



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2020/21 and Budget Projections 2021/22 to 2023/24
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	23 December 2019
Key Decision:	NO
Within Policy:	YES
Policy Document:	NO
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred
Ward(s)	N/A

1. Purpose

- 1.1 The purpose of this report is to present for consultation the Cabinet's draft budget proposals for 2020/21, including Rent setting for 2020/21, and forecast budgets up to 2023/2024 for the draft Housing Revenue Account (HRA) and the draft HRA Capital Programme and financing proposals.
- 1.2 To note the draft capital programme new build programme that is expected to deliver up to 600 new council homes over the next 4 years.
- 1.3 The report also outlines the draft Total Fees for Northampton Partnership Homes (NPH) based on the draft 2020/21 budgets.

2. Recommendations

- 2.1 That Cabinet approve the draft Housing Revenue Account (HRA) budget including charges and rents as detailed in **appendices 1 and 4** for public consultation.
- 2.2 That Cabinet approve the draft HRA Capital Programme and financing, as detailed in **appendix 2** for public consultation.
- 2.3 That Cabinet note the draft Total Fees proposed for NPH in **appendix 3** to deliver the services in scope.

- 2.4 That Cabinet approve a further £500k amount in 2019-20 for buybacks and spot purchases of properties by bringing forward the amount proposed from 2020-21 within the HRA capital programme. As set out at paragraph 3.2.34
- 2.5 That Cabinet approve up to a further £1.5m of capital spend in addition to the £6m previously approved by Council for the NCC Supported Living Provision property schemes. The total budget of up to £7.5m to be managed by NPH with NBC as part of the revised Capital Programme for 2019-20. As set out at paragraphs 3.2.35-3.2.37.
- 2.6 Cabinet notes the above approval is subject to the completed amended financial appraisal review.
- 2.7 Cabinet delegates to the Chief Finance Officer, the authority to approve any variations within the £7.5m budget.
- 2.8 Cabinet delegate to the Chief Executive in consultation with the Cabinet Member for Housing and Wellbeing, the Head of Housing and Wellbeing and the Chief Finance Officer, the authority to approve any variations required to be made to the Management Agreement between Northampton Borough Council and Northampton Partnership Homes dated 5 January 2015 that may be required to implement any Cabinet approvals arising from this report.

3. Issues and Choices

3.1 Report Background

- 3.1.1 Local housing authorities are required by Section 754 of the Local Government and Housing Act 1989 (the 1989 Act) to keep an HRA. The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of the HRA expenditure and how these are funded, mainly from rents. The HRA budget process incorporates the calculation for the continuation of delivery of the HRA services by NPH. The details of the arrangements and indicative financial Total Fees were presented to Cabinet on the 12th November 2014. This report provides the updated financial position and indicative Total Fee for NPH for 2020/21 to provide the services in scope. It should be noted that the Total Fee for NPH in 2020/21 will be subject to approval of the HRA and General Fund Budgets by Council at its meeting in February 2020.
- 3.1.2 The Council has statutory responsibility for the HRA and will therefore retain management of the HRA. NPH, as part of their responsibilities, will provide the Council with information on its activities and advice on how best to make use of the resources within the HRA.

3.2 Issues

3.2.1 Economic Context.

There continues to be uncertainty around the national and global economic outlook, caused by various factors including the UK's planned withdrawal from the European Union. Therefore, the draft budget is built on prudent assumptions around inflation, interest rates, the continuing strong demand for housing and the impact of high numbers of instances of homelessness.

3.2.2 Medium Term Financial Strategy

In September 2019 Cabinet approved the medium term financial strategy, which provides the framework and context for the development of the detailed budget and medium term financial plan.

