



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2016/17 and Budget Projections 2017/18 to 2020/21
AGENDA STATUS:	PUBLIC

Cabinet Meeting Date:	24th February 2016
Key Decision:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Management Board
Accountable Cabinet Member:	Cllr M Hallam
Ward(s)	N/A

1. Purpose

- 1.1 To agree the Cabinet's proposals for recommendation to Council on 29 February 2016 for the 2016/17 to 2020/21 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 29 February 2016 for the 2016/17 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2016/17 and future years.
- 1.4 To ask the Cabinet to recommend to Council that they approve the recommendations in section 2 below.

2. Recommendations

- 2.1 That Cabinet recommend to Council to approve:
- a) An average rent decrease of 1% per dwelling, in line with the legislation and the government's national rent policy, to take effect from 4th April 2016.
 - b) The HRA budget for 2016/17 of £53.7m expenditure including options detailed in Appendix 1.
 - c) The proposed service charges listed in Appendix 4.
 - d) The HRA capital programme for 2016/17, including future year commitments, and proposed financing as set out in Appendix 3.
 - e) That Cabinet be authorised, once the capital programme has been set, to approve new capital schemes and variations to existing schemes during 2016/17, subject to the funding being available and the schemes being in accordance with the objectives and priorities of the Council.
 - f) The Total Fees proposed for NPH to deliver the services in scope for 2016/17 detailed in Appendix 5.
- 2.2 That the Cabinet acknowledges the issues and risks detailed in the Chief Finance Officer's statement on the robustness of estimates and the adequacy of the reserves.
- 2.3 That the Council be recommended to confirm the reserves strategy of protecting balances wherever possible to allow the option of supporting future years' budgets, aiming for a minimum level of unallocated Housing Revenue Account balances of at least £5m for 2016/17 having regard to the outcome of the financial risk assessment and remaining at this level over the medium term.
- 2.4 That authority be delegated to the Chief Finance Officer to make any technical changes necessary to the papers for the Council meeting of 29th February 2016.
- 2.5 That Council be recommended to delegate authority to the Chief Executive and Chief Finance Officer to implement any retained HRA budget options and restructures.
- 2.6 That authority be delegated to the Chief Finance Officer in consultation with the Portfolio Holder for Finance, and where appropriate the relevant Director and Portfolio Holder to:
- transfer monies to/from earmarked reserves should that become necessary during the financial year.
 - transfer monies to /from HRA working balances between the Council and NPH for cash flow purposes should that become necessary during the financial year.
 - update the budget tables and appendices, prior to Council should any further changes be necessary.
 - update prudential indicators in both the Prudential Indicators report and Treasury Strategy report, for Council for any budget changes that impact on these.

3. Issues and Choices

3.1 Report Background

Housing Revenue Account

- 3.1.1 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
- 3.1.2 The HRA Budget proposed for 2016/17 reflects the current service levels and service delivery. This year's HRA budget process continues to incorporate the calculations required to provide a Total Fee to Northampton Partnership Homes, (NPH) who manage the housing stock on a Management Agreement. This report provides the updated financial position and revised Total Fee for NPH for 2016/17 to provide the services in scope taking into account the immediate changes in housing finance announced in the Summer Budget and laid down in the Welfare Reform and Work Bill and the Housing and Planning Bill. The schedule of the proposed specific changes, (Medium Term Planning (MTP) options), are detailed in Appendix 2.
- 3.1.3 On 16th December 2015, Cabinet approved the Draft HRA Budget for consultation. A table of changes since this meeting is paragraph 3.3.2 below.

