

Appendices
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NORTHAMPTON
BOROUGH COUNCIL
CABINET REPORT

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2020/21 and Budget Projections 2021/22 to 2023/24
AGENDA STATUS:	PUBLIC

Cabinet Meeting Date:	19 th February 2020
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 24 February 2020 for the 2020/21 HRA budgets and the indicative levels 2021/22 to 2023/24 HRA budgets.
- 1.2 To agree the Cabinet's proposals for recommendation to Council on 24 February 2020 for the 2020/21 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2020/21 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 maximum rent increase of 2.7% per dwelling, in line with the legislation and the government's national rent standard, to take effect from 6th April 2020.

- b) The HRA budget for 2020/21 of £53.7m expenditure detailed in Appendix 1.
 - c) The HRA capital programme for 2020/21, 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 2020/21, 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 2020/21 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 2020/21 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 24 February 2020.
- 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 Head of Service 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.
 - Transfer monies, within the Capital Programme, between Developer Affordable Homes opportunities (budget head) and Buy backs and Acquisitions (budget head) during the financial year subject to the funding being available and the schemes being in accordance with the objectives and priorities of the Council.
 - 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 2020/21 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 2020/21 to provide the services in scope taking into account the current rules and regulations which impact upon the financial envelope brought about by Government changes in legislation in housing finance.

Developments in Housing Finance.

- 3.1.3 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.
- 3.1.4 More recently the Government has pledged to spend an additional £2bn on affordable housing and a new rent standard will come into effect from 1 April 2020 which will permit future rent increases from the start of the rent year 2020/21 with increases to be capped at a maximum of CPI plus 1% for 5 years, although there are exemptions for specific categories of accommodation.

3.2 Draft HRA Revenue Budget 2020/21 Cabinet 23 December 2019

- 3.2.1 The Cabinet met on 23 December 2019 and recommended proposals for consultation. The headlines were:
- a) Proposing rent increase in line with legislation and national rent policy of 2.7%;
 - b) An HRA budget for 2020/21 of £53.7m expenditure.
 - c) A Total Fee for NPH of £66m for 2020/21 for the delivery of services over the six fee elements including a Capital Sum.

Further work on refining estimates has been undertaken on the HRA revenue and capital budgets since 23 December 2019, resulting in the proposals set out in the following sections 3.3 and 3.4.

3.3 Draft HRA Revenue Budget 2020/21 - Cabinet 19 February 2020

- 3.3.1 The final 2020/21 HRA budget remains as at £53.7m expenditure. The details of this proposed budget can be found in appendix 1. The changes

are in respect of Interest and Financing Costs, Revenue Contributions to Capital and transfer to/from Reserves and the Capital Programme.

Rents and Rent Setting 2020/2021

3.3.2 Rent Income, by far the largest single budget within the HRA, has previously been calculated in accordance with national rent policy. In October 2017, the government announced its intention to set a long term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI (as of the September prior to any increase coming into effect) plus 1 percentage point from 2020, for a period of at least five years ('the new policy'). The new policy will come into effect from 1 April 2020.

3.3.2.1 The proposal for rent increases in 2020/21 is therefore the maximum 2.7%, (September 2019 CPI 1.7% plus 1%) on average across the housing stock in line with the new policy. This is consistent to what was put forward in the report to Cabinet on 23 December 2019.

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 2020/21.

Analysis of Dwelling Stock at Target Rent by Property Type

Dwelling Type	At Target	Not at Target	Total
Bedsit	116	107	223
Bungalow	310	18	328
Flat	1,524	2,169	3,693
House	4,400	472	4,872
Maisonette	49	113	162
Sheltered Bedsit	-	1	1
Sheltered Bungalow	1,256	10	1,266
Sheltered Flat	272	483	755
Sheltered House	2	-	2
Very Sheltered Flat	28	5	33
Total	7,957	3,378	11,335

There are currently 3378 dwellings not at target rent (compared to last year 3,398). In all these cases the rent is 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

