



NORTHAMPTON
BOROUGH COUNCIL

CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2018/19 and Budget Projections 2019/20 to 2022/23
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AGENDA STATUS: PUBLIC

Cabinet Meeting Date:	21st February 2018
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 26 February 2018 for the 2018/19 to 2022/23 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 26 February 2018 for the 2018/19 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2018/19 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 2nd April 2018.
 - b) The HRA budget for 2018/19 of £52.1m expenditure detailed in Appendix 1.
 - c) The HRA capital programme for 2018/19, 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 2018/19, 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 2018/19 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 2018/19 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 26th February 2018.
- 2.5 That Council be recommended to delegate authority to the Chief Executive and Chief Finance Officer to implement any retained HRA budget options and restructures.
- 2.6 That authority be delegated to the Chief Finance Officer in consultation with the Portfolio Holder for Finance, and where appropriate the relevant Director and Portfolio Holder to:
- transfer monies to/from earmarked reserves should that become necessary during the financial year.
 - transfer monies to /from HRA working balances between the Council and NPH for cash flow purposes should that become necessary during the financial year.
 - update the budget tables and appendices, prior to Council should any further changes be necessary.
 - update prudential indicators in both the Prudential Indicators report and Treasury Strategy report, for Council for any budget changes that impact on these.

3. Issues and Choices

3.1 Report Background

Housing Revenue Account

- 3.1.1 The HRA is a ring-fenced account that represents the costs of holding the Council housing stock. There are strict rules surrounding the costs and income that can be charged to this account. Much of the income and expenditure is dictated by legislation and regulation leaving the Council with direct control over a limited number of these budgets
- 3.1.2 The HRA Budget proposed for 2018/19 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 2018/19 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 20th December 2017, Cabinet approved the Draft HRA Budget for consultation.

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 major impacting 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, the extension of the RTB (and associated discounts) to housing association tenants to be paid for by a levy charged to Local Authorities, 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 and 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. There is now a prospect of some government support for Council new build.

3.2 Draft HRA Revenue Budget 2018/19 Cabinet 20th December 2017

- 3.2.1 The Cabinet met on the 20th December 2017 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 2018/19 of £52.1m expenditure.
 - 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 2018/19 - Cabinet 21th February 2018

3.3.1 Further work on the HRA budget has been undertaken to refine the estimates since 20th December 2017. This has resulted in a few technical adjustments that do not impact on the overall HRA financial envelope.

Rents and Rent Setting 2018/2019

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 2018/19 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.

3.3.2.2 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 2018/19.

Analysis of Dwelling Stock at Target Rent by Property Type

Dwelling Type	At Target	Not At Target	Total
Bedsit	159	129	288
Bungalow	344	19	363
Flat	1205	2402	3607
House	4478	504	4982
Maisonette	37	134	171
Sheltered Bedsit	0	1	1
Sheltered Bungalow	1221	5	1226
Sheltered Flat	300	547	847
Sheltered House	2	0	2
Very Sheltered Flat	27	6	33
Total	7773	3747	11520

Those dwellings currently not at Target, 3,747,(compared to last years 4,205), 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

3.3.3 The schedule of proposed Service Charges for 2018/19 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 2018/19 are increased in line with CPI as at September 2017 (3.0%). 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 2018/19 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 had shown a 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. Further Government announcements on Housing are due to be released in 2018/19 which will be interpreted and run through the HRA Business Plan model

3.3.4.2 There are no changes since draft budget proposed to the NPH total fee. A summary of the NPH total Fee proposed is shown below.

NPH Total Management Fee	Proposed Budget
Analysed by	£000s
Management - HRA	13,822
Management - General Fund Housing	261
Maintenance - Managed Budget Responsive and Cyclical	12,057
Capital - Improvement to Homes (Managed Budget)	20,817
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - ICT Projects	500
Total Fee	50,456

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

3.3.5 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 2018	Earmarked in Year	Applied in Year	Balance C/f 31 Mar 2019
	£	£	£	£
HRA Reserves	(4,282,624)	(921,700)	0	(5,204,324)
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	(6,082,625)	(921,700)	0	(7,004,325)
Min Level of Working Balances	(5,000,000)	0	0	(5,000,000)
Total HRA Reserves	(11,082,625)	(921,700)	0	(12,004,325)

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 outturn position for 2017/18 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 2018/19. 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

