercial Rents	(710)	(710)	(713)	(3)	
Heating Charges	(450)	(450)	(453)	(3)	Inflationary increases in line with rent increaase
Leaseholders' Service Charges	(2,543)	(2,543)	(1,335)	1,208	Inflationary increases plus recovery of cost of window replacement
Services & Facilities-Service Charges	(100)	(100)	(100)	(1)	Inflationary increases in line with rent increaase
Services & Facilities-Other Charges	(1,021)	(1,021)	(466)	554	Inflationary increases (does not yet includes recovery of cost of digital TV installation)
Interest Receivable	(184)	(184)	(65)	119	Interest earned on reserve balance
GROSS INCOME	**(52,638)**	**(51,536)**	**(50,105)**	**1,432**	
EXPENDITURE					
Repairs & Maintenance	9,287	9,287	10,251	964	Increase relates to inflation £95k, impact of forecast pressure in 2009/10 £870k
General Management	9,155	9,353	9,642	289	Prudential borrowing £225k, reduced capitalisation of RTB administration in line with Audit requirement and efficiencies
Special Services	4,273	4,202	2,876	(1,326)	Release of Digital TVs budget £822k (most of this budget will need to be reinstated as work has slipped to 2010), correction of landscaping & cleansing £180k and utilities £254k. Other efficiencies £56k
Rents, Rates, Taxes & Other Charges	385	346	350	5	Inflation
Housing Revenue Account Subsidy Payable	19,021	17,764	18,311	547	Rent that government guidelines indicate should be charged, less debt, management and maintenance allowances, increase as rent convergence grows nearer. Based on Draft Subsidy Determination for 2010/11 issued on 10 Dec. The Final Determination may change these figures
Housing Benefits Transfer	1,843	1,909	1,509	(400)	Difference between actual rent and rent govt will allow us to claim back benefits on is reducing as rent convergence becomes nearer to completion, leading to ultimate zero payment by 2012/13.
Bad & Doubtful Debts	751	751	547	(205)	£88k reduction in rental debts due to increase in Housing Benefit and collection efficiencies. £92k realignment of debt with recharge of windows and TV aerial works
Debt Charges Net of Mortgagors' Interest	4,005	4,005	3,975	(30)	Reflects review of cost of borrowing.
Transfer to Capital Reserves	3,077	3,077	2,812	(265)	Transfers to capital programme assisting towards the achievement of the Decent Homes standard. 2010/11 transfer based on proposed capital programme of £12m
GROSS EXPENDITURE	**51,796**	**50,695**	**50,274**	**(421)**	
NET (SURPLUS)/DEFICIT FOR THE YR	**(841)**	**(841)**	**170**	**1,011**	
Uncommitted Reserve Brought Forward	(5,026)	(5,026)	(4,317)	708	Brought forward 2010/11 based on 2009/10 forecast of year end reserves.
UNCOMMITTED RESERVE CARRIED FORWARD	**(5,867)**	**(5,867)**	**(4,148)**	**1,720**	

Analysis of Movement between Net Budget 2009/10 and 2010/11

	£'000
Net budget 2009/10	**(841)**
Changes in income:	
Increases in average dwelling rent	(338)
Increases in garage rents and other lettings	(105)
Leaseholder - correction of windows and digital TV installation recharge	1,208
Tenants - correction of digital TV installation recharge	554
Inflation on other income	(7)
Reduction in interest on balances	119
Changes in expenditure:	
Housing Subsidy , Benefits & Capital Charges	117
Net transfers to Capital Reserves	(265)
Prudential borrowing	225
Reduction in capitalisation of RTB administration	273
Reduction in bad debt provision	(205)
Increase in Repairs & Maintenance works	964
Correction of landscaping, cleansing and utilities budgets	(434)
Digital TV installation costs deferred	(822)
Other changes	(275)
Net budget 2010/11	**169**