



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2019/20 and Budget Projections 2020/21 to 2022/23
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	20th February 2019
Key Decision:	YES
Within Policy:	YES
Policy Document:	YES
Directorate:	Management Board
Accountable Cabinet Member:	Cllr B Eldred
Ward(s)	N/A

1. Purpose

- 1.1 To agree the Cabinet's proposals for recommendation to Council on 25 February 2019 for the 2019/20 to 2022/23 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 25 February 2019 for the 2019/20 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2019/20 and note the 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 1st April 2019.
 - b) The HRA budget for 2019/20 of £51.8m expenditure detailed in Appendix 1.
 - c) The HRA capital programme for 2019/20, including future year commitments, and proposed financing as set out in Appendix 2.
 - d) The proposed service charges listed 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 2019/20, 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 2019/20 detailed in Appendix 4.
- 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 2019/20 having regard to the outcome of the financial risk assessment.
- 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 25 February 2019.
- 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 Head of Service 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 2019/20 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 2019/20 to provide the services in scope taking into account the current rules and regulations which impact upon the financial envelope brought about by Government changes in legislation in housing finance.

Developments in Housing Finance.

- 3.1.4 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 financially more significant 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.
- 3.1.5 More recently the Government has pledged to spend an additional £2bn on affordable housing. Some details on proposals for future rent increases from 2020/21 were released with increases to be capped at CPI plus 1% for 5 years. In addition to this the Autumn Budget announced the removal of the HRA Debt Cap and the introduction of prudential borrowing which gives Council more scope to pursue new build programmes to deliver much needed new housing within the HRAs.

3.2 Draft HRA Revenue Budget 2019/20 Cabinet 12 December 2018

- 3.2.1 The Cabinet met on 12 December 2018 and recommended proposals for consultation. The headlines were:
- a) Proposing rent decrease in line with legislation and national rent policy of 1%;
 - b) A HRA budget for 2019/20 of £52.4m expenditure.
 - c) A Total Fee for NPH for the delivery of services over the six fee elements including a Capital Sum.

Further work on refining estimates has been undertaken on the HRA revenue and capital budgets since 12 December 2018, resulting in the proposals set out in the following sections 3.3 and 3.4.

3.3 Draft HRA Revenue Budget 2019/20 - Cabinet 20 February 2019

3.3.1 The final 2019/20 HRA budget reduces to £51.8m expenditure. The details of this proposed budget can be found in appendix 1. The changes are in respect of Dwellings Rent Income and the Capital programme. There has been a change to the accounting treatment for Dwellings Rent Income for 2018-19 and beyond. The overall result over the Medium Term is expected to be nil, however for 2019-20 there is an estimated reduction in dwellings rent income of £532k. This shortfall is funded by the re-phasing of the capital programme over the next 5 years resulting in a £532k budget reduction in 2019/20 offset by increases in subsequent years, with the overall result over the Medium Term expected to be nil.

Rents and Rent Setting 2019/2020

3.3.2 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 legislated that rents in the social sector should decrease by 1% for the next 4 years. This moved away from the 10 year policy of increasing rents using Consumer Price Index (CPI) plus 1 percentage point annually.

3.3.2.1 The proposal for rent decreases in 2019/20 is therefore a 1% decrease on average across the housing stock. This is consistent to what was put forward in the report to Cabinet on 12 December 2018.

3.3.2.2 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 2019/20.

Analysis of Dwelling Stock at Target Rent by Property Type

Dwelling Type	At Target	Not At Target	Total
Bedsit	115	108	223
Bungalow	322	18	340
Flat	1489	2203	3692
House	4483	464	4947
Maisonette	51	127	178
Sheltered Bedsit	0	1	1
Sheltered Bungalow	1243	3	1246
Sheltered Flat	260	481	741
Sheltered House	2	0	2
Very Sheltered Flat	28	5	33
Total	7993	3410	11403

There are currently 3,410 dwellings not at target rent (compared to last year 3,747). In all these cases the rent is 1 less than their Target. The Council does not have any rents above Target. The policy of moving re-let 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

3.3.3 The schedule of proposed Service Charges for 2019/20 is attached at Appendix 3. The level of Service Charges should be set to enable the full recovery of costs incurred. It is proposed that general Service Charges for 2019/20 are increased in line with CPI as at September 2018 (2.1%). It is proposed that charges in relation to Communal Heating Systems are kept at 2017/18 charges to reflect 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

3.3.4 The HRA is 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.

3.3.4.1 The Total Fee for 2019/20 has been negotiated in partnership with NPH and takes into account the current level of budgets, and the changes in available funding for services in scope. NPH have been working with the Council to ensure that a balanced budget can be delivered while trying to mitigate the impact on services. It should be noted that the Asset Management Plan continues to be reviewed. Further Government announcements on Housing are due to be released in 2019/20 which will be interpreted and run through the HRA Business Plan model.

