



**NORTHAMPTON**  
BOROUGH COUNCIL

## **CABINET REPORT**

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

<b>Cabinet Meeting Date:</b>	12 December 2018
<b>Key Decision:</b>	NO
<b>Within Policy:</b>	YES
<b>Policy Document:</b>	NO
<b>Directorate:</b>	Management Board
<b>Accountable Cabinet Member:</b>	Cllr B Eldred
<b>Ward(s)</b>	N/A

### **1. Purpose**

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- 1.1 The purpose of this report is to present for consultation the Cabinet's draft budget proposals for 2019/20, including Rent setting for 2019/20, and forecast budgets up to 2022/2023 for the draft Housing Revenue Account (HRA) and the draft HRA Capital Programme and financing proposals.
- 1.2 To note the draft capital programme new build programme that is expected to deliver over 400 new council homes over the next 3 years.
- 1.3 The report also outlines the draft Total Fees for Northampton Partnership Homes (NPH) based on the draft 2019/20 budgets.

### **2. Recommendations**

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- 2.1 That Cabinet approve the draft Housing Revenue Account (HRA) budget including charges and rents as detailed in Appendices 1 and 4 for public consultation.
  - 2.2 That Cabinet approve the draft HRA Capital Programme and financing, as detailed in Appendix 2 for public consultation.
  - 2.3 That Cabinet note the draft Total Fees proposed for NPH to deliver the services in scope.
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### 3. Issues and Choices

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#### 3.1 Report Background

- 3.1.1 Local housing authorities are required by Section 754 of the Local Government and Housing Act 1989 (the 1989 Act) to keep a HRA. The HRA reflects a statutory obligation to account separately for local authority housing provision. It identifies the major elements of the HRA expenditure and how these are funded, mainly from rents. The HRA budget process incorporates the calculation for the continuation of delivery of the HRA services by NPH. The details of the arrangements and indicative financial Total Fees were presented to Cabinet on the 12th November 2014. This report provides the updated financial position and indicative Total Fee for NPH for 2019/20 to provide the services in scope. It should be noted that the Total Fee for NPH in 2019/20 will be subject to approval of the HRA and General Fund Budgets by Council at its meeting in February 2019.
- 3.1.2 The Council has statutory responsibility for the HRA and will therefore retain management of the HRA. NPH, as part of their responsibilities, will provide the Council with information on its activities and advice on how best to make use of the resources within the HRA.