Welfare Reform

- 3.1.4 Over the medium term planning period, more information and detail will be released about Universal Credit and other welfare reform initiatives which will have an impact upon the current service provision of the Council. Universal Credit 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. It includes support for the costs of housing, children and childcare, as well as support for disabled people and carers and it was first introduced in parts of Greater Manchester and Cheshire in April 2013. From June 2014 job centres across the north-west gradually started to process claims for unemployed single claimants with no housing costs. In July 2014, the new service also became available for new claims from couples in all live site areas across England, Scotland and Wales. This extended to families from autumn 2014. The Government has confirmed that they remain on track to deliver Universal Credit safely and securely by 2017. NBC started to receive claims in December 2015 and has received a small number of applications to date and LGSS are making relevant plans to support the process in the second half of the year. This could have an impact on rent collection for the Council which will have a subsequent impact on the overall HRA position.

Welfare Reform and Work Bill and the Housing and Planning Bill

- 3.1.5 With its summer Budget statement the government introduced three main policy announcements which will have significant impact for the HRA. These were a social housing rent reduction of -1% across all stock, (detailed in paragraph 3.3) below, a requirement for local authorities to make payments to the government in respect of high value void sales and a requirement for high income tenants to pay higher rents (Pay to Stay). The latter two changes are expected to be introduced from 2017/18 onwards with the

remainder of 2015/16 and 2016/17 being used to collate the information needed to calculate the likely impacts. The legislative provision for the rent reduction is included within the Welfare Reform and Work Bill currently before Parliament. The Housing and Planning Bill, also before Parliament, contains the provision for High Value Void Sales and Pay to Stay.

Extension of Right To Buy and Higher Value Void sales

- 3.1.6 The Government intends to extend the RTB scheme to housing association tenants and to compensate housing associations for the discount given under the scheme from the proceeds of selling “high value” council houses as they became available. It is anticipated that housing associations would use the receipt to reinvest in new homes. To meet the cost of the discounts a determination may be necessary that requires local authorities with a HRA to make an annual payment to the government that reflects the market value (less costs) of “high value” housing likely to become vacant during the year, whether or not receipts are realised. This is likely to have a significant impact on the future sustainability of the Council’s HRA.

Pay To Stay

- 3.1.7 The Housing and Planning Bill makes provision for the charging of “high income social tenants” with reference to the market rate or other factors based on income and housing area. Further details through regulations will define how income is calculated and what constitutes “high income” and “household”. In addition to this there may be a requirement for tenants to provide information and evidence of income and/or this may be provided through HMRC tax records. The additional income generated from the increase above social rents will have to be paid over to the Government. Implementation will undoubtedly increase the administrative burden and increase costs.

3.2 Draft HRA Revenue Budget 2016/17 Cabinet 16th December 2015

- 3.2.1 The Cabinet met on the 16th December 2015 and recommended proposals for consultation. The headlines were:
- a) Proposing rent decrease in line with pending legislation and national rent policy of 1%;
 - b) A HRA budget for 2016/17 of £53.7m expenditure with medium term planning options including invest to save proposals put forward by NPH and reflected in the NPH Management Fee.
 - c) A Total Fee for NPH for the delivery of services over the six fee elements including a Capital Sum.

3.3 Draft HRA Revenue Budget 2016/17 - Cabinet 24th February 2016

- 3.3.1 Further work on the HRA budget has been undertaken to refine the estimates since 16th December 2015. This has resulted in a few adjustments which impact on the draft budget since 16th December.

3.3.2 A schedule of the changes since the 16th December 2015 proposals is shown below.

Description	Budget 2016/17
HRA Balanced Budget - December Cabinet	0
General Management	
- Invest to Save budget (NPH)	831,400
- Insurance budget (NBC)	125,000
Special Services - minor changes	(1,347)
Capital Funding adjustment (NPH)	(831,400)
Contribution to / (from) Reserves	(123,653)
HRA Balanced Budget - February Cabinet	0