3.3.4.2 Since the proposed draft budget in December 2018, there has been one change to the proposed NPH total fee. The Capital Programme New Build/Major Projects budget for 2019/20 is re-phased by £532k to take into account the impact of accounting for dwelling rents on a daily basis to show compliance with rent setting legislation within the Welfare and reform Act. The impact is explained in paragraph 3.3.1.

A summary of the NPH total Fee proposed is shown below.

NPH Management Fee	Proposed Budget
Analysed by	£'000s
Management - HRA	14,195
Management - General Fund Housing	262
Maintenance - Responsive & Cyclical (Managed Budget)	12,046
Capital - Improvements to Homes (Managed Budget)	38,426
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - Managed Budget ICT	400
Total Fee	68,329

The detailed NPH Fee schedule 5 is attached at Appendix 4. 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 enables the Council to have assurance that the budgets are spent in line with the budget the Council approves.

HRA Reserves

3.3.5 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future HRA expenditure including capital financing, service improvements, risks of Leaseholder claims, 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 2019	Earmarked in Year	Applied in Year	Balance C/f 31 Mar 2020
	£000	£000	£000	£000
HRA Capital Investment	(5,013)	0	4,743	(270)
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	(6,813)	0	4,743	(2,070)
Min Level of Working Balances	(5,000)	0	0	(5,000)
Total HRA Reserves	(11,813)	0	4,743	(7,070)

3.3.5.1 These reserves can be drawn down as required, to finance the future strategic requirements of the service. The Capital Investment Reserve is currently earmarked for the delivery of the investment needed in the current stock and the requirement to provide replacement housing over the medium

term and reflected in the Council's HRA Business Plan. The reserves will be subject to change depending on the final outturn position for 2017/18 and 2018/19 and future investment priorities driven by the Asset Management Plan and decided by the Council.

Adequacy of Working Balances

3.3.6 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 held at the current level of £5m for 2019/20. It is anticipated that in future there could be a requirement to increase this level of working balances taking into account any further government announcements. 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, NPH will continue to have available to it £1m of this working balance to call upon to maintain cash flow if required.

3.4 Housing Revenue Account Capital Programme

The Financial Position and New Build Programme

3.4.1 Capital expenditure is essential for the Housing Revenue Account in order to maintain and improve the Council's housing stock as well as deliver new council housing. The HRA is an asset driven service and as such the capital programme plays a key part in the delivery of the HRA service.

3.4.2 Alongside the implementation of NPH, the Council decided to adopt the "Northampton Standard" for the maintenance and improvement of Council housing stock. This higher standard has associated increased costs which are built in to the capital programme.

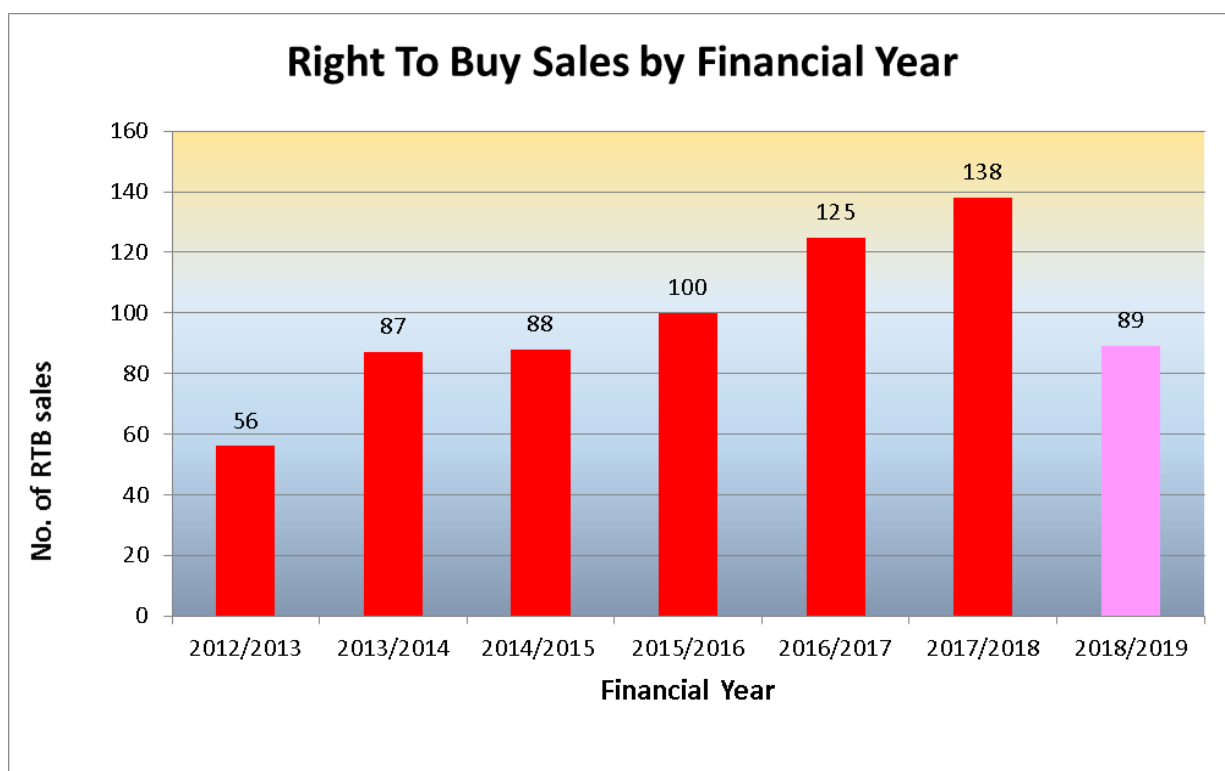
3.4.3 The HRA Capital Programme has been developed within the context of the 30 year Business Plan and the existing Asset Management Plan which has been reviewed and updated with the latest information from stock condition surveys. There will be further input from the HRA Business Plan review which is currently being undertaken which may lead to changes being brought back to Cabinet in 2019/20 as the New Build programme is developed in light of the removal of the debt cap.