#### 3.2 Issues

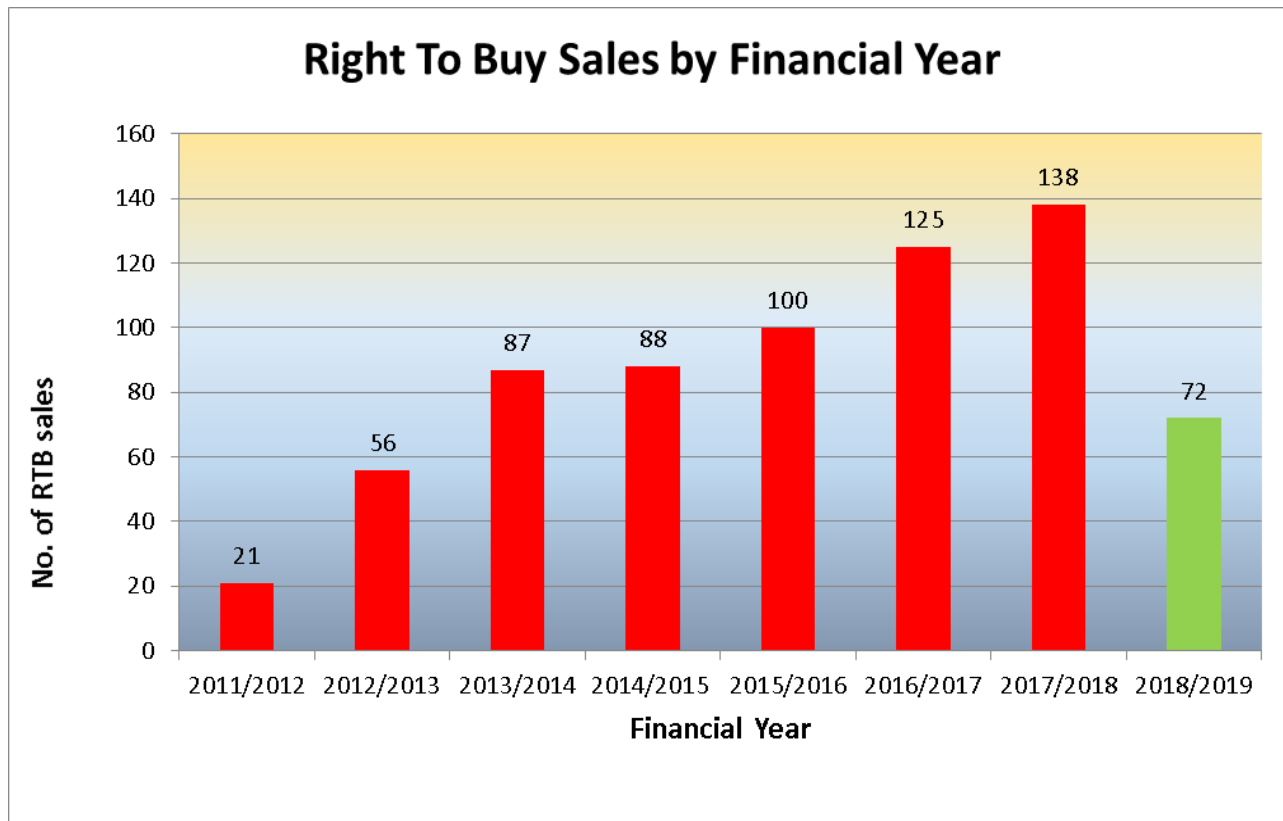
##### Economic Context

- 3.2.1 There continues to be uncertainty around the national and global economic outlook, caused by various factors including the UK's planned withdrawal from the European Union. Therefore the draft budget is built on prudent assumptions around inflation, interest rates, the continuing strong demand for housing and the impact of high numbers of instances of homelessness.
- 3.2.2 The Governments Autumn budget announced with immediate effect the removal of the HRA Debt Cap. The debt cap was introduced at the time of self-financing and placed a limit of the total amount of borrowing the HRA could take out, for Northampton this was £208.4m. The removal of this restriction allows the Council to prudentially borrow within the HRA to pursue the policy of building new Council housing.

##### National and Local Policy

- 3.2.3 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, and the introduction of Universal Credit and Benefit Cap.
- 3.2.4 More recently the Government has pledged to spend an additional £2bn on affordable housing and firm proposals for future rent increases from 2020/21 were released with increases to be capped at CPI plus 1% for 5 years.
- 3.2.5 **Right to Buy (RTB)** sales have increased compared to recent years following an increase in discount levels introduced from April 2012. The current years

sales at the end of October, (72), are running slightly behind last years, (79), at the same point in time. The total RTB sales by financial year, including the current year to date is shown in the graph below:



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 the draft budget; and
- b) The additional capital receipts, (retained “141” RTB receipt element 2019/20, 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. Paragraph 3.2.10 provides more detail.

**3.2.6 Extension of Right to Buy and Higher Value Void sales** policy extended 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 but was then delayed. This policy has been withdrawn.

**3.2.7 Pay to Stay** The Housing and Planning Bill 2016 made provision for the charging “high income social tenants” with reference to the market rate or

other factors based on income and housing area. The Government decided not to proceed with the policy in its current compulsory form. Local authorities and housing associations have discretion as to whether to implement the policy for tenants with incomes over £60k. This policy is currently not applied by the Council.

- 3.2.8 **New Council House Build** and the Use of 1-4-1 RTB Receipts. The Council submitted a request for Additional Borrowing Headroom with the HRA as part of the Governments scheme. This has been superseded by the announcement to abolish the HRA Debt Cap and move to prudential borrowing with the HRA as mentioned in paragraph 3.2.2 above. The plans that formed the bid have been included in the draft capital programme figures for New Build and form the basis for an ambitious programme of new build Council housing over the medium term.
- 3.2.9 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 10 Year development plan will need to be revisited with NPH in light of the removal of the debt cap to ensure that it continues to maximise existing HRA capacity, safeguard the use of 1-4-1 RTB receipts and where there is a business case enable the delivery of housing outside of the HRA using NPH as the preferred developer.
- 3.2.10 **1-4-1 RTB Receipts** -. The removal of the HRA debt cap and the introduction of prudential Borrowing to the HRA will enable borrowing that is affordable to fund the part of new build expenditure that 141 RTB receipts cannot meet under the rules. The 1-4-1 RTB receipts have to be used to fund up to a maximum of 30% of new build, additionality projects or grants to Housing Association schemes. The RTB receipts have to be spent within 3 years from receipt under the rules of the 2012 agreement the Council signed up to, otherwise they are paid back to Treasury with interest at 4% above base. There is currently a government consultation which could increase the flexibilities around use of 1-4-1 RTB receipts. The outcome of that consultation will be factored into the final budget report in February 2019.