3.2.3 The medium term financial strategy included the following strategic principles:

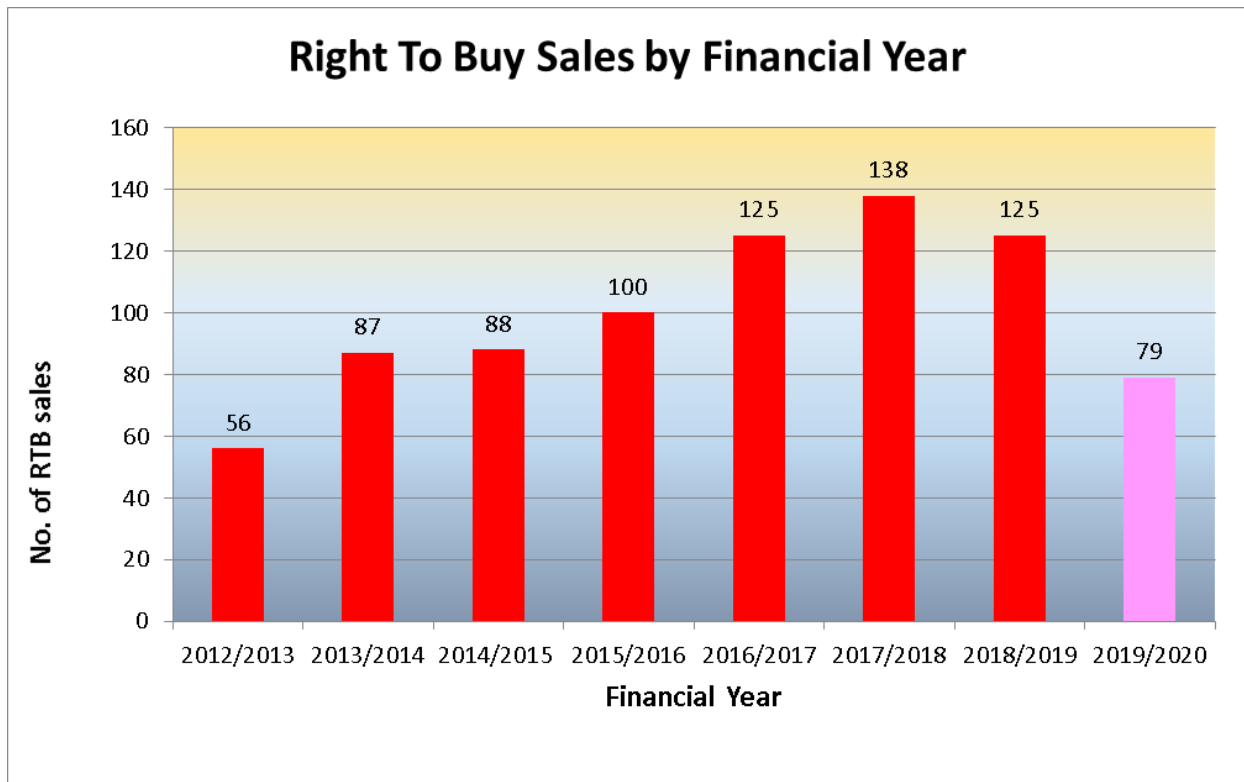
- The Council will, within available resources, seek to maximise delivery of services and levels of performance and ensure that resources are targeted to meeting its objectives and priorities
- The Council will set a balanced budget, which is stable and sustainable and fully represents the cost of providing the levels of service and performance set out in the corporate plan and service plans
- Income streams will be maximised through the delivery of high quality, cost effective services.
- Investment decisions will take into account both revenue and capital implications.
- Where requirements to undertake borrowing are identified, the costs and benefits of doing so will be assessed as required in line with CIPFA's prudential code.
- Financial implications will be underpinned by a robust risk assessment.
- Decision making will be business case lead. There will be a focus on the short, medium and long-term financial implications of decisions.
- Reserves will be utilised to fund investments that will deliver a long-term sustainable financial position.

National and Local Policy

3.2.4 Since the introduction of self-financing in 2012 there have been a host of government policy initiatives that have impacted upon housing finances. Some of the major impacting ones are the legislative backed 1 % rent reductions for 4 years from 1 April 2016, the encouraging of right to buy (RTB) by increasing RTB discounts, and the introduction of Universal Credit and Benefit Cap.

3.2.5 More recently the Government has pledged to spend an additional £2bn on affordable housing and a new policy will come into effect from 1 April 2020 for future rent increases from 2020/21 with increases to be capped at CPI plus 1% for 5 years.

3.2.6 **Right to Buy (RTB)** sales have increased compared to recent years following an increase in discount levels introduced from April 2012. The current years sales at the end of November are 79. The total RTB sales by financial year, including the current year to date is shown in the graph below:



Assumptions based on these increased resources are included within the indicative HRA capital programme financing shown at Appendix 2. There are two additional considerations arising from this change:

- a) Additional pressure is placed on the revenue budgets through reduced rental income; assumptions around this have been built into the HRA budgets being considered in the draft budget; and
- b) The additional capital receipts, (retained “141” RTB receipt element 2020/21, must be used towards the provision of new social housing and can only be used to finance 30% of this cost. If the Council does not spend the capital receipts within a 3 year rolling timeframe, the receipts, plus an amount for interest, are payable to Government. Paragraph 3.2.10 provides more detail.

