

Wards affected: All Wards

ITEM 13

CABINET

11 JANUARY 2015

HOUSING REVENUE ACCOUNT BUDGET 2016/17

Responsible Cabinet Member: Councillor O'Neill (Housing and Regeneration)

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Executive Summary:

This report proposes the 2016/17 Housing Revenue Account Budget, Dwelling Rent and 2016/17 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 Medium Term Financial Strategy (MTFS), as set out in the budget report to Cabinet on 14 December 2015.

1. Recommendations

- 1.1 That the Council be recommended to adopt the Housing Revenue Account Revenue Budget 2016/17.
- 1.2 That the Council be recommended to adopt an average Housing Revenue Account Dwelling Rent of £88.77 per week for 2016/17, a reduction of 1%, an average of 88p per week.
- 1.3 That the Council be recommended to agree that the Housing Revenue Account fees and charges for 2016/17 be set in accordance with the Income and Collection Policy, apart from the proposed exceptions as set out in Annex E to the report.
- 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, government plans to legislate for a 1% rent reduction have affected the Council’s ability to make decisions locally on the Housing Revenue Account.

HRA Planning Assumptions

- 2.3 The HRA Budget for 2016/17 has been prepared on the basis of the corporate planning assumptions which were set out in the Medium Term Financial Strategy 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, choosing 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 Bill 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 four years, with the impact being compounded each year.
- 2.7 Rent increases complying with the 1% reduction will decrease income for the HRA in 2016/17. Based on a rent reduction of 1% in 2016/17, average rent would decrease to £88.77 per week, an average decrease of £0.88 per week.
- 2.8 A user-led rents strategy is currently being developed which will inform and influence future council rent setting, though the council’s options will be constrained by the ongoing 1% rent reductions, which had not been contemplated at the time that tenants’ views were being sought.
- 2.9 The 2016/17 rent increase for shared owners will be 2.20%; this is contractual, based on last year’s council housing rent increase. This would mean an average rent of £85.30 per week (an increase of £1.83 per week) although this figure varies with the share owned by the tenant. The proposed 1% rent reduction for council tenants will be passed on to shared owners in the following financial year.
- 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, however the

changes proposed in the Government plans for welfare reform this money will result in monies increasingly being paid directly to the resident as part of Universal Credit. 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 all rental income from 2013/14 onwards was reduced from 93% to 92%. This has been reviewed and it remains prudent to assume a level of 92% for 2016/17. However, all debts will continue to be rigorously pursued, in line with best practice.
- 2.12 Other risks arising from the Housing & Planning Bill (“Pay To Stay” and sale of “High Value Voids”) are not expected to have a material impact before implementation in April 2017.

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 60 RTB sales in 2016/17, based on current year activity, which reduces the rent income expected by £0.133m.

c) Garage & Commercial Rents

- 2.14 The budgeted income for garage and commercial rents in the HRA have reduced by £1.17m as a result of the transfer of properties to the General Fund which has resulted in a £16.5m increase in the HRA’s borrowing capacity.
- 2.15 Following investigation of other local authorities’ garage rents, and consideration of the marketability of housing garages in Milton Keynes, it is recommended that these rents are unchanged in 2016/17. The average charge would therefore remain at £11.79 per week, as set out in Annex E.

d) Leaseholders’ Service Charges & Major Works Recharges

- 2.16 Leaseholders’ service charges are estimated in line with costs of providing the service. Recovery of costs for major works in respect of leaseholders is expected to reduce by £0.25m in line with decreased capital expenditure to be recovered.

e) Heating & Utility Charges

- 2.17 Tenants’ service charges are expected to cover the costs of providing the various services, including heating and utilities, though in recent years a deficit has accumulated. The proposed budget provides for increases (capped at the level of the 1% rent reductions) which will eliminate the deficit over the next few years. These service charge increases (including some decreases) are being consulted upon through the Residents’ Involvement Group and with tenants affected.

f) Interest Receivable

- 2.18 Increased interest will be received on increased levels of HRA balances, including the Major Repairs Reserve and Regeneration reserves.

