



NORTHAMPTON
BOROUGH COUNCIL
CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2015/16 and Budget Projections 2016/17 to 2019/20
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	18 February 2015
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 23 February 2015 for the 2015/16 to 2019/20 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 23 February 2015 for the 2015/16 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2015/16 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 increase of 2.2% per dwelling, in line with the Government's national rent policy, to take effect from 6th April 2015.
 - b) The HRA budget for 2015/16 of £54.6m expenditure including options detailed in Appendix 1.
 - c) The proposed service charges listed in Appendix 4.
 - d) The HRA capital programme for 2015/16, 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 2015/16, 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 2015/16 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 2015/16 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 23rd February 2015.
- 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.
- 2.7 That Cabinet approve the technical funding virement between HRA Revenue contributions and the HRA Repairs and Maintenance budgets for 2014/2015 as per paragraph 3.4.1.

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. Rental income, by far the largest single budget within the HRA, is calculated in accordance with national rent policy.
- 3.1.2 The HRA Budget proposed for 2015/16 reflects the current service levels and the changes in service delivery.. This year's HRA budget process has incorporated the calculations required to deliver the Council's decision to set up NPH, operational from the 5th January 2015. The details of the arrangements and indicative financial Total Fees were presented to Cabinet on the 12th November 2014 and in the draft budget report in December 2014. This report provides the updated financial position and revised Total Fee for NPH to provide the services in scope. In addition to this there are a couple of proposals for specific changes (Medium Term Planning (MTP) options) detailed in Appendix 2.
- 3.1.3 On 17th December 2014, 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 detail will be released about universal credit and other welfare reform initiatives which will have an impact upon the current service provision of NBC. 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. 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 take claims, these were 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 is due to go live with Universal Credit in November 2015 and expects to receive a small number of applications from October 2015. 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 an impact on the overall HRA position. To be prudent the bad debt provision was increased in the original 2014/15 budget and this level has been maintained for the 2015/16 to mitigate against this risk and will continued to be monitored closely throughout 2015/16 financial year.

3.2 Draft HRA Revenue Budget 2015/16 Cabinet 17th December 2014

3.2.1 The Cabinet met on the 17th December 2014 and recommended proposals for consultation. The headlines were:

- a) Proposing rent increase in line with national rent policy of 2.2%;
- b) An HRA budget for 2015/16 of £54.6m expenditure including medium term planning options of a saving and investment of equal amounts of £831k.
- c) A change in service delivery with the creation of NPH and the creation of a Total Fee for services broken down over 7 fee elements including a Capital Sum.

3.3 Draft HRA Revenue Budget 2015/16 - Cabinet 18th February 2015

3.3.1 Further work on the HRA budget has been undertaken to refine the estimates since 17th December 2014. This has resulted in a number of adjustments, some of a technical, nature which impact on the draft budget since 17th December.

3.3.2 A schedule of all changes since the 17th December 2014 proposals is shown below.

Description	Budget 2015/16
HRA Balanced Budget - December Cabinet	0
<u>NPH Overlay</u>	
- Repairs and Maintenance	297,830
- General Management	277,551
- Special Services	(151,693)
Gate-guard Service budget (NPH)	50,000
Additional Post (75%) - PES Team (NBC)	22,500
Call Care SLA	40,845
Facilities Management SLA	262,563
Change to Post Room SLA	48,100
Increase in Debt Management Recharge	54,670
Interest (Internal Borrowing)	(43,380)
Capital Funding adjustment	400
Contribution to / (from) Reserves	(859,387)
HRA Balanced Budget - February Cabinet	0

Rents and Rent Setting

- 3.3.3 Rental Income, by far the largest single budget within the HRA, is calculated in accordance with national rent policy. As reported to December Cabinet for 2015/16 the government guidance confirms that rents in the social sector should increase by up to Consumer Price Index (CPI) plus 1 percentage point annually for 10 years. This is a move away from the use of Retail Price Index (RPI) which has historically been used following the Office for National Statistics view that the formula used to produce the RPI does not meet international standards
- The proposal for rent increase in 2015/16 is therefore 2.2% on average across the housing stock. (September CPI 1.2% plus 1%).
 - This level of increase will generate approximately £1m per annum which will assist in funding the-ongoing management and maintenance of the properties.
 - 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 2015/16

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

Dwelling Type	At Target	Not At Target	Total
Bedsit	16	273	289
Bungalow	453	27	480
Flat	388	3134	3522
House	4647	610	5257
Maisonette	4	174	178
Sheltered Bedsit	0	2	2
Sheltered Bungalow	1112	3	1115
Sheltered Flat	47	1012	1059
Very Sheltered Flat	12	15	27
Total Dwellings	6679	5250	11929

- 3.3.4 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 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

- 3.3.5 The schedule of proposed Service Charges for 2015/16 is attached at Appendix 4. The Service Charges have been reflected in the budgeted income figures.