3.2.7 **Housing Consultation** – A new deal for Social Housing.

The consultation ran until November 2018. Government have yet to enact any such changes so the future is not certain.

3.2.8 **Pay to Stay** The Housing and Planning Bill 2016 made provision for the charging “high income social tenants” with reference to the market rate or other factors based on income and housing area. The Government decided not to proceed with the policy in its current compulsory form. Local authorities and housing associations have discretion as to whether to implement the

policy for tenants with incomes over £60k. This policy is currently not applied by the Council.

- 3.2.9 **New Council House Build** and the Use of 1-4-1 RTB Receipts. NPH has been working closely with the Council on a 10 year development plan for delivering more than 1,000 new affordable homes (including hundreds of new council homes) over the next ten years. This will help the Council to address the severe shortage of affordable housing in Northampton and reduce the rate at which the Council's housing stock is reducing through RTB. The new build programme is kept under constant review to ensure that it maximizes HRA capacity, safeguards the use of 1-4-1 RTB receipts and, where there is a robust business case, enables the delivery of affordable housing.
- 3.2.10 **1-4-1 RTB Receipts** The use of prudential Borrowing in the HRA enables borrowing that is affordable to fund the part of new build expenditure that 141 RTB receipts cannot meet under the rules. The 1-4-1 RTB receipts must be used to fund up to a maximum of 30% of new build, additionality projects or grants to Housing Association schemes. The RTB receipts must be spent within 3 years from receipt under the rules of the 2012 agreement, otherwise they are paid back to Treasury with interest at 4% above base. The outcome of a government consultation, concluded in October 2018, could increase the flexibilities around use of 1-4-1 RTB receipts in the future. However Government have yet to enact any such changes so the future is not certain.

Housing Revenue Account Budget 2020/2021

- 3.2.11 The HRA is a ring-fenced account that represents the costs of holding the Council housing stock. There are strict rules surrounding the costs and income that can be charged to this account. Much of the income and expenditure is dictated by legislation and regulation leaving the Council with direct control over a limited number of these budgets. The HRA Budget proposed for 2020/21 reflects the current service levels and any proposed changes in service delivery.
- 3.2.12 The HRA budget estimates are attached at Appendix 1 to this report. The main areas to the HRA are reported below
- 3.2.13 **Rental income**, by far the largest single budget within the HRA, has previously been calculated in accordance with national rent policy. In October 2017, the government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus 1 percentage point from 2020, for a period of at least five years ('the new policy'). The new policy will come into effect from 1 April 2020.
- 3.2.14 The proposal for rent increases in 2020/21 is therefore the maximum 2.7%,(September 2019 CPI 1.7% plus 1%) on average across the housing stock in line with the new policy.
- 3.2.15 **Application of the rent standard to local authority registered providers** for the first time, the government has directed the Regulator to apply its rent standard to all registered providers – i.e. to both local authority registered providers and private registered providers (the vast majority of which are housing associations). The government intends that the rent standard should apply to local authority registered providers from 2020 onwards because the previous arrangements for limiting the welfare costs associated with local

authority rents (the Rent Rebate Subsidy Limitation scheme) will not operate alongside Universal Credit.