Rents and Rent Setting 2016/2017

3.3.3 Rent Income, by far the largest single budget within the HRA, has previously been calculated in accordance with national rent policy. For 2016/17 the Welfare Reform and Work Bill, currently before Parliament, will legislate that rents in the social sector should decrease by -1% for the next 4 years. This is a move away from the 10 year policy of increasing rents using Consumer Price Index (CPI) plus 1 percentage point annually. An update from the Government was received on the 8 February 2016 announcing that it planned to put in place a one year exception to the reduction for all supported housing whilst they undertake a review into it. The Government's expectation is that accommodation subject to the exception, (Sheltered, Very Sheltered and Temporary Accommodation), could have their rents increased by no more than CPI plus 1%. It is understood that the exception will not be laid down in the legislation therefore the Council can decide whether to apply it or not. Discussions at this late stage were held with the Leader, Members, Council officers and NPH around the following:

- i) the exemption to supported housing and therefore increase the rents on those by up to CPI plus 1% was a choice for the Council;
- ii) the financial impact of not applying the exemption up to the maximum of CPI plus 1% to the HRA would be approximately £170k in 2016/17 and approximately £900k over the five year medium term. The likelihood of this impacting the service and investment in future in this stock type was considered and weighed up against the likely impact of the rent increase on the most vulnerable and elderly of the Council's tenants..
- iii) It was recognised that the government is still reviewing the Supported Housing area and there could be impact in this area in the future;

3.3.3.1 The proposal for rent decreases in 2016/17 is therefore -1% on average across the housing stock.

3.3.3.2 This level of decrease changes the previous MTFP by reducing income over the 4 years by £20m which poses a real challenge to future sustainability of the HRA and the resources available to manage the stock. The impact on the original 2015/16 MTFP approved by Council in February 2015 is summarised in the table below:

	BUDGETED	-1%	
	Full Council Feb 2015 HRA MTFP	Revised Forecast	Reduction in income
	Dwelling Rents	Dwelling Rents	Dwelling Rents
	£000	£000	£000
2015/16	51,371	51,371	0
2016/17	52,760	50,857	1,903
2017/18	54,185	50,349	3,836
2018/19	55,644	49,845	5,799
2019/20	58,321	49,347	8,974
TOTAL FORECAST LOST INCOME			20,512

3.3.4 Target Rent - In line with the Governments guidance any dwelling that becomes void in year will automatically have its rent realigned to the Formula Rent (target rent), which takes account of average national rent, relative county earnings, number of bedrooms and relative property value. The forecast position of rents at target per property type by number of bedrooms is shown in the table below, after modelling the rents for 2016/17

Analysis of Dwelling Stock at Target Rent or Not by Property Type

Dwelling Type	At Target	Not at Target	Total
Bedsit	66	223	289
Bungalow	454	24	478
Flat	684	2804	3488
House	4645	557	5202
Maisonette	22	154	176
Sheltered Bedsit	0	2	2
Sheltered Bungalow	1112	3	1115
Sheltered Flat	156	903	1059
Very Sheltered Flat	14	13	27
Total Dwellings	7153	4683	11836

Those dwellings currently not at Target rent are all less than their Target. The Council does not have any rents above Target. The policy of moving relet properties straight to Formula was introduced in 2014/15 with the intention of closing the rents to target over a period of time. This will continue to be monitored and any future changes to Rent Policy will be consulted on.

Service Charges

3.3.5 The schedule of proposed Service Charges for 2016/17 is attached at Appendix 4. The level of Service Charges should be set to enable the full recovery of costs incurred. It is proposed that general Service Charges for 2016/17 are increased in line with RPI as at September 2015 (0.8%). It is also

proposed that charges in relation to Communal Heating Systems are increased by 3% to reflect the current levels of expenditure. The Service Charges have been reflected in the budgeted income figures. There are no changes proposed to the draft budget position.