3.3.3 The schedule of proposed Service Charges for 2020/21 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 2020/21 are increased in line with CPI as at September 2019 (1.7%). 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.
- 3.3.4.1 The Total Fee for 2020/21 has been negotiated in partnership with NPH and takes into account the current level of budgets, and the changes in available funding for services in scope. NPH have been working with the Council to ensure that a balanced budget can be delivered while trying to mitigate the impact on services. It should be noted that the Asset Management Plan continues to be reviewed. Further Government announcements on Housing are due to be released in 2020/21 which will be interpreted and run through the HRA Business Plan model.
- 3.3.4.2 Since the proposed draft budget in December 2019, there have been changes to the proposed NPH total fee. The Capital Programme IT Development budget for 2020/21 has increased by £50k. In addition £650k of the original proposed £1.3m Disabled Adaptations Budget will be used to provide adapted dwellings as part of the New Build/Major Projects programme.

A summary of the NPH total Fee proposed is shown below.

NPH Management Fee	£'000s
Management - HRA	14,172
Management - General Fund Housing	291
Maintenance - Responsive & Cyclical (Managed Budget)	12,219
Capital - Improvements to Homes (Managed Budget)	36,050
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - Managed Budget ICT	300
Total Fee	66,032

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 enables 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.

Reserves	Balance B/f 01/04/2020	Earmarked in Year	Applied in Year	Balance C/f 31/03/2021
	£000	£000	£000	£000
HRA Reserves	(2,846)	0	2,430	(416)
HRA Leaseholder Reserve	(500)	0	0	(500)
HRA Service Improvement Reserve	(1,000)	0	0	(1,000)
HRA Insurance Reserve	(300)	0	0	(300)
Total HRA Reserves	(4,646)	0	2,430	(2,216)
Min Level of Working Balances	(5,000)	(5,000)	(5,000)	(5,000)
Total HRA Reserves	(9,646)	(5,000)	(2,570)	(7,216)

3.3.5.1 These reserves can be drawn down as required, to finance the future strategic requirements of the service. The reserves will be subject to change depending on the final outturn position for 2019/20 and future investment priorities driven by the Asset Management Plan and decided by the Council.