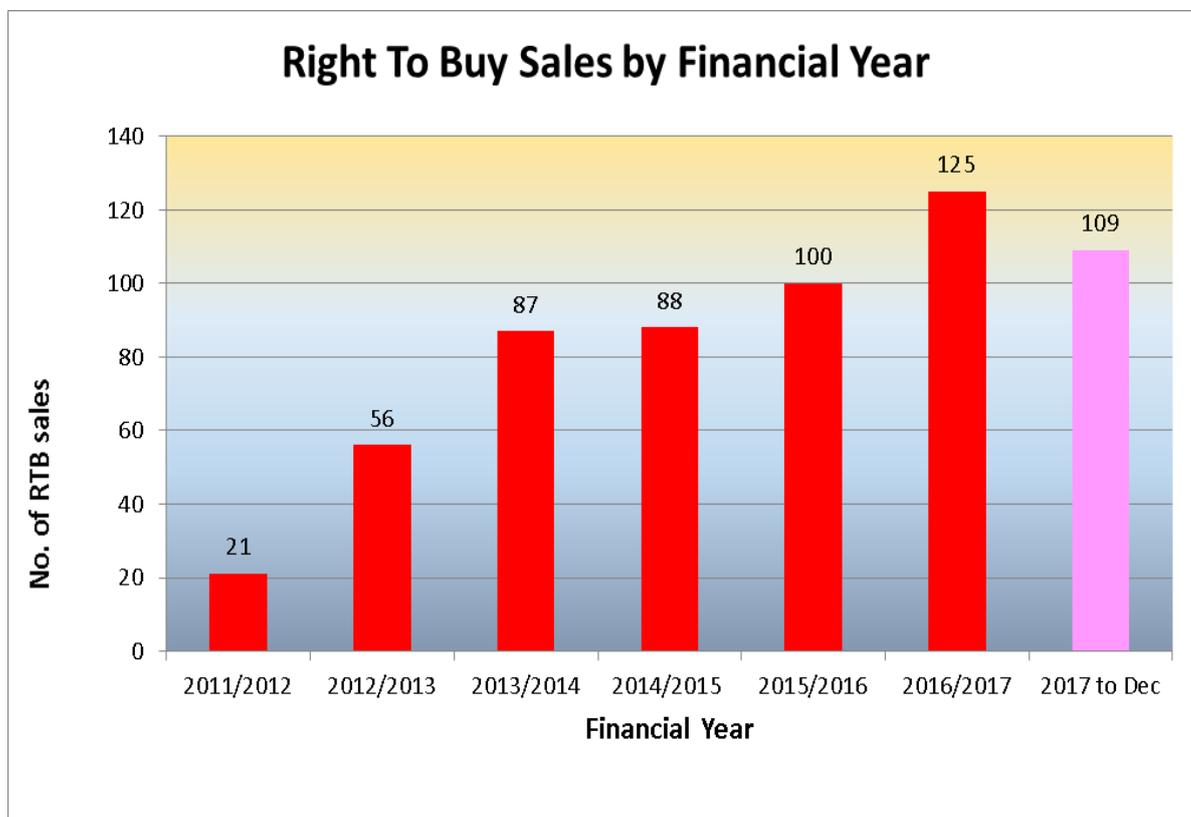
continue to have available to it £1m of this working balance to call upon to maintain cash flow if required

3.4 Housing Revenue Account Capital Programme

The Financial Position

- 3.4.1 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 set by the Government whereby it cannot borrow above the cap. For Northampton this level is £208.4m. This is one of the considerations taken into account when setting the HRA capital programme for 2018/19 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 and 10 Year Housing Development Plan.** The Council was successful in its bid, under the Governments LGF scheme, for an increase in its debt cap specifically to help fund the building of 100 new Council homes under the Dallington scheme. The increase in debt cap awarded was £8.6m, which allowed the Council to borrow specifically for this project within a specific timeframe. The costs and borrowing for this project are forecast to be covered over the life of the project by the rental streams generated by affordable rents. This project plan has changed and as a result the Council applied to the Government in May 2016 and then again in March 2017 for a re-phasing of the increase in debt cap. Officers of the Council and NPH have been liaising with the Government to find a solution, with a view to ensuring that the additional borrowing headroom created by the awarded increase in debt cap is not lost to the Council. The Ministry of Housing Communities and Local Government, MHCLG, are currently considering a proposal from the Council to ensure that the Dallington scheme is still delivered, ensure that the Council keeps the increase debt cap to enable it to deliver other new build projects in the interim whilst progressing the Dallington scheme in a different timeframe.
- 3.4.3.1 NPH has been working closely with the Council on a 10 year development plan for delivering more than 1,000 new affordable homes (including hundreds of new council homes) over the next ten 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. The Council is just completing a ‘due diligence’ exercise on NPH’s development proposal and Officers from both organisations have worked together to produce a delivery model that will maximise delivery of new housing over the next 10 years.
- 3.4.3.2 If approved, the development plan will maximise existing HRA capacity, safeguard the use of 1-4-1 RTB receipts and enable the delivery of housing outside of the HRA using NPH as the preferred developer. The plan will be subject to a separate full report that is due to be considered by Cabinet in 2018.

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 total RTB sales for the last 6 years and in year to end of December 2017 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.

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 2018/19 to 2022/23 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 2018/19.

Draft HRA Capital Programme and Funding 2018-19

	Draft 2018-19	Proposed 2018-19
	£000s	£000s
Capital Programme 2018-19		
External Improvements	11,200	11,200
Internal Works	1,250	1,250
Major Projects	4,886	4,886
Environmental Improvements	3,000	3,000
Structural Works and Compliance	681	681
Disabled Adaptations	1,300	1,300
IT Development	500	500
New Build Pool	1,500	1,500
Buybacks and Spot Purchases	500	500
Total HRA Capital Programme	24,817	24,817
<u>FINANCING:</u>		
Major Repairs Reserve/Depreciation	9,389	9,389
Capital Receipts - RTB (excl 1-4-1)	1,975	1,975
Capital Receipts - RTB 1-4-1 Receipts	2,075	2,075
Revenue/Earmarked Reserve	5,363	5,363
Borrowing / CFR	6,015	6,015
Total Financing - HRA	24,817	24,817

- 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 HRA capital programme for 2018/19 and beyond will be refined in conjunction with NPH, in line with the updated Asset Management Plan, and a HRA Business Plan review.

3.5 The Next Steps

- 3.5.1 The timetable for the 2018/19 budget process requires a meeting of the Council on 26th February 2018, 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 2017 and ended 11 February 2018. The consultation period will formally close on the date the budget is approved in February 2018.
- 3.6.2 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 29 January 2018. The views of the Overview and Scrutiny Committees can be found in the General Fund Budget report at Appendix 9.
- 3.6.3 Audit Committee reviewed the budget proposals from a risk perspective on 16 January 2018. The key risks identified can be found in the 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 2018.

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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