- 3.2.16 **Service Charges.** The schedule of draft Service Charges for 2020/21 is attached at Appendix 3. The level of Service Charges should be set to enable the full recovery of eligible costs incurred, further work is ongoing to review the position. It is proposed that general Service Charges are increased in line with CPI as at September 2019 (1.7%). The Service Charges have been reflected in the draft budgeted income figures.
- 3.2.17 **Repairs and Maintenance.** The revenue repairs and maintenance budget represent the non-capital costs of responsive and cyclical maintenance programmes. These are determined both with current service levels and the latest stock condition survey information.
- 3.2.18 **Capital Financing Costs.** The interest fixed rate costs to the HRA, (approx. £6.5m), are reflective of the move to a Self-financing HRA in 2012 where the Council under the Governments prescription took on the debt for its stock as calculated by the Self Financing Determinations. They reflect the preferential rates provided to Councils at that time from the Public Works Loans Board (PWLB). The debt is subject to close management with rigorous monitoring to ensure that the financial position for the HRA is optimised. In addition to this the draft budget also reflects an increase in prudential borrowing to fund the new build programme.
- 3.2.19 The Business Plan since Self-financing model in 2012 assumed a level of increasing balances available to repay debt in the future. The changes imposed by government through the rent decreases 2016-20, increasing reductions in housing stock, and the current economic outlook have undermined this position and therefore these surpluses are forecast not to materialise until later in the life of the 30 year plan.
- 3.2.20 **Welfare Reform.** Universal Credit (UC) and other welfare reform is available to people who are on a low income or are out of work. It aims to make the welfare system simpler by replacing six benefits and tax credits with a single monthly payment. The Council initially went live with the delivery of UC in November 2015 for certain aspects. The DWP have now rolled out the full Digital service for new UC cases, which went live for the Council last year. New claims to legacy benefits are now closed and the migration of existing benefit claims will follow, expected to be completed by March 2022. The Council continues to monitor closely the impact of welfare reforms which will have an impact on rent collection for the Council and therefore impact on the overall HRA position. The level of arrears and required level of bad debt provision will continue to be monitored closely throughout 2019/20 financial year and future years in light of the welfare reform roll out and the performance levels in the management of arrears.
- 3.2.21 **NPH Management Agreement / services being provided** The Council pays NPH a Total Fee to provide both the Housing Landlord services and those Housing General Fund Services in scope. NPH receive what is defined in the Management Agreement as the "Total Fee" which will comprise of the majority of HRA budgets including the Capital Programme; Repairs and Maintenance and Operations Budgets. The Capital Programme (Improvement Programme) and the Repairs and Maintenance budgets are managed budgets, whilst the

Operations budget is a devolved budget. NPH will receive some Housing General Fund (HGF) budgets in relation to relevant service attributable to these. NPH operate using the management fee and manage the capital programme budget and revenue repairs and maintenance budget in accordance with what has been agreed by the Council.

3.2.22 **The Draft NPH Total Fee** has been worked through in partnership with NPH taking into account the current level of budgets, the detailed 30 year Draft HRA Business Plan and the changes in available funding services in scope. The Asset Management Plan will be updated for the purposes of setting the final budget. It should be noted that further work with NPH is ongoing and the HRA Business Plan is to be updated between Draft budget and Final which could lead to changes. The Draft NPH fee will be formerly confirmed by the NPH Board at its meeting scheduled in February 2020. The table below shows a summary of the draft 2020/21 Total Fee proposed. Further breakdown and detail can be found at Appendix 4.

Summary Table of Total Fee to NPH for 2020/21

NPH Management Fee	£'000s
Management - HRA	14,172
Management - General Fund Housing	291
Maintenance - Responsive & Cyclical (Managed Budget)	12,219
Capital - Improvements to Homes (Managed Budget)	36,050
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - Managed Budget ICT	250
Total Fee	65,982

3.2.23 The funding pressures for 2020/2021 have been managed jointly by NBC and NPH, working together to maximise resources out of current budgets and minimising, where possible, any re-phasing of the capital programme. Prior to the final HRA budget being approved in February 2020 the Council will continue to work closely with NPH in relation to the draft budgets and the medium term financial plan. Medium term planning pressures and any emerging pressures and savings will need to be built into NPH future budget plans.

3.2.24 A summary of the overall draft HRA budget for 2020/21 and 2021 to 2024 is contained in Appendix 1.

HRA Reserves

3.2.25 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future HRA expenditure including capital financing, risks of Leaseholder claims, Service Improvements, and an Insurance reserve. The use of the capital reserve is incorporated into the

capital programme financing considerations included later in this report. The table below shows the forecast opening balance on the reserves as at 1 April 2020. Any variations in the current financial year that requires the use of reserves not currently known will reduce this forecast starting position and impact on the finances available

Summary of HRA Earmarked Reserves and Working Balances

Reserves	Balance B/f 01/04/2020	Earmarked in Year	Applied in Year	Balance C/f 31/03/2021
	£000	£000	£000	£000
HRA Reserves	(2,846)	0	1,917	(929)
HRA Leaseholder Reserve	(500)	0	0	(500)
HRA Service Improvement Reserve	(1,000)	0	0	(1,000)
HRA Insurance Reserve	(300)	0	0	(300)
Total HRA Reserves	(4,646)	0	1,917	(2,729)
Min Level of Working Balances	(5,000)	(5,000)	(5,000)	(5,000)
Total HRA Reserves	(9,646)	(5,000)	(3,083)	(7,729)

3.2.26 These reserves can be drawn down as required, to finance the future strategic requirements of the service, and will be subject to change as forecasts of funding are updated.