Expenditure

g) Repairs and Maintenance

- 2.19 As shown in Annex B, net revenue savings of £1.383m are expected, of this, £1.5m relates to cost reductions derived from the new contract awarded to the Regeneration partner, a £0.26m saving to the deferral of block improvements pending development of the Regeneration Programme, and for reduced demand as a result of increased RTB sales (£0.05m). These savings are offset by demobilisation costs from the previous contract (£0.2m).

h) General Management, Special Services & Other Property Costs

- 2.20 These areas include a number of proposals both for pressures and savings, including a pressure of £0.3m arising from Council overhead costs to the HRA not reducing as previously envisaged, as the share borne by General Fund services has reduced in line with their savings. There is also an additional contribution to the Regeneration partnership of £0.25m, offset by savings on Building Services (£0.25m), and savings on general management through service redesign.

i) Contribution to provision for Bad Debts

- 2.21 A reduced charge is anticipated, due to the garage and commercial property debt transferred to the General Fund, and to the reduction in Dwelling Rent debt occasioned by the improved collection rate.

j) Interest & Costs of Borrowing

- 2.22 Interest charges are expected to decrease in line with the Council's overall cost of borrowing, and increase in the interest earned on HRA balances.

k) Funding for Capital Investment

- 2.23 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.
- 2.24 The Council also makes contributions from the HRA toward the costs of capital improvements which meet the costs of maintaining and renewing all the building elements within the housing stock. This contribution is expected to increase by £1.4m to a total contribution of £11.99m, which is reflected in the draft Capital Programme currently out for consultation, alongside the £0.5m contribution to reserves set out below.

l) 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 £0.85m continue to be made to specific reserves as follows:

Table 1: Contributions to Earmarked HRA Reserves

Reserve	Reason	Contribution £m
Impairment Reserve	To allow potential costs of impairments to fixed assets to be phased over a number of years, to prevent fluctuations which might require large rent increases.	0.250
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		0.850

3. Summary of the 2016/17 HRA Budget

- 3.1 The following table shows the summary 2016/17 budget for the HRA. The proposed 2016/17 HRA Budget is compared to the 2015/16 budget in Annex A.

Table 2: Summary of the proposed HRA Budget

Item	2016/17 £m
Income:	
Dwelling rents	53.788
Other income	2.649
Total income	56.437
Expenditure:	
Repairs and maintenance	9.259
General Management & Special Services	10.816
Interest and repayment of borrowing	9.453
Funding for future capital repairs (depreciation charge)	13.135
Funding for future capital improvement works (RCCO)	11.985
Contribution to Earmarked Reserves	0.850
Other expenditure	0.939
Total Expenditure	56.437
Net budget for the year	0.000
<i>Forecast Reserve Balance - brought forward from 2015/16</i>	<i>4.569</i>
<i>Forecast Reserve Balance - carried forward to 2017/18</i>	<i>4.569</i>

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 2016/17 is forecast to be £4.6m which is in line with maintaining 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 future in the 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 2016/17 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 Medium Term Financial Strategy 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 2016/17, where a clear financial impact has been identified, this has been dealt with through the actions set out in this report or the MTFs report included within this agenda. 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 to ensure that risks are adequately reflected in the HRA Budget.

8. Related Decisions

- 8.1 Related decisions include The Medium Term Financial Strategy 2016/17 to 2019/20, approved by Cabinet on 14 December 2015.

9. Annexes

- 9.1 The following Annexes are appended to this report:

HRA compared to the 2015/16 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

10. Implications

Policy

- 10.1 The Council's Budget and Medium Term Financial Strategy 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		

- 10.2 A Equality Impact Assessment (the full assessment can be found at <http://j.mp/MKCEqIA2015-34>) was completed and found that it was difficult to isolate the impact on equality; the main effect is 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.

- 10.3 A budget risk register is available at Annex D to this report.

Carbon and Energy Management

- 10.4 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

- 10.5 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.

10.6 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.

11. Background Papers

- Duty to keep Housing Revenue Account, Part VI, Local Government & Housing Act 1989.
- The Housing Revenue Account Self-financing Determinations, February 2012, Department for Communities and Local Government.
- Cabinet 14 December 2015 Draft Budget 2016/17 Report
- Budget Scrutiny Committee 16 December 2015 papers
- Welfare Reform and Work Bill 2015
- Housing and Planning Bill 2016