



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2017/18 and Budget Projections 2018/19 to 2021/22
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	15th February 2017
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 27 February 2017 for the 2017/18 to 2021/22 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 27 February 2017 for the 2017/18 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2017/18 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 3rd April 2017.
 - b) The HRA budget for 2017/18 of £52.7m expenditure including options detailed in Appendix 1.
 - c) The proposed service charges listed in Appendix 3.
 - d) The HRA capital programme for 2017/18, including future year commitments, and proposed financing as set out in Appendix 2.
 - e) That Cabinet be authorised, once the capital programme has been set, to approve new capital schemes and variations to existing schemes during 2017/18, 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 2017/18 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 2017/18 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 27th February 2017.
- 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 Chief Executive and the Cabinet Members for Finance and for Housing 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 2017/18 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 2017/18 to provide the services in scope taking into account the reducing financial envelope brought about by Government changes in legislation in housing finance laid down in the Welfare Reform and Work Bill and the Housing and Planning Bill reflected in last years budget and medium term planning process. .
- 3.1.3 On 14th December 2016, Cabinet approved the Draft HRA Budget for consultation.

Developments from summer 2015 Budget and Housing and Planning Bill.

- 3.1.4 The Governments summer Budget Statement of 2015 introduced three significant policy announcements which have significant impact for the future of the HRA, one of which, social housing rent reduction was implemented in 2016/17. The other two were 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). These two policies were expected to be introduced from 2017/18 onwards.

Extension of Right To Buy and Higher Value Void sales

- 3.1.4.1 This policy extends the RTB 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. This was due to commence from 2017/18. It is anticipated that housing associations would use the receipt to reinvest in new homes. To meet the cost of the discounts a determination will be issued requiring local authorities with a HRA to make a payment to the government for a financial year reflecting the market value of "high value" housing likely to become vacant during the year less costs, whether or not receipts are realised. The determining of the level of payment each HRA Local Authority will be expected to make will be entirely formula driven based on prior years termination and re-let figures. The last 5 years termination and re-let figures along with property Market values has been provided to the government. The recent Autumn Statement announced that this policy implementation is delayed until April 2018. The detailed formula behind this calculation is still anticipated to be consulted upon soon. Initial modelling has been carried out based on the limited information available and the indicative impact based on Capita modelling estimates the annual levy from 2018/19 to be £10m with an

indication that to pay this levy the HRA could have to sell on the open market an additional 85 dwellings each year. This is shown in the table below:

Higher Value Voids Levy – the Estimated figures

	Source	
	Shelter	Capita
Estimated Annual Levy	£22m	£10m
Number of Higher Value Void Sales required	152	85
	Stock Numbers	
Current HRA Stock Level	11,800	11,800
Stock Loss over 5 Years	760	425
Stock Loss over 10 Years	1,520	850
Stock Loss over 30 Year Business Plan	4,560	2,550

- Assumes that receipts will be realised from sales required

The HRA Business plan will be updated with more information as and when information is released and the financial position reported at a later Cabinet.

Pay To Stay

- 3.1.4.2 The Housing and Planning Bill made provision for the charging of “high income social tenants” with reference to the market rate or other factors based on income and housing area. In the recent Autumn Statement the Government announced that it has decided not to proceed with the policy in its current compulsory form. Local authorities and housing associations will continue to have the discretion to implement the policy for tenants with incomes over £60k. This policy is currently not applied by the Council. This will be reviewed when details from the expected White paper are issued and an update brought back to Cabinet.. The additional income generated from the increase above social rents will have to be paid over to the Government. Implementation of this policy locally will undoubtedly increase the administrative burden and increase costs.

Welfare Reform

- 3.1.5 Over the medium term planning period, more information and detail will be released about Universal Credit (UC) and other welfare reform initiatives which will have an impact upon the current service provision of the Council. UC 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. The national expansion of UC commenced in February 2015 and the Council went live with the delivery of UC in November 2015. At this stage, the roll out of UC in Northampton is initially only for new claims from single working age people, who would otherwise have been eligible for Jobseeker’s Allowance, including those with existing Housing Benefit and Working Tax Credit claims. DWP has recently announced that the full Digital Service for new UC cases will be rolled out to the Council in July 2018, at which point new claims to ‘legacy’ benefits, including HB, will cease. At this juncture, all new working age claimants will claim UC.

The current implementation timetable shows that UC will be established across Great Britain, with new claims to legacy benefits closed, from late 2018. Migration of existing benefit claims will follow thereafter and is planned to be completed by March 2022.

There is concern within the government in respect of the current level of UC related rent arrears and the government has commissioned an urgent review into the high rate of rent arrears owed by Universal Credit claimants. This concern stems from both the fact that UC payments are made directly to the claimant and the inherent delays in UC payments appear to be the cause of increases to arrears. To start to address some of these concerns the government has also established a UC 'Trusted Partner' pilot. Under the Trusted Partner proposals, social landlords will be able to identify vulnerable claimants and apply to have the rent directed to the landlord before the tenant falls into arrears.

