Wards affected:
All Wards

ITEM 15

CABINET

3 JANUARY 2017

HOUSING REVENUE ACCOUNT BUDGET 2017/18

Responsible Cabinet Members:	Councillor Long - Cabinet member for Adult care and Housing Councillor Middleton - Cabinet member for Resources and Innovation
Report Sponsor:	Nicole Jones, Corporate Director Resources Tel: 01908 252079
Author and Contact*:*	Mark Smith, Strategic Finance Business Partner (Housing & Planning) Tel: 01908 253904

Executive Summary:

Milton Keynes Council is strongly committed to providing a high quality Council housing service and to growing the service over the coming years. It aims to ensure a financially strong housing account as the foundation of future growth and effective regeneration.

This report proposes the 2017/18 Housing Revenue Account Budget, Dwelling Rent and 2017/18 Housing Fees & Charges for the approval of Cabinet and recommendation to Council.

The details in this report have been prepared in accordance with the framework set out in the Financial Sustainability Plan, considered by Cabinet on 6 December 2016.

Councillor Nigel Long

1. Recommendations

1.1 That the Housing Revenue Account Revenue Budget 2017/18 be recommended to Council for adoption.

1.2 That the Housing Revenue Account Dwelling Rent 2017/18, a reduction of 1% as set out in paragraph 2.7, an average of 89p per week, be recommended to Council.

1.3 That the Council be recommended to agree that the Housing Revenue Account fees and charges for 2017/18 be set in accordance with the Income and Collection Policy, apart from the proposed exceptions as set out in **Annex E**.

1.4 That in line with the requirements of the Local Government Finance Act 2003, it be noted that the Corporate Director, Resources, is of the view that the proposed budget is robust and that the forecast reserves are adequate.

2. The Housing Revenue Account

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 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 Housing Subsidy. The subsequent income and expenditure of the HRA should therefore be based on local rather than national decisions, and reflect investment needs informed by Asset Management Plans, e.g the Council’s regeneration programme. However, the government plans to legislate for a 1% rent reduction has affected the Council’s ability to make decisions locally on the Housing Revenue Account.

HRA Planning Assumptions

2.3 The HRA Budget for 2017/18 has been prepared on the basis of the corporate planning assumptions which were set out in the Financial Sustainability Plan approved in December. In addition the following planning assumptions specific to the HRA have been made:

Income

a) Dwelling Rents

2.4 The self-financing regime enabled councils to set council rents, according to the assessment of the need for spending on the management and maintenance of its housing stock, and other items within the HRA, constrained only by Housing Benefit limits. The council has been able to choose to what extent (if any) to follow government rent-setting guidance. However, the £170m of additional debt assumed that rent would continue to be set in line with the government’s Rent Restructuring policy, including increases at RPI + ½%.

2.5 The Government announced in May 2014 a new policy that social rents should instead increase by CPI + 1% for the ten years from 2015/16 to 2024/25, with no further restructuring.

2.6 The Government has since incorporated into the Welfare Reform and Work Act a reduction in social housing rents of 1% per year for the four years commencing April 2016. This measure will reduce rent income for the next three years, with the impact being compounded each year.

2.7 Rent increases complying with the 1% cut will continue to decrease income for the HRA in 2017/18. Based on a rent cut of 1% in 2017/18, average rent would decrease to £87.88 per week, an average decrease of £0.89 per week.

2.8 The 2017/18 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 £84.45 per week (a decrease of £0.85 per week) although this figure varies with the share owned by the tenant.

2.9 The rent decreases will reduce HRA income by £0.536m in 2017/18. A further reduction of £0.132m will result from the closure of the Orchard House sheltered scheme. These reductions will be offset by £0.153m additional income from new council housing.

2.10 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 D**.

2.11 Due to these increased risks in relation to income collection, the budgeted level of collection for gross housing income from 2013/14 onwards was reduced from 93% to 92%. This has been reviewed (against the October 2016 performance of 92.79%) and it remains prudent to assume a level of 92% for 2017/18. However, all debts will continue to be rigorously pursued through prompt, proactive and robust processing by a specialised Housing Team. Income collection remains a priority and is demonstrated by the 2015/16 year-end collection rate covering rent income only (the measure based on the old Best Value Performance Indicator 66A) of 98.00%.