Adequacy of Working Balances

3.2.27 A prudent level of working balance, along with appropriate application of reserves, should be part of the overall budget. The Chief Finance Officer reviews the level of balances required to support the Housing Revenue Account spend annually as part of a robust risk assessment. This risk assessment suggests that the minimum level of balances, taking all known risks into account should remain at the current level of £5m for 2020/21. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year. Under the Management Agreement with NPH to recognise the change in service delivery NPH will continue to have available to it £1m of this working balance to call upon to maintain cash flow if required. Further work is ongoing, taking into account the government's latest budget, to assess the level of working balances in conjunction with NPH and any changes will be reported to Cabinet in February 2020.

3.2.28 This does not represent a medium to long term safe level of reserves. The level can only accommodate the impact of significant events up to the level set and would need to be replenished if one or more such events occur.

Housing Revenue Account Capital Programme

- 3.2.29 Capital expenditure is essential for the Housing Revenue Account in order to maintain and improve the Council's housing stock. The HRA is an asset driven service and as such the capital programme plays a key part in the delivery of the HRA service.
- 3.2.30 The proposed HRA capital programme for 2020/21 to 2023/24 is attached at Appendix 2 and summarised in the table below for 2020/21. The value of the total proposed HRA capital programme for 2020/21 is £39.8m.

Capital Programme 2020/21	HRA £000
External Improvements	9,300
Internal Works	4,600
Structural Works and Compliance	600
Disabled Adaptations	1,300
Environmental Improvements	3,000
IT Development	250
New Build Programme / Major Projects	20,250
Buybacks / Spot Purchases / Pool	500
Total HRA Capital Programme	39,800
Funding Source	
Borrowing	13,968
Major Repairs Reserve/Depreciation	12,000
Capital Receipts	7,543
Revenue/Earmarked Reserve	6,289
Total Funding	39,800

- 3.2.31 The Asset Management Plan has been reviewed by NPH but is due for a refresh with the latest information. This will need to be ran through the HRA Business Plan and future budgets. In addition to this included in the draft capital programme includes for a significant investment to the Councils' New Build and Major works 2020/2021 programme, (£20.25M to deliver up to 150 new homes in year), reflecting ability to prudentially borrow within the HRA. This has been included in the draft budget and will inform the refresh of the Council's HRA Business Plan for 2020/2021. The HRA Capital Programme has been developed within the context of the 30-year Business Plan and the existing Asset management plan. The capital programme has a direct impact on the revenue position of the HRA.
- 3.2.32 Although the focus of the Capital Programme is to maintain and improve the Council's homes, there is also a focus on environmental improvements and an increased focus on the development of new homes to help address the shortage of affordable housing in the Borough. The New Build/ Major projects draft budget and indicative budgets from the following 4 years is expected to deliver up to 600 new council homes.
- 3.2.33 The detail of the HRA capital programme for 2020/21 and beyond will be refined in line with annual updates to the Business plan, Asset management plan, and any changes to government policy and legislation.

3.2.34 The proposed HRA capital programme for 2020/21 includes a £500k budget to purchase former council properties and spot purchase properties available on the market which are of a strategic importance. It is recommended that Cabinet approve the use of this £500k in 2019-20 to meet increased opportunities to purchase affordable homes.

NCC Supported Living Provision property schemes

3.2.35 Council at its meeting on 3rd June 2019 approved the increase in HRA borrowing and the total cost of these schemes to the HRA Capital Fund should not exceed £6m. Cabinet at its meeting 12th June 2019 approved the schemes.

3.2.36 Following a procurement process the schemes total cost has risen to £7.045m. It is recommended that the additional cost is approved, with an approval for an additional budget of up to £1.5m, a total budget of up to £7.5m.

3.2.37 The main reasons for the increase in costs are due to

- a higher specification due to planning requirements
- making them wheelchair accessible
- drive to construct sustainable homes and cease installing gas in new homes

Capital Strategy

3.2.38 The aim of the Capital Strategy is to provide a clear framework for capital funding and expenditure decisions in the context of the Council's vision, values, objectives and priorities, financial resources and spending plans. The HRA element is closely aligned to the Council's Asset Management Plan and the NPH Delivery Plan. The overall strategy has been refreshed and is part of the General Fund budget setting report for consultation.

3.3 The Next Steps

3.3.1 The timetable for the 2020/21 budget process requires a meeting of the Council in February 2020, at which consideration will be given to the recommendations of this Cabinet in relation to the expenditure, income, and rent proposals that relate to HRA spending.