## **Housing Revenue Account Budget 2019/2020**

- 3.2.11 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. The HRA Budget proposed for 2019/20 reflects the current service levels and the changes in service delivery from 5 January 2015,
- 3.2.12 The HRA budget estimates are attached at Appendix 1 to this report. The main areas to the HRA are reported below

- 3.2.13 **Rental 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 4 years, 2019/20 will be final year of reductions. This was a move away from the 10 year policy of increasing rents using Consumer Price Index (CPI) plus 1 percentage point annually. Under the legislation specialised supported housing can be excepted from the decrease, namely designated Sheltered Accommodation. The Council has not applied for excepted status so it is proposed again that the 1% reduction is applied to all HRA dwellings which is reflected in the draft budget. The HRA finances have been helped by the recent commitment to return to the CPI +1% rent increase cap for 5 years from 2020, which has been built into the HRA Business Plan
- 3.2.14 The proposal for rent decreases in 2019/20 is therefore 1% on average across the housing stock in line with the legislation.
- 3.2.15 **Service Charges**. The schedule of draft Service Charges for 2019/20 is attached at Appendix 3. The level of Service Charges should be set to enable the full recovery of eligible costs incurred, further work is ongoing to review the position. It is proposed that general Service Charges are increased in line with CPI as at September 2018 (2.1%). The Service Charges have been reflected in the draft budgeted income figures.
- 3.2.16 **Repairs and Maintenance**. The revenue repairs and maintenance budget represents the non-capital costs of responsive and cyclical maintenance programmes. These are determined both with current service levels and the latest stock condition survey information.
- 3.2.17 **Capital Financing Costs**. The interest fixed rate costs to the HRA, (approx. £7.3m), are reflective of the move to a Self-financing HRA in 2012 where the Council under the Governments prescription took on the debt for its stock as calculated by the Self Financing Determinations. They reflect the preferential rates provided to Councils at that time from the Public Works Loans Board (PWLb). The debt is subject to close management with rigorous monitoring to ensure that the financial position for the HRA is optimised. In addition to this the draft budget also reflects an increase in prudential borrowing to fund the gearing up of the new build programme.
- 3.2.18 The Business Plan since Self-financing model in 2012 assumed a level of increasing balances available to repay debt in the future. The changes imposed by government through the rent decreases, increasing reductions in housing stock, and the current economic outlook have undermined this position and therefore these surpluses are forecast not to materialise until later in the life of the 30 year plan. It is still proposed to start setting aside annually a sum to repay debt when it becomes due. This is currently being examined by officers as one measure to prudently protect the future sustainability of the HRA but currently has not been built into the 2019/20 budget. The draft budget also needs to be put through the 2019/2020 HRA Business Plan model which could see some changes to the financial envelope available over the medium term.
- 3.2.19 **Welfare Reform**. Universal Credit (UC) and other welfare reform 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. The Council initially went live with the delivery of UC in November 2015 for certain aspects. The DWP have now rolled out the full Digital service for new UC cases, which went live for the Council on 19<sup>th</sup> November this year. New claims to legacy benefits are now closed and the migration of existing benefit claims will follow, expected to be completed by March 2022. The Council continues to monitor closely the impact of welfare reforms which will have an impact on rent collection for the Council and therefore impact on the overall HRA position. The level of arrears and required level of bad debt provision will continue to be monitored closely throughout 2018/19 financial year and future years in light of the welfare reform roll out and the performance levels in the management of arrears.

**3.2.20 NPH Management Agreement / services being provided** The Council pays NPH a Total Fee to provide both the Housing Landlord services and those Housing General Fund Services in scope. NPH receive what is defined in the Management Agreement as the “Total Fee” which will comprise of the majority of HRA budgets including the Capital Programme; Repairs and Maintenance and Operations Budgets. The Capital Programme (Improvement Programme) and the Repairs and Maintenance budgets are managed budgets, whilst the Operations budget is a devolved budget. NPH will receive some Housing General Fund (HGF) budgets in relation to relevant service attributable to these. NPH operate using the management fee and manage the capital programme budget and revenue repairs and maintenance budget in accordance with what has been agreed by the Council.