NPH Management Agreement / Services Being Provided

- 3.3.6 The HRA continues to be the Council's statutory account for the Housing Landlord service, which pays NPH a Total Fee to provide both the Housing Landlord services and those Housing General Fund Services in the scope. The embedding and development of NPH is planned to shape the future HRA budgets as efficiencies and improvements to services are made leading to more investment opportunities into the stock and the service. The added challenge now is to achieve this with markedly lower resources forecast to be available under the new legislation.
- 3.3.7 The Total Fee for 2016/17 has been negotiated in partnership with NPH taking into account the current level of budgets, the detailed draft 30 year HRA Business Plan and the changes in available funding for services in scope. The MTFP shows significant reduction in forecast funds due to the changes being enforced by Government policies. NPH have been working with the Council to ensure that a balanced budget can be delivered and trying to mitigate the impact on services. It should be noted that the Asset Management Plan is to be updated early in the new financial year which will lead to a comprehensive review of the HRA Business Plan which will incorporate assumptions coming out of the government in relation to the Bills currently before Parliament.
- 3.3.8 In line with the changes since draft budget a schedule of all changes to the NPH total Fee since the 16th December 2015 proposals is shown below.

NPH Total Management Fee	December Cabinet	February Cabinet
	£k	£k
Analysed by		
Management - HRA	10,606	11,437
Management - GF Housing	246	246
Maintenance - Managed Budget Responsive	12,801	12,801
Manintenance - Managed Budget Cyclical	3,824	3,824
Capital - Managed Budget Improvement to Homes	20,636	20,636
Capital - Managed Budget Improvement to Environment	4,801	3,970
TOTAL	52,914	52,914

The Management Agreement provides NPH the ability to action the virement of funds within the Total Fee up to an aggregate of £2 million per annum. Any requirement for a virement above this or of the Housing General Fund element will need NBC approval through the Chief Financial Officer (Statutory section 151 Officer) This will enable the Council to have assurance that the budgets are spent in line with the budget the Council approves.

HRA Reserves

- 3.3.9 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future HRA expenditure including capital

financing, loss of Supporting People funding, ALMO implementation, 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 current forecast of these reserves to the end of the financial year.

Summary	Balance B/f 1 Apr 2016	Earmarked in Year	Applied in Year	Balance C/f 31 Mar 2017
	£	£	£	£
HRA Capital Investment Reserve	(8,314,037)	0	7,516,977	(797,060)
HRA Supporting People Reserve	(558,487)	0	0	(558,487)
HRA Reform Reserve	0	0	0	0
HRA Leaseholder Reserve	(500,000)	0	0	(500,000)
HRA Service Improvement Reserve	(1,350,000)	0	0	(1,350,000)
HRA Insurance Reserve	(300,000)	0	0	(300,000)
Total HRA Reserves	(11,022,524)	0	7,516,977	(3,505,547)
Min Level of Working Balances	(5,000,000)	0	0	(5,000,000)
Total HRA Reserves	(16,022,524)	0	7,516,977	(8,505,547)

3.3.10 These reserves can be drawn down as required, to finance the future strategic requirements of the service. The Capital Investment Reserve is currently all earmarked for the delivery of the Northampton Standard over the medium term and reflected in the Council's HRA Business Plan. The reserves will be subject to change depending on the outturn position for 2015/16 and future investment priorities driven by the Asset Management Plan and decided by the Council.

