



NORTHAMPTON
BOROUGH COUNCIL
CABINET REPORT

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| Report Title | Housing Revenue Account (HRA) Budget, Rent Setting 2014/15 and Budget Projections 2015/16 to 2018/19 |
| AGENDA STATUS: | PUBLIC |

| | |
|------------------------------------|------------------|
| Cabinet Meeting Date: | 19 February 2014 |
| Key Decision: | YES |
| Within Policy: | YES |
| Policy Document: | YES |
| Directorate: | Management Board |
| Accountable Cabinet Member: | Cllr A Bottwood |
| Ward(s) | N/A |

1. Purpose

- 1.1 To agree the Cabinet's proposals for recommendation to Council on 24 February 2014 for the 2014/15 to 2018/19 Housing Revenue Account budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 24 February 2014 for the 2014/15 HRA rent setting.
- 1.3 To outline the capital programme funding proposals for 2014/15 and future years.
- 1.4 To ask the Cabinet to recommend to Council that they approve the recommendations in paragraph 2 below.

2. Recommendations

- 2.1 That Cabinet recommend to Council to approve:
 - a) An average rent increase of 5.55% per dwelling, in line with the Government's national rent and rent restructuring policy, with the last year of convergence being 2014/15, to take effect from 1st April 2014.
 - b) The proposed service charges listed in Appendix D.
 - 2.2 That the HRA budget for 2014/15 of £54.1m expenditure (including options) be recommended to the Council (detailed in Appendix A).
 - 2.3 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.
 - 2.4 That authority be delegated to the Chief Finance Officer to make any technical changes necessary to the papers for the Council meeting of 24th February 2014.
 - 2.5 That Council be recommended to delegate authority to the Chief Executive and Chief Finance Officer to implement all 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.
 - 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.
 - 2.7 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 2014/15 having regard to the outcome of the financial risk assessment and remaining at this level over the medium term.
 - 2.8 That the Cabinet recommend to Council that they approve
 - a) The Housing Revenue Account capital programme for 2014/15, including future year commitments, and proposed financing as set out in Appendix C.
 - b) That Cabinet be authorised, once the capital programme has been set, to approve new capital schemes and variations to existing schemes during 2014/15, subject to the funding being available and the schemes being in accordance with the objectives and priorities of the Council.
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3. Issues and Choices

3.1 Report Background

Housing Revenue Account

- 3.1.1 The Housing Revenue Account (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. Rental income, by far the largest single budget within the HRA, is calculated in accordance with national rent policy, applying the rent restructuring formula, as defined by the Government, for 2014/15 for the final time.
- 3.1.2 The HRA Budget proposed for 2014/15 reflects the current service levels and the current methods of service delivery, plus some proposals for some specific changes (Medium Term Planning (MTP) options) detailed in Appendix B.
- 3.1.3 On 18th December 2013, Cabinet approved the Draft HRA Budget for consultation. A schedule of all changes since this meeting is paragraph 3.3.2 below.

Welfare Reform

- 3.1.4 Over the medium term planning period more information and details will be released about universal credit and other welfare reform initiatives which will have an impact upon the current service provision of the Council. It is currently anticipated universal credit will be in operation in councils in 2016. This could have an impact on rent collection for the Council which will have an impact on the overall HRA position. An allowance for increasing Bad Debt Provision by £750k per year is built into the HRA budgets to mitigate against this risk.

3.2 Draft HRA Revenue Budget 2014/15 Cabinet 18th December 2013

- 3.2.1 The Cabinet met on the 18th December 2013 and recommended proposals for consultation. The headlines were:
- a) Proposing rent increase in line with government rent restructuring policy of 5.55%;
 - b) An HRA budget for 2014/15 of £53.9m expenditure including medium term planning options totalling a net cost of £1.4m.

3.3 Draft HRA Revenue Budget 2014/15 - Cabinet 19th February 2014

- 3.3.1 Further work on the HRA budget has been undertaken to refine the estimates since 18th December 2013. This has resulted in a number of adjustments, some of a technical, nature which impact on the draft budget since 18th December.