The outcomes of these and future UC reviews/pilots continue to be closely monitored by. This could have an impact on rent collection for the Council which will have an impact on the overall HRA position. The bad debt provision was decreased in the original 2016/17 budget to reflect the good performance managing arrears levels and to take into account the phased implementation of Welfare reform. The level of arrears and required level of bad debt provision will continue to be monitored closely throughout 2016/17 financial year and future years in light of the welfare reform roll out.

3.2 Draft HRA Revenue Budget 2017/18 Cabinet 14th December 2016

- 3.2.1 The Cabinet met on the 14th December 2016 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 2017/18 of £52.7m expenditure with 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 2017/18 - Cabinet 15th February 2017

- 3.3.1 Further work on the HRA budget has been undertaken to refine the estimates since 14th December 2016. This has resulted in a few technical adjustments that does not impact on the overall HRA financial envelope

Rents and Rent Setting 2017/2018

- 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 2016/17 is therefore -1% on average across the housing stock. As previously reported this level of decrease reduces income over the 4 years by £20m which poses a real challenge to future sustainability of the HRA

3.3.3 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 2017/18

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

Dwelling Type	At Target	Not At Target	Total
Bedsit	109	180	289
Bungalow	372	20	392
Flat	978	2671	3649
House	4582	527	5109
Maisonette	29	145	174
Sheltered Bedsit	0	1	1
Sheltered Bungalow	1197	3	1200
Sheltered Flat	213	647	860
Sheltered House	3	0	3
Very Sheltered Flat	16	11	27
Total Dwellings	7499	4205	11704

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

3.3.4 The schedule of proposed Service Charges for 2017/18 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 2017/18 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

- 3.3.5 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.
- 3.3.6 The Total Fee for 2017/18 has been negotiated in partnership with NPH taking into account the current level of budgets, 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 continues to be reviewed which will lead to a reworking of the HRA 30 year Business Plan. A Government White Paper is also due to be released on Housing which will be interpreted and run through the HRA Business Plan model
- 3.3.7 In line with the changes since draft budget a schedule of all changes to the NPH total Fee since the 14th December 2016 proposals is shown below.

NPH Total Management Fee	December Cabinet	February Cabinet
Analysed by	£'000	£'000
Management - HRA	10,985	10,998
Management - General Fund Housing	260	260
Maintenance - Responsive & Cyclical (Managed Budget)	14,721	14,708
Capital - Improvements to Homes (Managed Budget)	19,484	21,711
Capital - Improvements to Environment (Managed Budget)	4,503	1,775
Capital - ICT Projects	-	500
Total Fee	49,953	49,953

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 will enable the Council to have assurance that the budgets are spent in line with the budget the Council approves.

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.

Summary	Balance B/f 1 Apr 2017	Earmarked in Year	Applied in Year	Balance C/f 31 Mar 2018
	£	£	£	£
HRA Reserves	(9,144,521)	0	5,638,692	(3,505,829)
HRA Supporting People Reserve	(500,000)	0	0	(500,000)
HRA Reform Reserve	0	0	0	0
HRA Leaseholder Reserve	(500,000)	0	0	(500,000)
HRA Service Improvement Reserve	(1,000,000)	0	0	(1,000,000)
HRA Insurance Reserve	(300,000)	0	0	(300,000)
Total HRA Reserves	(11,444,522)	0	5,638,692	(5,805,830)
Min Level of Working Balances	(5,000,000)	0	0	(5,000,000)
Total HRA Reserves	(16,444,522)	0	5,638,692	(10,805,830)

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 2016/17 and future investment priorities driven by the Asset Management Plan and decided by the Council.

Adequacy of Working Balances

3.3.10A 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 2017/18. 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 and White Papers. 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 cashflow if required. Further work is ongoing to assess the appropriate period to move to this higher level of working balances as part of