Adequacy of Working Balances

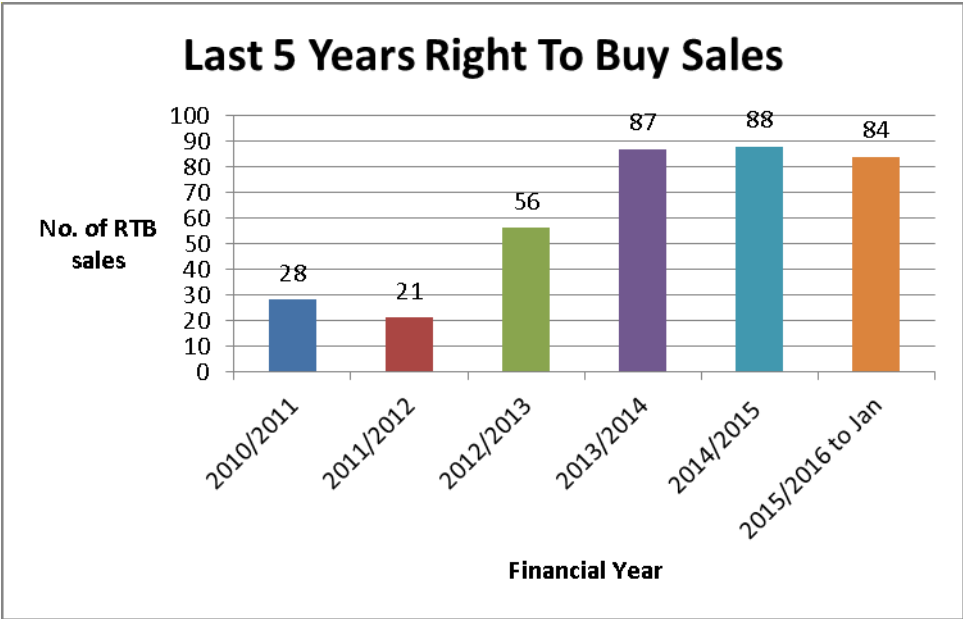
3.3.11 A prudent level of working balance, along with appropriate application of reserves, should be part of the overall budget. The Chief Finance Officer reviews the level of balances required to support the Housing Revenue Account spend annually as part of a robust risk assessment. This risk assessment suggests that the minimum level of balances, taking all known risks into account should be in the order of £5m for 2016/17. This will be reviewed at least annually. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year.

3.3.12 This does not represent a medium to long term safe level of working balances. 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 actually occur.

3.4 Housing Revenue Account Capital Programme

The Financial Position

- 3.4.1 The Council continues to face an extremely challenging financial situation in the short to medium term made even more so as a result of the pending legislative changes mentioned earlier in the report. Alongside the decision to implement NPH, the Council decided to adopt a new “Northampton Standard” for the maintenance and improvement of Council housing stock. This new higher standard has associated increased costs which are built in to the capital programme.
- 3.4.2 The HRA is subject to a debt cap whereby the Council cannot carry borrowing on the HRA at over a level set by the Government. For Northampton, this level is £208.4m. This is one of the considerations taken into account when setting the HRA capital programme for 2016/17 onwards. The proposed capital programme at present does not cause the debt cap to be exceeded in any of the financial years from 2016/17 to 2020/21.
- 3.4.3 **New council House Build.** The Council was successful in its bid under the Local Growth Fund government scheme for an increase in its debt cap specifically to help fund the building of 100 new Council homes at Dallington. The increase in debt cap awarded was £8.6m which will allow the Council to borrow specifically for this project. The government issued the Council with a special determination which allows for the additional borrowing for this scheme in 2015/16 and 2016/17 only. Due to technical issues the project will not be considered by Planning Committee until April this year at the earliest. There is a risk that If the scheme cannot be brought back on programme that the additional borrowing from the increase in debt cap will not be available to fund it. In this circumstance the project would need a redirection of the current Capital Programme to fund if it was to go ahead. Updates will be reported to Cabinet in due course.
- 3.4.4 **Right to Buy (RTB) sales** have increased compared to recent years following an increase in discount levels introduced from April 2012. The updated total RTB sales for the last 5 years and in year to end of January 2015 are shown in the graph below:



3.4.4.1 Assumptions based on these increased resources are included within the indicative HRA capital programme financing shown at Appendix 3. 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 this report; and
- b) The additional capital receipts 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. The funding can be used to contribute towards additional provision by housing associations.

Building the Capital Programme.

3.4.5 Capital expenditure represents major investment in the Councils Housing assets. The capital programme has been developed through strategic discussions with Housing Management, latest stock condition survey data and with reference to the existing joint Asset Management Plan between the Council and NPH and with latest financing input from the HRA Business Plan.

3.4.6 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.

3.4.7 The proposed HRA capital programme for 2016/17 to 2020/21 is attached at Appendix 3. All proposals have been reviewed and challenged by the Director of Regeneration, Enterprise and Planning and the Chief Finance Officer.