3.4 Consultation

3.4.1 Formal consultation with the public and stakeholders including local businesses will be launched in December 2019 and will continue until the budget is formally adopted in February 2020 in line with an agreed consultation programme.

3.5 Choices (Options)

3.5.1 Cabinet can agree that the budget proposals for 2020/21 for the HRA and HRA Capital programme and indicative budgets for 2021/22 to 2023/24 as summarised in the appendices to this report can be approved for consultation.

3.5.2 Cabinet can agree the proposed Rent increase of 2.7% for 2020/21 and increases in service charges.

3.5.3 Cabinet can choose to make amendments to the proposed budgets and the proposed rent and service charge increases prior to agreeing the budget to consult on, subject to the advice of the Chief Finance Officer.

NCC Supported Living Provision property schemes Choices (Options)

- 3.5.4 Cabinet to not approve the additional budget of up to £1.5m this would limit the opportunity for residents within the Borough and County to access suitable housing for their needs and continue to drive Social Care costs through the need to place clients with complex needs out of area.
- 3.5.5 To approve selected schemes, this would limit the opportunity for residents within the Borough and County to access suitable housing for their needs and continue to drive Social Care costs through the need to place clients with complex needs out of area.
- 3.5.6 To approve all schemes, with associated delegations to officers to enable progression on all three schemes. This will improve provision of specialist supported living accommodation within the Borough and contribute to the financial sustainability of Adult Social Care, which will in addition assist with the financial sustainability of the new Unitary Authority West Northamptonshire Council.
- 3.5.7 Cabinet are recommended to approve option 3.5.6 above.

4. Implications (including financial implications)

4.1 Policy

- 4.1.1 The revenue and capital budgets are set in support of the Council's priorities.
- 4.1.2 The HRA revenue budget is set in the overall context of the HRA 30 year business plan.
- 4.1.3 The Capital Programme for the HRA is set in the context of the Council's Capital Strategy and HRA 30 year Business Plan.

4.2 Resources and Risk

- 4.2.1 HRA budgets may be subject to further changes to reflect the Governments settlement and any Housing White Papers.
- 4.2.2 The HRA 30 Year Business Plan for 2020/2021 is currently being built and will be subject to external review to assess for accuracy and robustness, the result of which could require revisions to the HRA Capital programme. This will be reported on and reflected in the final budget report.

4.3 Legal

- 4.3.1 The Council has a legal duty to set a balanced budget each year, bearing in mind its fiduciary duties to the taxpayer, and the HRA is not allowed to go into deficit by law. In exercising these duties, the Council must comply with various legislation and administrative duties.

4.4 Equality

- 4.4.1 The Public Sector Equality Duty (PSED) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out its activities. Failure to comply with this duty would be challengeable in the courts.
- 4.4.2 Equality and diversity were considered as part of each of the medium term planning options submitted. Equality impact assessments are 'living' documents and will be updated to take into account relevant feedback from the consultation process. Where these documents identify mitigating action, this will be undertaken in implementing the relevant option should it be taken forward and approved in February 2020.

4.5 Consultees (Internal and External)

- 4.5.1 Internally heads of service and budget managers have been consulted, along with finance officers of NPH. Management Board has carried out a detailed challenge of the budget with Members.

4.6 How the Proposals Deliver Priority Outcomes

- 4.6.1 Consulting on the draft budget is a key ingredient of effective financial governance, which contributes to the priority of "spending your money wisely" and specifically for the HRA contributes to the priority of "Better homes for the future". More broadly, the Council's budget is the financial representation of the Council's plans, and so setting a balanced budget contributes to all of the Council's priority outcomes.

4.7 Environmental Implications (including climate change issues)

- 4.7.1 Environmental impacts were considered as part of each of the medium term planning options submitted. In addition, major projects and new build capital programme schemes are subject to a business case. Each business case includes for the environmental implications of a scheme.

4.8 Other Implications

None not already covered above.

4.9 Appendices

The **Appendices** are set out as follows:

- 1 Housing Revenue Account Summary
- 2 Proposed Housing Revenue Account Capital Programme and Financing
- 3 HRA Fees and Charges
- 4 NPH Total Fee

5. Background Papers

5.1 Property Transactions relating to Supported Living Provision – 12th June 2019 Cabinet

6. Next Steps

6.1 The final Housing Revenue Account budget for 2020/21 will go back to Cabinet in February 2020, and also to full Council for approval in February 2020.

George Candler, Chief Executive
Stuart McGregor, Section 151 Officer