2.12 Risks arising from the Housing & Planning Act (“Pay To Stay” and sale of “Higher Value Voids”) are not expected to have a material impact in 2017/18, since the government has announced that Pay To Stay will be voluntary (and is not planned to be introduced in Milton Keynes) and that a levy in respect of sales of Higher Value Voids will not be implemented in 2017/18.

b) Right to Buy sales

2.13 The Government made changes to the Right to Buy (RTB) scheme effective from April 2012 through an increase in the discount available, intended to increase the number of RTB sales. The proposed budget provides for RTB and Shared Ownership sales as set out below, based on current year activity, which reduces the rent income expected by £0.281m.

Table 1: Right To Buy and Shared Ownership sales

Stock Movement	2017/18	2018/19	2019/20	2020/21
Right To Buy sales	60	60	50	40
Shared Ownership escalation	8	8	5	5

c) Garage Rents

2.14 Following investigation of other local authorities’ garage rents, and consideration of the marketability of housing garages in Milton Keynes, it is recommended that there be no increase or decrease in 2017/18. The average charge would therefore remain at £11.79 per week, as set out in **Annex E**.

d) Leaseholders' Service Charges & Major Works Recharges

2.15 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. Collection rates of 95% and 70% respectively are provided for.

e) Tenants' Service Charges

2.16 General Needs tenants' service charges were reviewed for 2016/17, and are expected to move closer to covering the costs of providing the various services as savings from the 1% rent cut are applied to increase the capped charges.

2.17 Sheltered Housing tenants' service charges have been reviewed for 2017/18, and are proposed be aligned to covering the costs of providing the various services, subject to a cap equivalent to the product of the 1% rent cut being applied to increases. The resulting service charge increases and decreases are being consulted upon and will be determined on 10 January.

Expenditure

f) Repairs and Maintenance

2.18 Revenue savings of £1.310m are expected, as a result of gas maintenance work being undertaken through the regeneration partnership rather than through a separate contract.

g) General Management, Special Services & Other Property Costs

2.19 Review of the cost allocation of Sheltered Housing Officers has led to a £0.185m greater cost to the HRA, reflecting the proportion of housing duties undertaken.

2.20 Revenue savings of £0.243m are expected from increased efficiencies in General Management and support services.

h) Interest & repayment of borrowing

2.21 Interest charges are expected to decrease by £1.125m 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

2.22 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.

2.23 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, which will be refreshed and updated by the Regeneration Partner. The 2017/18 contribution is expected in the budget and Financial Sustainability Plan to increase by £2.546m, which is the gas maintenance saving plus the surplus in the HRA after maintaining a prudent level of balances, from £11.985m in 2016/17 to £14.531m.

2.24 During 2017/18, the council will need to expend over £9.75m on new affordable housing, in respect of the £2.92m of "One For One" Right To Buy receipts retained in 2014/15, using £6.83m of other housing capital resources (including revenue contributions). The expenditure will include both the acquisition of properties on the open market, and the construction of new council housing as set out in the council's Delivery Plan Objective 2.3, to finish the current programme of new council house building by December 2018 which will be delivered through YourMK, the regeneration partnership. Funding for this has been allocated in the 2017/18 Capital Programme.

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 provide a reserve for adverse positions. It is therefore recommended that annual contributions of £0.6m continue to be made to specific reserves as follows:

Table 2: Contributions to Earmarked HRA Reserves

Reserve	Reason	Contribution £m
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		**0.600**

3. Summary of the 2017/18 HRA Budget

3.1 The following table shows the summary 2017/18 budget for the HRA. The proposed 2017/18 HRA Budget is compared to the 2016/17 budget in **Annex A**.

Table 3: Summary of the proposed HRA Budget

Item	2017/18 £m
Income:	
Dwelling rents	(52,876)
Other income	(2,930)
Total income	**(55,806)**
Expenditure:	
Repairs and maintenance	9,470
General Management & Special Services	8,776
Interest and repayment of borrowing	8,644

Table 3: Summary of the proposed HRA Budget

Item	**2017/18 £m**
Funding for future capital repairs (depreciation charge)	12,978
Funding for future capital improvement works (RCCO)	14,531
Contribution to Earmarked Reserves	600
Other expenditure	807
Total Expenditure	**55,806**
Net budget for the year	**0**
Forecast Reserve Balance - brought forward from 2016/17	*5.910*
Forecast Reserve Balance - carried forward to 2018/19	*5.910*

4. Reserves

4.1 The minimum level of prudent HRA reserve to cover unforeseen adverse circumstances has been assessed at £4.5m. The reserve level at the end of 2017/18 is forecast to be £5.9m which exceeds this minimum level. The medium term projection in **Annex C** indicates that HRA reserves will remain at this level for the medium term planning period, although both earmarked reserves and balances will need to be reviewed in light of the regeneration programme.