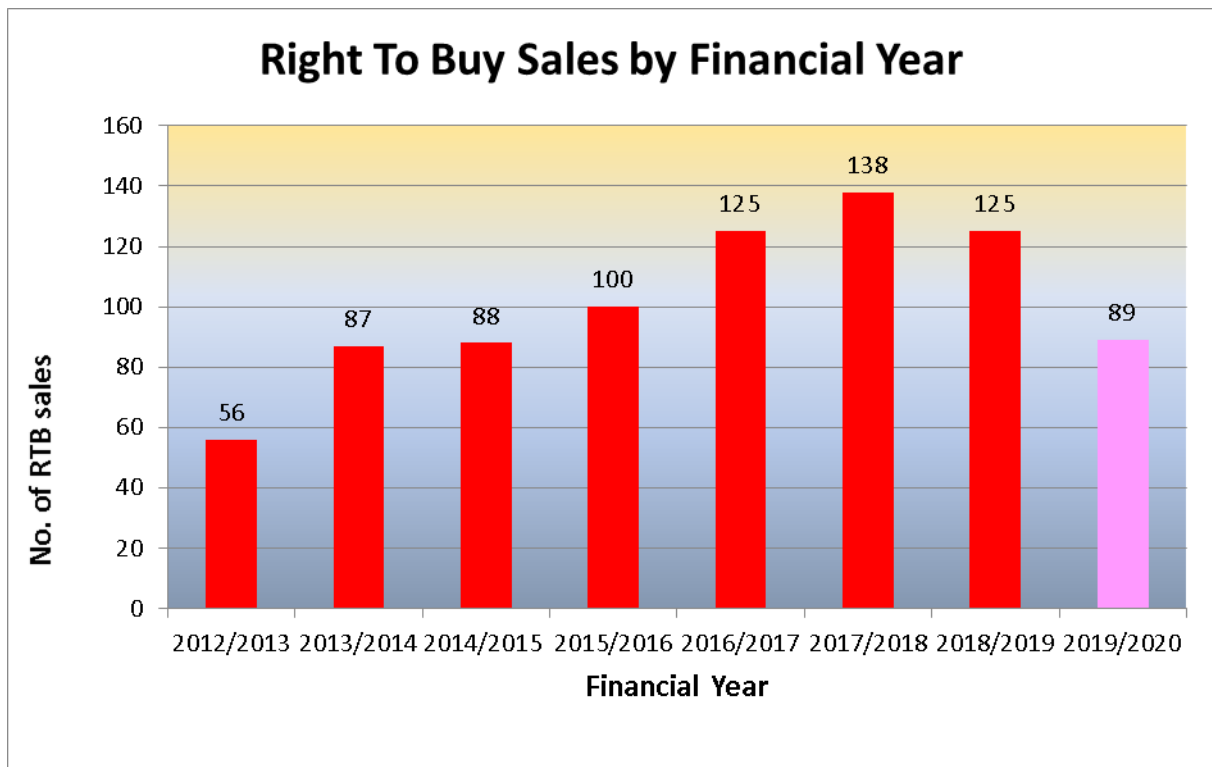
Adequacy of Working Balances

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 2020/21. 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 and New Build Programme

- 3.4.1 Capital expenditure is essential for the Housing Revenue Account in order to maintain and improve the Council's housing stock as well as deliver new council housing. The HRA is an asset driven service and as such the capital programme plays a key part in the delivery of the HRA service
- 3.4.2 Alongside the implementation of 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.
- 3.4.3 The HRA Capital Programme has been developed within the context of the 30 year Business Plan and the existing Asset Management Plan which has been reviewed and updated with the latest information from stock condition surveys. There will be further input from the HRA Business Plan review which is currently being undertaken which may lead to changes being brought back to Cabinet in 2020/21 as the New Build programme is developed.
- 3.4.4 Included in the capital programme for 2020/21 is a significant investment in the New Build programme (£20.9m). This is in addition to previous year's investment and means that the Council is on schedule to deliver over 150 new dwellings in 2020/21. The indicative budgeted investment in new build is forecast to deliver a steady stream of new council dwellings of approximately 150 per year. This ability to investment reflects the removal of the HRA Debt Cap from October 2018 and the ability to prudentially borrow within the HRA.
- 3.4.5 The medium term plan currently shows a similar level of investment in new build over the next 5 years, however this is currently being reviewed and will be continually reviewed along with the Councils HRA prudential borrowing and affordability. At the moment the numbers of new housing are prudent and will deliver a steady supply of new homes each year. NPH will continue to work closely with the Council to increase the new build programme for delivering new social and affordable homes over the coming 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.
- 3.4.6 **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 7 years and in year to end of December 2019 are shown in the graph below:



3.4.7.1 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:

- 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 government consultation last year has yet to announce its outcome. However the consultation did include an increase in the flexibilities around use of 141 RTB receipts, including extending the period from 3 years to 5 years.

Draft HRA Capital Programme and Funding 2020-21

3.4.8 The proposed HRA capital programme for 2020/21 to 2023/24 is attached at Appendix 2.

3.4.9 The table below shows a summary of the draft programme and final proposed capital programme and funding for 2020/21.

3.4.10 The HRA capital programme for 2020/21 and beyond will be refined in conjunction with NPH, in line with the updated Asset Management Plan, and the HRA Business Plan review.