**3.2.21 The Draft NPH Total Fee** has been worked through in partnership with NPH taking into account the current level of budgets, the detailed 30 year Draft HRA Business Plan and the changes in available funding services in scope. The Asset Management Plan has been updated for the purposes of setting the draft budget. It should be noted that the HRA Business Plan is to be updated between Draft budget and Final which could lead to changes. The Draft NPH fee will be formerly confirmed by the NPH Board at its meeting scheduled in February 2019. The table below shows a summary of the draft 2019/20 Total Fee proposed. Further breakdown and detail can be found at Appendix 4.

**Summary Table of Total Fee to NPH for 2019/20**

	<b>NPH Management Fee £'000s</b>
Management - HRA	14,085
Management - General Fund Housing	262
Maintenance - Responsive & Cyclical (Managed Budget)	12,156
Capital - Improvements to Homes (Managed Budget)	39,457
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - Managed Budget ICT	400

<b>Total Fee</b>	<b>69,360</b>
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3.2.22 The funding pressures for 2019/2020 created mainly by the 1% rent reduction has been managed jointly by NBC and NPH, working together to maximise resources out of current budgets and minimising, where possible, any re-phasing of the capital programme. Prior to the final HRA budget being approved in February 2019 the Council will continue to work closely with NPH in relation to the draft budgets and the medium, term financial plan. Medium term planning pressures and any emerging pressures will need to be built into NPH future budget plans.

3.2.23 A summary of the overall draft HRA budget for 2019/20 and 2020 to 2023 is contained in Appendix 1.

### **HRA Reserves**

3.2.24 In previous years, Cabinet has approved the prudent set aside of funds into specific HRA Reserves to finance future HRA expenditure including capital financing, 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 forecast opening balance on the reserves as at 1 April 2019. Any variations in the current financial year that requires the use of reserves not currently known will reduce this forecast starting position and impact on the finances available

### **Summary of HRA Earmarked Reserves and Working Balances**

<b>Summary</b>	<b>Balance B/f 1 Apr 2019</b>	<b>Earmarked in Year</b>	<b>Applied in Year</b>	<b>Balance C/f 31 Mar 2020</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
HRA Reserves	(5,013)	0	4,742	(271)
HRA Supporting People Reserve	(0)	0	0	(0)
HRA Reform Reserve	0	0	0	0
HRA Leaseholder Reserve	(500)	0	0	(500)
HRA Service Improvement Reserve	(1,000)	0	0	(1,000)
HRA Insurance Reserve	(300)	0	0	(300)
<b>Total HRA Reserves</b>	<b>(6,813)</b>	<b>0</b>	<b>4,742</b>	<b>(2,071)</b>
<b>Min Level of Working Balances</b>	<b>(5,000)</b>	<b>0</b>	<b>0</b>	<b>(5,000)</b>
<b>Total HRA Reserves</b>	<b>(11,813)</b>	<b>0</b>	<b>4,742</b>	<b>(7,071)</b>

- 3.2.25 These reserves can be drawn down as required, to finance the future strategic requirements of the service, and will be subject to change as forecasts of funding are updated.

### **Adequacy of Working Balances**

- 3.2.26 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 remain at the current level of £5m for 2019/20. 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 to recognise the change in service delivery NPH will continue to have available to it £1m of this working balance to call upon to maintain cash flow if required. Further work is ongoing, taking into account the government's latest budget, to assess the level of working balances in conjunction with NPH and any changes will be reported to Cabinet in February 2019.
- 3.2.27 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.

### **Housing Revenue Account Capital Programme**

- 3.2.28 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
- 3.2.29 The proposed HRA capital programme for 2019/20 to 2022/23 is attached at Appendix 2 and summarised in the table below for 2019/20. The value of the total proposed HRA capital programme for 2019/20 is £42.86m.