5. Recharges

5.1 The Service Reporting Code of Practice requires Council's to determine the full cost of services, by allocating overheads to these services. The overhead charges will be finalised once the final 2017/18 Budget has been set by Council.

6. Fees and Charges

6.1 The proposed fees and charges are in accordance with the principles set out in the Income and Collection Policy. The main principles in this Policy are:

- Charges will increase annually, informed by future consumer price index (CPI) forecasts.
- Charges are based on the full recovery of cost.
- Concessions are only for those in receipt of specific benefits, unless specifically agreed otherwise.
- Discretionary services will be charged for in advance, unless specifically agreed otherwise (e.g. for efficiency reasons).

6.2 The two main reasons for exceptions to the policy in the fees and charges proposed are:

- Additional concessions.
- Charges not increased in line with the policy.

6.3 The exemptions to the Income and Collection policy are outlined in **Annex E**.

7. Robustness and Risks

7.1 A critical element of the Financial Sustainability Plan and Budget is to ensure that the financial consequences of risk are adequately reflected in the Council's finances.

7.2 In preparing the Budget for 2017/18, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report or the Financial Sustainability Plan report. Where the impact is not known this has been highlighted as a risk.

7.3 The potential risks for the Council are outlined in the HRA Budget Risk Register at **Annex D**. The overall risk assessment for the HRA considering the specifics outlined in **Annex D** has determined that the £4.5m of HRA Balances is adequate to ensure that the risks can be managed within the proposed HRA Budget.

8. Implications

Policy

8.1 The Council's Budget and Financial Sustainability Plan are the financial expression of all the Council's policies and plans.

Resources and Risk

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

9. A Equality Impact Assessment (the full assessment can be found at http://j.mp/MKCEqIA16-22) was completed and found that it was difficult to isolate the impact on equality. The reduction, which continues a series of year-by-year reductions, will have an effect on the Council's income, affecting its ability to build council houses and regenerate existing ones, both of which have far-reaching equality consequences. In general, those benefitting from the reduction of rent will find a small advancement in their equality of opportunity.

9.1 A budget risk register is available at **Annex D** to this report.

Carbon and Energy Management

9.2 There are no direct carbon and energy management implications as a result of this report. However, the service plans including the savings proposals and the appraisals that support capital schemes funded from HRA resources may have Carbon and Energy Management Implications and those documents will set these out.

Legal

9.3 The Council must set its budget, including the Housing Revenue Account budget, in accordance with the provisions of the Local Government Finance

Act 1992. Approval of a sound budget each year is a statutory responsibility of the Council.

9.4 Section 76 of the Local Government and Housing Act 1989, Part VI, requires that the Council considers the HRA budget during January and February, and provides that the budget may include "best assumptions" and "best estimates" of income and expenditure amounts.

10. Related Decisions

10.1 Related decisions include the Financial Sustainability Plan, approved by Cabinet on 6 December 2016.

11. Annexes

11.1 The following annexes are appended to this report:

HRA compared to the 2016/17 Budget	Annex A
HRA Budget Pressures and Savings	Annex B
HRA Budget and Medium Term Forecast	Annex C
HRA Budget Risks	Annex D
HRA Fees & Charges	Annex E

12. Background Papers

- Local Government & Housing Act 1989
- Housing Revenue Account Self-financing Determinations, February 2012, Department for Communities and Local Government.
- Cabinet 6 December 2016 – Financial Sustainability Plan http://milton-keynes.cmis.uk.com/milton-keynes/Calendar/6 December 2016 Cabinet Meeting Financial Sustainability Plan
- Cabinet 6 December 2016 – Draft Council Budget 2017-18 http://milton-keynes.cmis.uk.com/milton-keynes/6 December 2016 Cabinet Meeting Draft Council Budget
- Budget Scrutiny Committee 14 December 2016 - Agenda http://milton-keynes.cmis.uk.com/milton-keynes/14 December 2016 Budget Scrutiny Committee Agenda
- Welfare Reform and Work Act 2016
- Housing and Planning Act 2016