NPH Management Agreement / services being provided

3.3.6 The HRA will continue to be the Council's statutory account for the Housing Landlord service, but it will operate in a fundamentally different way to how it has previously. The Council will pay NPH a Total Fee to provide both the Housing Landlord services and those Housing General Fund Services in scope. At its meeting of 9th December 2013, Full Council resolved to implement an ALMO to manage the HRA housing stock, with NPH going live on 5th January 2015. This falls within the 2014/15 financial year for which budgets are being considered within this report. 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. This is already being seen in the current year budgets, see paragraph 3.4.1 below.

3.3.7 In line with the changes since draft budget a schedule of all changes to the NPH total Fee since the 17th December 2014 proposals is shown below.

NPH Total Management Fee	December Cabinet	February Cabinet
Analysed by	£k	£k
Management - HRA	14,039	14,210
Management - GF Housing	246	246
Maintenance - Managed Budget Responsive	11,084	11,033
Maintenance - Managed Budget Cyclical	3,311	3,296
Capital - Managed Budget Improvement to Homes	23,778	23,778
Capital - Managed Budget Improvement to Environment	2,214	2,214
Capital - IT	600	600
TOTAL	55,272	55,377

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. The method of calculating which virements count towards the £2m cap and which do not is contained in the Annex to Schedule 6 of the Management Agreement.

HRA Reserves

3.3.8 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.

Reserve	Balance as at 1/4/2014	Additions to Reserves	Use of / Reduction to Reserves	Forecast to 31/3/2015
	£'000	£'000	£'000	£'000
Capital Investment	12,999	4,381	0	17,380
HRA Supporting People	558	0	-558	0
HRA Reform Reserve	873	0	-873	0
HRA Leaseholder Reserve	168	82	0	250
HRA Service Improvement	1,395	0	-395	1,000
HRA Insurance Reserve	300	0	0	300
Total	16,294	4,463	-1,826	18,931

3.3.9 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 2014/15 and future investment priorities driven by the Asset Management Plan and decided by the Council.

Adequacy of Working Balances

3.3.10 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 2015/16. 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.

3.3.11 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.

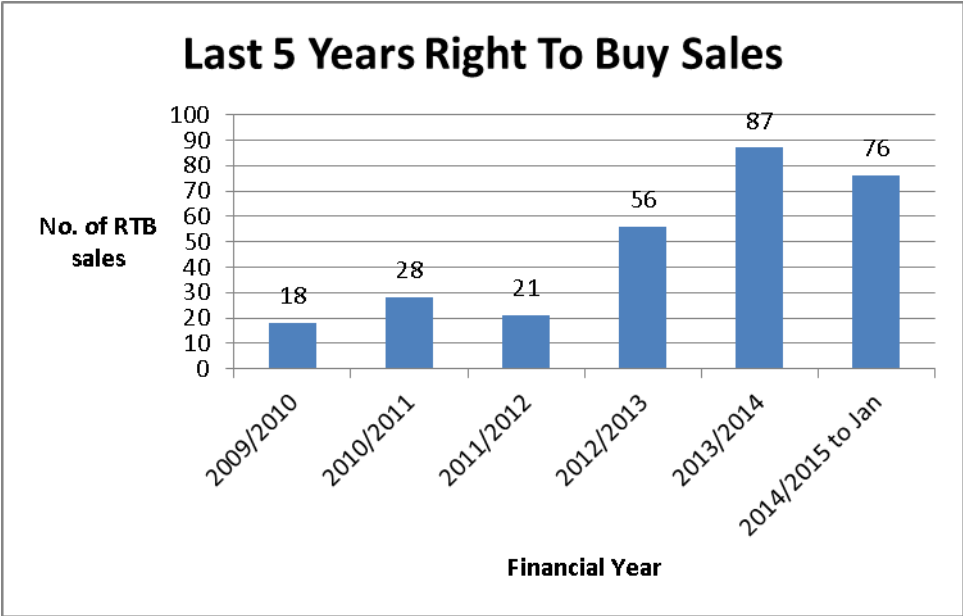
3.4 HRA Budget 2014/15 Realignment

3.4.1 The process of preparing the organisation for the move and creation of Northampton Partnership Homes from the 5th January 2015 required quality information to inform the decision making process and the future HRA Business Planning of the Council. A technical accounting exercise is needed to realign budget to costs to cover the cost of the extended Stock Condition Survey (£750k) and the additional staffing costs required to deliver the Decent Homes programme (£1.1m), for which the Council received grant. Cabinet are asked to approve the virement required to switch funding between revenue contributions to capital and the revenue Repairs and maintenance for 2014/15.