## Draft HRA Capital Programme Funding 2019-20

	HRA £000's
Capital Programme 2019/20	
External Improvements	10,600
Internal Works	3,500
New Build Programme / Major Projects	23,107
Environmental Improvements	3,000
Structural Works and Compliance	450
Disabled Adaptations	1,300
IT Development	400
Buybacks / Spot Purchases / Pool	500
<b>Total HRA Capital Programme</b>	<b>42,857</b>
Funding Source	
Borrowing	13,110
Major Repairs Reserve/Depreciation	9,642
Capital Receipts	10,168
Revenue/Earmarked Reserve	9,937
<b>Total Funding</b>	<b>42,857</b>

3.2.30 The Asset Management Plan has been reviewed and updated by NPH with the latest information from the stock condition surveys. In addition to this included in the draft capital programme is a significant increase to the Councils' New Build and Major works 2019/2020 programme, (£23M to deliver over 100 new homes in year), reflecting the removal of the HRA Debt cap from October 2018 and the new ability to prudentially borrow within the HRA. This has been included in the draft budget and will inform the refresh of the Council's HRA Business Plan for 2019/2020. The HRA Capital Programme has been developed within the context of the 30-year Business Plan and the existing Asset management plan. The capital programme has a direct impact on the revenue position of the HRA.

3.2.31 Although the main focus of the Capital Programme is to maintain and improve the Council's homes, there is also a focus on environmental improvements and an increased focus on the development of new homes to help address the shortage of affordable housing in the Borough. The New Build/ Major projects draft budget and indicative budgets from the following 2 years is expected to deliver over 400 new council homes.

3.2.32 The detail of the HRA capital programme for 2019/20 and beyond will be refined in line annual updates to the Business plan, Asset management plan, and any changes to government policy and legislation.

### **Capital Strategy**

3.2.33 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

HRA element is closely aligned to the Council's Asset Management Plan and the NPH Delivery Plan. The overall strategy has been refreshed and is part of the General Fund budget setting report for consultation.

### **3.3 The Next Steps**

- 3.3.1 The timetable for the 2019/20 budget process requires a meeting of the Council in February 2019, at which consideration will be given to the recommendations of this Cabinet in relation to the expenditure, income, and rent proposals that relate to HRA spending.

### **3.4 Consultation**

- 3.4.1 Formal consultation with the public and stakeholders including local businesses will be launched in December 2018 and will continue until the budget is formally adopted in February 2019 in line with an agreed consultation programme. An online questionnaire will be available until 28 January 2019.

### **3.5 Choices (Options)**

- 3.5.1 Cabinet can agree that the budget proposals for 2019/20 for the HRA and HRA Capital program and indicative budgets for 2020/21 to 2022/23 as summarised in the appendices to this report can be approved for consultation.
- 3.5.2 Cabinet can agree the proposed Rent decrease of 1% for 2019/20 and increases in service charges.
- 3.5.3 Cabinet can choose to make amendments to the proposed budgets and the proposed rent and service charge increases prior to agreeing the budget to consult on, subject to the advice of the Chief Finance Officer.

## **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 and HRA 30 year Business Plan.

### **4.2 Resources and Risk**

- 4.2.1 HRA budgets may be subject to further changes to reflect the Governments settlement and any Housing White Papers.
- 4.2.2 The HRA 30 Year Business Plan for 2019/2020 is currently being built and will be subject to external review to assess for accuracy and robustness, the result of which could require revisions to the HRA Capital programme. This will be reported on and reflected in the final budget report.

### **4.3 Legal**

- 4.3.1 The Council has a legal duty to set a balanced budget each year, bearing in mind its fiduciary duties to the taxpayer, and the HRA is not allowed to go into deficit by law. In exercising these duties the Council has to comply with various legislation and administrative duties.

### **4.4 Equality**

- 4.4.1 The Public Sector Equality Duty (PSED) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations between different people when carrying out its activities. Failure to comply with this duty would be challengeable in the courts.
- 4.4.2 Equality and diversity were considered as part of each of the medium term planning options submitted. Equality impact assessments are 'living' documents and will be updated to take into account relevant feedback from the consultation process. Where these documents identify mitigating action, this will be undertaken in implementing the relevant option should it be taken forward and approved in February 2019.

### **4.5 Consultees (Internal and External)**

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

### **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 "spending your money wisely" and specifically for the HRA contributes to the priority of "more homes better homes". More broadly, the Council's budget is the financial representation of the Council's plans, and so setting a balanced budget contributes to all of the Council's priority outcomes.

### **4.7 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

## **5. Background Papers**

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- 5.1 None

George Candler, Chief Executive  
Stuart McGregor, Section 151 Officer