- 3.3.2 A schedule of all changes since the 19 December 2012 proposals is shown below.

| Description | Budget 2014/15 |
|---|---------------------------|
| HRA Balanced Budget - December Cabinet | 0 |
| Removal of MTP - Decanting tenants out of Little Cross Street | -32,000 |
| Adjustment to pension deficit following actuary report | -66,167 |
| Call Care Charge to HRA | 260,000 |
| Income - Dwelling Rents | 78,244 |
| Income - Garage Rents | 29,800 |
| Income - Service Charges | -325,328 |
| Employee adjustment | 29,395 |
| Corporate savings | 86,302 |
| Rent Rebate Subsidy Limitation | 100,000 |
| Net Recharges Changes | 718,967 |
| RCCO | -8,981,736 |
| Contribution to (from) Reserves | 8,102,523 |
| HRA Balanced Budget - February Cabinet | 0 |

Rents and Rent Restructuring

- 3.3.4 Rents within the HRA are currently being restructured in line with the national rent policy which includes provisions to increase rents by RPI + ½% (based on RPI at the September prior to the rent increase year). The intention of this restructuring is to have a consistent approach to rental charges across the whole of the Public Sector housing stock, including that held by Housing Associations.
- 3.3.5 The average rent increase and the methodology by which rents on individual properties move towards the calculated (formula) rent is determined by the Government Rent Restructuring formula. Each property held by the Council has a target rent associated with it which is based on this formula provided by central government. The formula takes account of average national rent, relative county earnings, number of bedrooms, and relative property value.
- 3.3.6 Social housing providers, as well as applying the inflation-based increase, apply a convergence formula to the rents to bring actual rents into line, over time, with the target rent (subject to a maximum increase of +£2 in each year). Under existing previous rent calculations, there were two years of convergence left (2014/15 and 2015/16).
- 3.3.7 Following announcements in the Spending Round 2013, the Government is intending to change national rent policy from 2015/16 onwards for at least 10 years to remove any provision for rent convergence on all tenanted stock. This is a change to the rent restructuring period which previously had allowed for convergence to continue for 2015/16 as well. Accordingly, from 1st April

2015 onwards, there will no longer be provision to increase weekly social rents each year by up to an additional £2, to move the rents towards the target rent. In line with this change, the proposed rents for 2014/15 include convergence increases based on the one year of rent convergence now remaining.

- 3.3.8 The HRA dwelling rental income for 2014/15 contained within the draft HRA budget is calculated based on one year remaining of convergence to target rent and on an inflation rate of 3.7% (RPI + ½% based on the September RPI figures. For 2015/16 onwards, the rents are calculated at an inflationary rise of CPI + 1%, assuming a CPI rate of 2.5%.
- 3.3.9 The percentage change in rental charges will vary from property to property depending on the formula rent calculation. The draft budget assumes that the Council will apply the rent restructuring policy with a convergence target date of 2014/15. This will result in an average rent increase of 5.55% for 2014/15.
- 3.3.10 Revised rents will take effect from 1 April 2014. The tables below show the range of rent increases for 2013/14 in percentage and pounds per week terms.

| Rent Increase | Stock Numbers | Rent Increase | No. |
|-------------------|---------------|---------------|--------------|
| Between 0% and 1% | 1 | £0 - £1 | 1 |
| Between 1% and 2% | 2 | £1 - £2 | 5 |
| Between 2% and 3% | 52 | £2 - £3 | 211 |
| Between 3% and 4% | 586 | £3 - £4 | 2516 |
| Between 4% and 5% | 3154 | £4 - £5 | 7943 |
| Between 5% and 6% | 3035 | £5 - £6 | 1330 |
| Between 6% and 7% | 4761 | £6 - £7 | 2 |
| Greater than 7% | 417 | £7 - £8 | 0 |
| | 12008 | | 12008 |

Service Charges

- 3.3.11 The schedule of draft Service Charges for 2014/15 is attached at Appendix D. The Service Charges have been reflected in the budgeted income figures.

ALMO Implementation

- 3.3.12 At its meeting of 9th December 2013, Full Council resolved to implement an ALMO to manage the HRA housing stock, projected to go live on 5th January 2015. This falls within the 2014/15 financial year for which budgets are being considered within this report. The development of the ALMO is likely to require a change to the way that the HRA budgets are structured but the precise implications of this will only emerge later in the implementation process.

HRA Reserves

- 3.3.13 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.

3.3.14 These reserves can be drawn down as required, to finance the future strategic requirements of the service, and will be subject to change depending on the approval of MTP options and future funding requirements under the Self-financing HRA.

Adequacy of Working Balances

3.3.15 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 2014/15. 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.

3.3.16 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 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. Alongside the decision to implement an ALMO, 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 have been 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 2014/15 onwards. The proposed capital programme does not cause the debt cap to be exceeded in any of the financial years from 2014/15 to 2018/19.

3.4.3 Right to Buy (RTB) sales have increased compared to recent years following an increase in discount levels introduced from April 2012. Assumptions based on these increased resources are included within the indicative HRA capital programme financing shown at Appendix C. 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.

3.4.4 Project appraisals have been completed for all 2014/15 capital programme bids.

3.4.5 Each project appraisal demonstrates how the scheme will contribute to:

- The Council's corporate priorities.
- Statutory duties and legal commitments
- Equalities
- Efficiency and Value for Money

3.4.6 These factors are all taken into account in formulating a proposed capital programme that will best target the Council's corporate priorities within the resources available.