	Draft 2020-21 £000	Proposed 2020-21 £000
External Improvements	9,300	9,300
Internal Works	4,600	4,600
Environmental Improvements	600	600
Disabled Adaptations	1,300	650
Structural Works and Compliance	3,000	3,000
IT Development	250	300
New Build Programme/Major Projects	20,250	20,900
Buybacks and Spot Purchases	500	500
Total	39,800	39,850

FINANCING:		
Major Repairs Reserve/Depreciation	12,000	12,000
Capital Receipts - RTB (excl 1-4-1)	2,845	2,845
Capital Receipts - RTB 1-4-1 Receipts	4,698	4,893
Revenue/Earmarked Reserve	6,289	6,891
Borrowing / CFR	13,968	13,221
Total Financing	39,800	39,850

The New Build/ Major works' project budget for 2020/21 and indicative budgets for the following 3 years is expected to deliver up to 600 Council homes.

3.5 The Next Steps

3.5.1 The timetable for the 2020/21 budget process requires a meeting of the Council on 24 February 2020, 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 16 December 2019. An online consultation was published, which closed on the 31 January 2020. In addition a public meeting was held on 27 January 2020 to hear feedback on the draft budget. The consultation period will formally close on the date the budget is approved in February 2020.

3.6.1 Overview and Scrutiny Committee reviewed the budget proposals at its meeting on 9 January 2020. The views of the Overview and Scrutiny Committees are reported in the General Fund Budget report at **Appendix 10**.

3.6.2 Audit Committee reviewed the budget proposals from a risk perspective on 6 February 2020. The key risks identified are reported 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, in accordance with the provisions of the Local Government Finance Act 1992 and taking into account its fiduciary duties to the taxpayer to avoid loss of revenue and failure to deliver services. The HRA is not allowed to go into deficit by law in accordance with section 76 of the Local Government and Housing Act 1989.
- 4.3.2 In complying with these overarching legal duties, the Council must follow proper accounting practices and comply with a range of other legislative and administrative financial duties, which have been taken into account in the preparation of the proposals in this report.
- 4.3.3 There is no statutory requirement to consult tenants upon a proposal to increase rents in accordance with the provisions of the new rent standard.
- 4.3.4 The Council has a legal duty with regard to assessment of the impact of its activities, including financial decision making, with regard to the Public Sector Duty of Equality ("PSED") imposed upon local authorities at section 149 of the Equality Act 2010, which mandates that Local Authorities must have due regard to;

- eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act
- advance equality of opportunity between persons who share a relevant protected characteristic in that Act and persons who do not share it and
- foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

4.3.5 Failure to comply with this duty could potentially present an increased risk of a challenge to these proposals, and the Council's budget in general, in the High Court.

4.4 Equality and health

4.4.1 Each of the medium term planning options submitted have been considered taking into account the statutory PSED at section 149 of the Equality Act 2010.

4.4.2 Compliance with the PSED is an ongoing process with regard to the budget setting process and financial management generally. No problematic impacts have been identified so far. If Cabinet decides to recommend that the proposals are adopted at full Council, any potentially problematic impacts that are identified as part of the ongoing process will be reported to full Council, as well any proposed amendments to mitigate that impact, in compliance with the requirements of the PSED.

4.4.3 How the Proposals Deliver Priority Outcomes

4.3.5 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.

4.4 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

4.5 Environmental implications (including climate change issues)

4.6.1 Any potentially negative environmental impacts, especially with regard to climate change issues, were considered as part of each of the medium term planning options submitted. The proposals in this report have been formulated so as to avoid any negative environmental impact.

4.7.1 Furthermore, Northampton Partnership Homes is integrating sustainability and biodiversity into both its new build programme and neighbourhood investment. Examples include:

- Renewable energy into new build housing schemes such as the plan to include photovoltaic panels on the Billing Brook Road Scheme and The Roof

Gardens and to include air source heat pumps in the Moray Lodge supported housing scheme.

- Inclusion of car charging points in The Roof Gardens development.
- Installing loft insulation (where it is absent) as part of the internal works programme to properties.
- Creating secure bicycle storage for tenants living in apartment blocks as part of the wider neighbourhood investment.
- Installation of bat boxes and swift boxes in many of the new build schemes.
- Providing opportunities for tenants in apartments to grow their own food through raised beds in communal gardens.

4.8 Other implications

4.8.1 None.

5. Background Papers

5.1 None

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