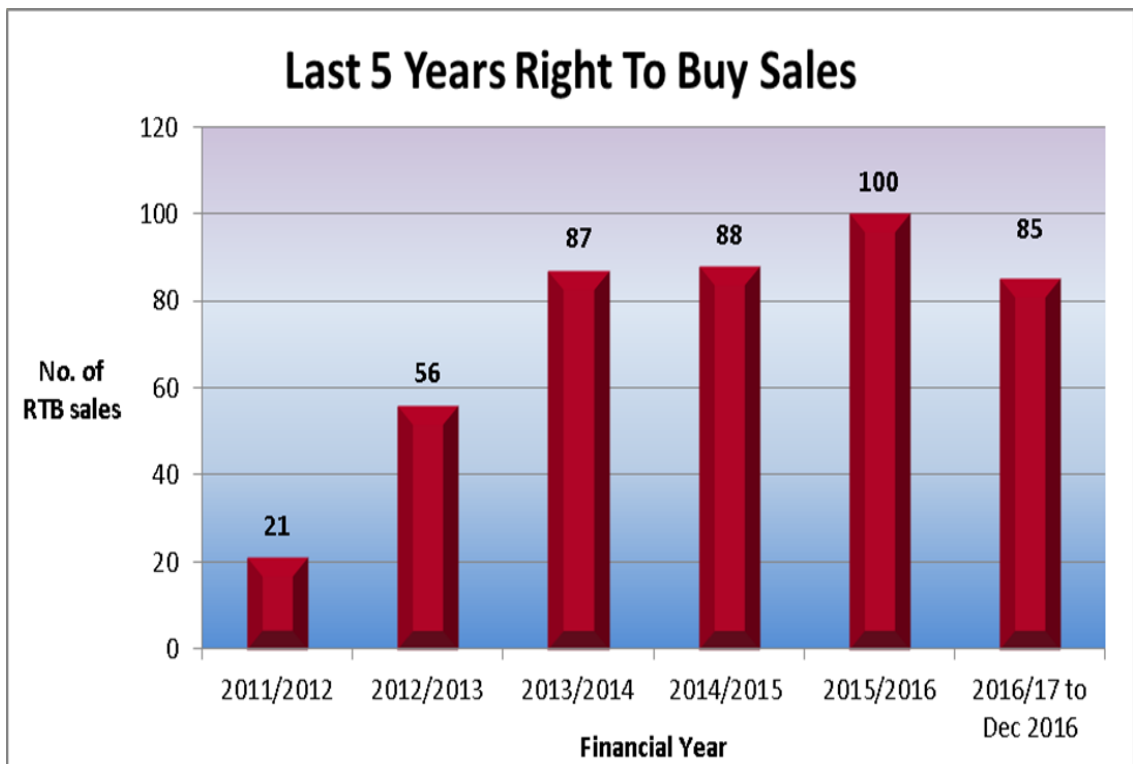
the HRA Business Plan, in conjunction with NPH and will be reported to a future Cabinet

- 3.3.11 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 legislative changes mentioned earlier in the report. Alongside the implementation 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.
- 3.4.2 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 2017/18 onwards. The proposed capital programme for the medium term will be subject to review at the time of the update to the HRA 30 Year Business plan to ensure that it is manageable within the existing debt cap..
- 3.4.3 **New council House Build.** The Council was successful in it’s bid under the Local Growth Fund government scheme for an increase in it’s 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 has not moved forward at a pace that it could be delivered in this timeframe. Cabinet have received updates the latest of which proposes a number of different schemes to replace Dallington with under the Local Growth Scheme. The Council is liaising with DCLG presently on this. Updates will be reported to Cabinet in due course The Council are also undertaking due diligence on a proposal for a 10 year Housing Development plan put forward by NPH
- 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 December 2016 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 2. There are two additional considerations arising from this change:

- a) Additional pressure is placed on the revenue budgets through reduced rental income; assumptions around this have been built into the HRA budgets being considered in 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. Capital programme paragraph 3.4.11 provides more information

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 2017/18 to 2021/22 is attached at Appendix 2.
- 3.4.8 The table below shows a summary of the draft programme and final proposed capital programme and funding for 2017/18.

Draft HRA Capital Programme and Funding 2017-18

	Draft Budget 2017/18 £'000s	Proposed Budget 2017/18 £'000s
Capital Programme 2017-18		
External Improvements	6,042	7,470
Internal Works	4,300	4,300
Major Projects	6,792	8,092
Environmental Improvements	4,503	1,775
Structural Works and Compliance	550	550
Disabled Adaptations	1,300	1,300
IT Development	500	500
New Build / Buy Backs / RTB 141 receipts	11,028	11,028
Total HRA Capital Programme	35,015	35,014
Funding Source:		
Major Repairs Reserve/Depreciation	13,437	13,437
Capital Receipts - Right to Buy (excl 1-4-1)	2,000	1,569
Capital Receipts - RTB 1-4-1 Receipts	1,400	3,107
Revenue/Earmarked Reserve	8,672	8,671
Section 106 - New Build	906	630
Additional Borrowing Cap re New Build	8,600	7,600
Total Funding	35,015	35,014

- 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 For 2017/18 the funding has been reworked to include the 70% required to enable the 141 Right to Buy receipts to be used by the Council to provide replacement Council Housing. NPH have identified a number of schemes

which will create additionality to the stock when complete and these are included in the capital programme.

3.4.12 The HRA capital programme for 2017/18 and beyond will be refined in conjunction with NPH, in line with the updated Asset Management Plan, and a HRA Business Plan review and taking into account more detail on the legislative changes around the Higher Value Voids Levy when released.

3.5 The Next Steps

3.5.1 The timetable for the 2017/18 budget process requires a meeting of the Council on 27th February 2017, 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 18 December 2015 and ended 31 January 2016. The consultation period will formally close on the date the budget is approved in February 2016.

3.6.2 The Council's dedicated budget information web pages received over **400** visits and 65 people completed online questionnaires. Other panels also consulted on the rent setting as laid down for 4 years in the Welfare Reform and Works Act 2016 are detailed in Appendix 5.

3.6.3 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 2 February 2017. The views of the Overview and Scrutiny Committees can be found in the General Fund Budget report at Appendix 2.

3.6.4 Audit Committee reviewed the budget proposals from a risk perspective on 16 January 2017. 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.

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.

4.2 Legal

- 4.2.1 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.

4.3 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 2017.

4.4 How the Proposals Deliver Priority Outcomes

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

4.5 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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