3.4.4 In addition to this, included in the capital programme is a significant increase to the New Build programme, (£22.6m to deliver over 150 new homes), reflecting the removal of the HRA Debt Cap from October 2018 and the ability to prudentially borrow within the HRA.

3.4.5 The medium term plan currently shows the investment in new build dropping off slowly over the next few years, however this is currently being reviewed and will be revisited when the Council has determined its own affordability

(prudential borrowing) criteria. At the moment the numbers of new housing are prudent and could increase to deliver a steady supply of new homes each year. NPH will continue to work closely with the Council to increase the new build programme for delivering new social and affordable homes over the coming 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.

3.4.6 **Right to Buy (RTB) sales** have increased compared to recent years following an increase in discount levels introduced from April 2012. The total RTB sales for the last 7 years and in year to end of December 2018 are shown in the graph below:



3.4.7.1 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:

- 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. There is currently a government consultation which could increase the flexibilities around use of 141 RTB receipts, including extending the period from 3 years to 5 years.

Draft HRA Capital Programme and Funding 2019-20

- 3.4.8 The proposed HRA capital programme for 2019/20 to 2022/23 is attached at Appendix 2.
- 3.4.9 The table below shows a summary of the draft programme and final proposed capital programme and funding for 2019/20.
- 3.4.10 The HRA capital programme for 2019/20 and beyond will be refined in conjunction with NPH, in line with the updated Asset Management Plan, and the HRA Business Plan review.

	Draft 2019-20 £000s	Proposed 2019-20 £000s
	£	£
External Improvements	10,600	10,600
Internal Works	3,500	3,500
Environmental Improvements	3,000	3,000
Structural Works and Compliance	450	450
Disabled Adaptations	1,300	1,300
IT Development	400	400
New Build Programme/Major Projects	23,107	22,576
Buybacks and Spot Purchases	500	500
Total	42,857	42,326

FINANCING:		
Major Repairs	9,642	9,642
Reserve/Depreciation	3,134	3,134
Capital Receipts - RTB (excl 1-4-1)	7,035	7,035
Capital Receipts - RTB 1-4-1 Receipts	9,937	9,405
Revenue/Earmarked Reserve	13,110	13,110
Borrowing / CFR		
Total Financing - HRA	42,857	42,326

The New Build/ Major works' project budget for 2019/20 and indicative budgets for the following 2 years is expected to deliver over 400 new council homes.

3.5 The Next Steps

- 3.5.1 The timetable for the 2019/20 budget process requires a meeting of the Council on 25 February 2019, 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 Public consultation commenced with residents, businesses and interested stakeholders from the 21 December 2018. An online consultation was published, which closed on the 1 February 2019. In addition a public meeting was held on 5 February 2019 to hear feedback on the draft budget. The consultation period will formally close on the date the budget is approved in February 2019.
- 3.6.1 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 4 February 2019. The views of the Overview and Scrutiny Committees are reported in General Fund Budget report at **Appendix 10**.
- 3.6.2 Audit Committee reviewed the budget proposals from a risk perspective on 28 January 2019. The key risks identified are reported General Fund Budget report at **Appendix 11**.

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 ongoing efficiency work 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 2019.

4.5 How the Proposals Deliver Priority Outcomes

- 4.5.1 All of the discretionary investment proposals in the proposed budget reflect and/or are aligned to the corporate priorities as set out in the Corporate Plan.

4.6 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 Detail
- 5 Consultation on Rent setting

5. Background Papers

- 5.1 None

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