3.5 Housing Revenue Account Capital Programme

The Financial Position

- 3.5.1 The Council continues to face an extremely challenging financial situation in the short to medium term. 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 have been built in to the capital programme.
- 3.5.2 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 2015/16 onwards. The proposed capital programme does not cause the debt cap to be exceeded in any of the financial years from 2015/16 to 2019/20.
- 3.5.3 **New council House Build.** As reported to Cabinet in December the Council has been successful in its bid, under the Governments Local Growth Fund 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 is £8.6m which will allow the Council to borrow specifically for this project. The costs and borrowing for this project are forecast to be covered over the life of the project by rental streams generated by affordable rents. Updates will be reported to Cabinet in due course.
- 3.5.4 **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:



3.5.4.1 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. This element is being kept under review by the New Council House Board which meets weekly, chaired the Director of Regeneration Enterprise and Planning.

Building the Capital Programme.

3.5.5 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 via an updated joint Asset Management Plan between the Council and NPH and with latest financing input from the HRA Business Plan.

3.5.6 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.

3.5.7 The proposed HRA capital programme for 2015/16 to 2019/20 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. The value of the total proposed HRA capital programme for 2014/15 is £36.31m and is not changed from December's Draft Budget report.

3.5.8 The table below shows a summary of the draft programme and final proposed capital programme and funding for 2015/16.

Draft HRA Capital Programme Funding 2014-15

	Draft Budget 2015/16	Proposed Budget 2015/16
	£000s	£000s
Capital programme 2015-16		
External Works	3,095	3,095
Internal Works	7,755	7,755
Communal Areas	78	78
Energy Works	1,087	1,087
Other	14,578	14,578
New Build - Dallington	9,306	9,306
Use of 1-4-1 Replacement Stock	414	414
Total HRA Capital Programme	36,313	36,313
Funding Source:		
Borrowing	8,600	8,600
Capital Receipts	1,856	1,856
Major Repairs Reserve	12,610	12,610
Section 106 Contributions	706	706
Revenue/Earmarked Reserves	12,541	12,541
Total Funding	36,313	36,313

3.5.9 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.

3.5.10 The main focus is the achievement and then maintenance of the Northampton Standard. There is additionally a major scheme for the building of 100 new council houses at Dallington.

3.5.11 The detail of the HRA capital programme for 2016/17 and beyond will be refined in line with annual updates to the business plan and Asset Management Plan.

Capital Strategy

3.5.12 The Capital Strategy 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 2015.

3.6 The Next Steps

- 3.6.1 The timetable for the 2015/16 budget process requires a meeting of the Council on 23rd February 2015, 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.

3.7 Consultation

- 3.7.1 Formal consultation with the public and local businesses on the budget was launched on 17th December 2014 and will continue until the budget is formally adopted in February 2015.
- 3.7.2 The HRA budgets and proposed rent increases were presented to tenants on 2nd December 2014. Other panels were also consulted on the Rents and are detailed in Appendix 6.
- 3.7.3 The Council's dedicated budget information web pages received over **2000** visits and **90** people completed online questionnaires providing more than **91** comments for the Council Wide Budget.
- 3.7.4 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 26 January 2015. Audit Committee reviewed the budget proposals from a risk perspective on 12 January 2015. Details of these reviews can be found in the General Fund Budget report at Appendix 3.

3.8 Choices (Options)

- 3.8.1 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.
- 3.8.2 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 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 Under the general equality duty (as set out in the Equality Act 2010). Public authorities are required to have due regard to the need to eliminate unlawful discrimination, harassment and victimisation as well as 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 The law requires that this duty to have due regard be demonstrated in decision making processes. Assessing the potential impact on equality of proposed changes to policies, procedures and practices is one of the key ways in which public authorities can demonstrate that they have had due regard to the aims of the equality duty
- 4.4.3 Equality and Community Impact were considered as a part of the budget build process, and an impact assessment screening was completed as part of each medium term planning option submitted where appropriate. An Equality and Community Impact Assessment for the budget consultation was made public as part of the budget consultation.
- 4.4.4 Members are required to have specific regard to the equalities issues identified when making the decision to approve the budget options. The detailed Equalities Impact Assessments are available on the Internet as a background paper to this report.
- 4.4.5 Where issues have been identified and the option is approved, the detailed Equalities Impact Assessment will be used to inform the implementation of the budget option.

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. External consultation carried out as detailed in Appendix 6.

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:

- 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 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