3.4.7 Officers maintain a file of all project appraisals and copies of individual appraisals are available on request.

HRA Capital Programme and Funding

3.4.8 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.

3.4.9 The proposed HRA capital programme for 2014/15 to 2018/19 is attached at Appendix C. All proposals have been reviewed and challenged by the Director of Regeneration, Enterprise and Planning and the Chief Finance Officer. The value of the total proposed HRA capital programme for 2014/15 is £46.7m.

3.4.10 The table below shows a summary of the proposed capital programme and funding for 2014/15.

Draft HRA Capital Programme Funding 2014-15

| | HRA |
|---|---------------|
| | £000s |
| Capital programme 2014-15 | |
| Decent Homes | 39,305 |
| Major regeneration repurchase and New Build | 2,000 |
| Disabled Adaptations | 1,140 |
| Sheltered Housing Improvements | 1,000 |
| Other | 3,255 |
| Total HRA Capital Programme | 46,700 |
| Funding Source: | |
| Borrowing | 0 |
| Capital Receipts | 2,000 |
| Major Repairs Reserve | 16,231 |
| Grants & Third Party Contributions | 15,355 |
| Revenue/Earmarked Reserves | 13,114 |
| Total Funding | 46,700 |

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

3.4.12 The main focus is the achievement and maintenance of the Decent Homes standard, partly supported in 2014/15 by the final phase of government grant, and the shift towards the implementation of a higher Northampton Standard.

3.4.13 The detail of the HRA capital programme for 2015/16 and beyond will be refined in line with the transition to proposed new management arrangements.

Capital Strategy

3.4.14 The Capital Strategy for 2012/13 to 2014/15 was approved by Council on 29th February 2012 and remains current. 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 strategy will be reviewed and updated as part of the next update of medium term financial plans during 2014.

Capital Programme Board

3.4.15 In order to improve governance, ensure accountability and strengthen controls in relation to the capital programme, a new Capital Programme Board has been created, to be chaired by the Director of Regeneration, Enterprise and Planning. All new proposals for capital expenditure and variations to existing schemes will require approval by this Board prior to inclusion in the Capital Programme. Those with a value above delegated limits will continue to be reported to Cabinet for final approval.

3.4.16 The Capital Programme Board will also approve individual schemes within the block allocations set out in Appendix D.

3.5 The Next Steps

3.5.1 The timetable for the 2014/15 budget process requires a meeting of the Council on 24 February 2014, 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 Formal consultation with the public and local businesses on the budget was launched in December 2013 and will continue until the budget is formally adopted in February 2014.

3.6.2 The HRA budgets and proposed rent increases were presented to tenants on 4th February 2014.

3.6.3 Budget reports and equality impact assessments for budget proposals are published on the internet.

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 and council tax (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.

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 will need to be updated to reflect the Councils decision to move to an Arms Length Management Organisation (ALMO). This will be carried out between now and the ALMO going live in January 2015. In addition to this, further service reviews are currently being undertaken including a review of the recharges between the HRA and GF.

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. In order to comply with these duties the following was done.
- 4.4.2 Equality and diversity were considered as a part of the budget build process, and an Equalities Impact Assessment is completed as part of each medium term planning option submitted.
- 4.4.3 Equalities assessments for the draft revenue budget are published on the internet and will be updated to take account of feedback from the public consultation and re-published with the final budget proposals in February 2014.
- 4.4.4 The impact assessments are 'living' documents and will 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.
- 4.4.5 Each completed capital project appraisal includes responses to the following questions:
- State specifically the equalities issues that have been identified that this project will address?
 - How will this project address the equalities issues that have been identified?
- 4.4.6 The project manager for each scheme in the agreed capital programme will complete the Equalities Impact Assessment process as a condition of approval.
- 4.4.7 The Capital Strategy underwent an Equalities Impact Assessment screening. There are no direct impacts on individuals or groups arising from the Capital Strategy itself.

4.5 Consultees (Internal and External)

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

4.5.2 The draft capital and revenue budgets were subject to public consultation and was presented to tenants on 4th February 2014

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 making every pound go further.

4.7 Appendices

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

- A Housing Revenue Account Summary
- B Housing Revenue Account Medium Term Planning Options
- C Proposed Housing Revenue Account Capital Programme and Financing
- D HRA Fees and Charges

5. Background Papers

- 5.1 Capital Strategy 2012 - 2015
- 5.2 Medium Term Planning Options list HRA
- 5.3 Equality Screening and Analysis for MTP Options HRA

David Kennedy, Chief Executive, ext. 7726
Glenn Hammons, Section 151 Officer, 01604 366521