3.4.8 The table below shows a summary of the draft programme and final proposed capital programme and funding for 2016/17.

Draft HRA Capital Programme and Funding 2016-17

	Draft Budget	Proposed Budget
	2016/17	2016/17
	£'000s	£'000s
Capital Programme 2016-17		
External Improvements	6,300	6,300
Internal Works	4,050	4,050
Energy Works	2,824	2,824
Major Projects	6,330	6,330
Environmental Improvements	4,801	3,970
Disabled Adaptations	1,132	1,132
New Build - Dallington	8,706	8,706
Use of 1-4-1 Receipts	1,138	1,138
Total HRA Capital Programme	35,281	34,450
Funding Source:		
Borrowing	8,864	8,864
Capital Receipts	2,359	2,359
Major Repairs Reserve	13,008	13,008
Section 106 Contributions	706	706
Revenue/Earmarked Reserve	10,345	9,513
Total Funding	35,281	34,450

3.4.9 The HRA Capital Programme has been developed within the context of the 30-year Business Plan and the latest stock condition survey information. The Capital Programme has a direct impact on the revenue position of the HRA.

3.4.10 The main focus is the achievement and then maintenance of the Northampton Standard.

3.4.11 The HRA capital programme for 2016/17 and beyond will be refined in conjunction with NPH, in line with the Asset Management Plan refresh, and HRA Business Plan review due in 2016/17 and taking into account more detail on the changes currently going through Parliament when they are released.

3.5 The Next Steps

3.5.1 The timetable for the 2016/17 budget process requires a meeting of the Council on 29th February 2016, 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.

3.6 Consultation

3.6.1 The consultation process was carried out in two phases, internally, involving the formulation of options at service level followed by challenge by Management Board and relevant Cabinet members, and externally, involving public consultation with residents, businesses and interested stakeholders.

- 3.6.2 Public consultation commenced 18 December 2015 and ended 31 January 2016. The consultation period will formally close on the date the budget is approved in February 2016.
- 3.6.3 The Council's dedicated budget information web pages received over **400** visits and **90** people completed online questionnaires. Other panels also consulted on the rents are detailed in Appendix 6.
- 3.6.4 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 20 January 2016. The views of the Overview and Scrutiny Committees can be found in the General Fund Budget report at Appendix 2.
- 3.6.5 Audit Committee reviewed the budget proposals from a risk perspective on 18 January 2016. The key risks identified can be found in the General Fund Budget report at Appendix 3.

3.7 Choices (Options)

- 3.7.1 It is recommended that Cabinet make the recommendations to Council as detailed in section 2 of this report, taking into account the items detailed for noting.
- 3.7.2 The Cabinet may choose to make amendments to the proposed budgets or to the proposed rent increase and adjust the budget proposals accordingly, in consultation with the Chief Finance Officer. It would then recommend the amended budget (if applicable) to Council.

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 and the Council's Asset Management Plan.
- 4.1.3 The Capital Programme for the HRA is set in the context of the Council's Capital Strategy.

4.2 Resources and Risk

- 4.2.1 HRA budgets have been updated to reflect the creation of NPH, further reviews of these budgets and refinement will be undertaken as part of the regulation budget monitoring processes.

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 has to 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 2016.

4.5 How the Proposals Deliver Priority Outcomes

- 4.5.1 Consulting on the draft budget is a key ingredient of effective financial governance, which contributes to the priority of making every pound go further.

4.6 Appendices

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

- 1 Housing Revenue Account Summary
- 2 Housing Revenue Account Medium Term Planning Options
- 3 Proposed Housing Revenue Account Capital Programme and Financing
- 4 HRA Fees and Charges
- 5 NPH Total Fee Detail
- 6 Consultation on Rent Increases

5. Background Papers

- 5.1 Capital Strategy 2016 - 2021
- 5.2 Medium Term Planning Options list HRA
- 5.3 Equality Screening and Analysis for MTP Options HRA

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