

WEST NORTHAMPTONSHIRE SHADOW AUTHORITY

SHADOW EXECUTIVE MEETING

12 February 2021

Report Title	Housing Revenue Account (HRA) Budget, Rent Setting 2021/22 and Budget Projections 2022/23 to 2025/26
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1. Purpose

- 1.1 The purpose of this report is to agree the Shadow Executive's proposals for recommendation to Council on 23 February 2021 for the 2021/22 HRA budgets and the indicative levels 2022/23 to 2025/26 HRA budgets.
- 1.2 To agree the Shadow Executive's proposals for recommendation to Council on 23 February 2021 for the 2021/22 HRA rent setting.
- 1.3 To agree the HRA capital programme funding proposals for 2021/22 and future years.
- 1.4 To ask the Shadow Executive to recommend to Council that they approve the recommendations in section 2 below.

2. Recommendations

- 2.1 That Shadow Executive recommend Council to approve:
 - a) An average maximum rent increase of 1.5% per dwelling, in line with the legislation and the government's national rent standard, to take effect from 5th April 2021.
 - b) The HRA budget for 2021/22 of £54.7m expenditure detailed in Appendix 1.
 - c) The HRA capital programme for 2021/22, including future year commitments, and proposed financing as set out in Appendix 2.
 - d) The proposed service charges listed in Appendix 3.
 - e) That the Shadow Executive be authorised, once the capital programme has been set, to approve new capital schemes and variations to existing schemes during 2021/22, 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 2021/22 detailed in Appendix 4.
- 2.2 That the Shadow Executive acknowledges the issues and risks detailed in the Chief Finance Officer's statement on the robustness of estimates and the adequacy of the reserves contained within the final budget report.
- 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 HRA balances of at least £5m for 2021/22 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 23 February 2021.
- 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.
 - 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.

Reason for Recommendations:

- *To ensure that the Shadow Authority complies with its Constitution and all other relevant requirements in setting the budget (including the HRA budget) for West Northamptonshire.*

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 2021/22 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 2021/22 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.

3.2 Draft HRA Revenue Budget 2021/22 Shadow Executive 5 January 2021

3.2.1 The Shadow Executive met on 5 January 2021 and recommended proposals for consultation. The headlines were:

- a) Proposing rent increase in line with legislation and national rent policy of on average 1.5%;
- b) A HRA budget for 2021/22 of £54.7m expenditure.
- c) A Total Fee for NPH of £81.0m for 2021/22 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 January 2021, resulting in the proposals set out in the following sections 3.3 and 3.4.

3.3 HRA Revenue Budget 2021/22 – Shadow Executive 12 February 2021

3.3.1 The final proposed 2021/22 HRA budget remains as at the draft position of £54.7m expenditure. The details of this proposed budget can be found in appendix 1. However there are some adjustments that have been made to the draft continuation budget. These changes between draft and final proposed continuation budget are detailed in the following table:

Description	Budget 2021/22
	£'000
Draft Continuation Budget	(25,500)
<u>Expenditure:</u>	
Abortive Costs	(150)
Court & Legal Costs	(78)
ICT Revenue	(290)
Staff Capitalisation	(100)
Postage Recharge	(50)
Technical Adjustment	(99)
<u>Technical:</u>	
Interest & Financing Costs	441
Revenue Contributions to Capital	(441)
Contribution to / (from) Reserves	767
Final Continuation Budget	(26,266)

As part of the budget process a number of cost pressures and growth items were identified and included in the draft budget. The aim, where possible, is to manage these within existing resources, however the removal of these from the draft budget has been replaced by a contribution to reserves which can be drawn down in year following consideration and approval of appropriate business cases.

Rents and Rent Setting 2021/2022

- 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 currently permits 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 2021/22 is therefore the maximum 1.5%,(September 2020 CPI 0.5% 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 the Shadow Executive on 5 January 2021.
- 3.3.2.2 **Target Rent** - In line with the Government's 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.
- 3.3.2.3 There are currently 3,055 dwellings not at target rent (compared to last year 3,378). In all these cases the rent is less than their Target. The estimated financial impact of rents being lower than target is approximately £260k per annum, but reducing as each property becomes void and re-let. 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 2021/22 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 2021/22 are increased in line with CPI as at September 2020 (0.5%). 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 continuous 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 2021/22 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 likely to be released in 2021/22 which will be interpreted and modelled through the HRA Business Plan model.

3.3.4.2 Since the proposed draft budget in January 2021, there have been a number of changes to the revenue budget detailed in paragraph 3.3.1 above. These changes have been reflected in the NPH Total Fee Proposal in the table below and in the creation of reserves which can be drawn upon subject to business case and approval by the Executive Director – Finance.

3.3.4.3 In addition to this a change has been made to the Capital Programme. Firstly, the change to one new build project which previously was to be funded via a lease arrangement but through negotiation with the current owner this has been changed to fully HRA upfront funded through a mixture of borrowing and one for one RTB receipts. Secondly the rephrasing of a street acquisition scheme programme and thirdly the reduction of the ICT Capital programme to priority one projects and creation of reserve to drawdown on subject to business case.

A summary of the 2021/22 NPH total Fee proposed is shown below.

NPH Management Fee	Draft £'000s	Final £'000s
Management - HRA	14,793	14,426
Management - General Fund Housing	282	282
Maintenance - Responsive & Cyclical (Managed Budget)	12,633	12,383
Capital - Improvements to Homes (Managed Budget)	49,868	57,980
Capital - Improvement to Environment (Managed Budget)	3,000	3,000
Capital - Managed Budget ICT	426	276
Total Fee	81,002	88,347

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 agreed sum. Any requirement for a virement above this or of the Housing General Fund element will need Council 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 It is prudent to set aside 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. It is proposed to create two new reserves. The first is out of the existing service improvement reserve earmarked for the potential ongoing cost to NPH of running the current instance of ERP Agresso system post Unitary vesting day. In addition to this it is proposed to capture the changes in budget between draft and final in reserves designed for NPH to drawdown on

subject to clear plans and business case being submitted to the Executive Director – Finance for consideration.

Reserves	Balance B/f 01/04/2021	Earmarked in Year	Applied in Year	Balance C/f 31/03/2022
	£'000	£'000	£'000	£'000
HRA Reserves	(128)	(150)	128	(150)
Revenue Reserve	0	(617)		(617)
HRA Leaseholder Reserve	(500)	0	0	(500)
HRA Service Improvement Reserve	(1,000)	0	50	(950)
ERP Agresso Reserve	0	(50)	0	(50)
HRA Insurance Reserve	(300)	0	0	(300)
Total HRA Reserves	(1,928)	(817)	178	(2,567)
Min Level of Working Balances	(5,000)	0	0	(5,000)
Total HRA Reserves	(6,928)	(817)	178	(7,567)

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 2020/21 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 his risk assessment of the budget. The Executive Director – Finance has assessed that the minimum level of balances, taking all known risks into account should be held at the current level of £5m for 2021/22. It is anticipated that in future there could be a requirement to increase this level of working balances to take 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.

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

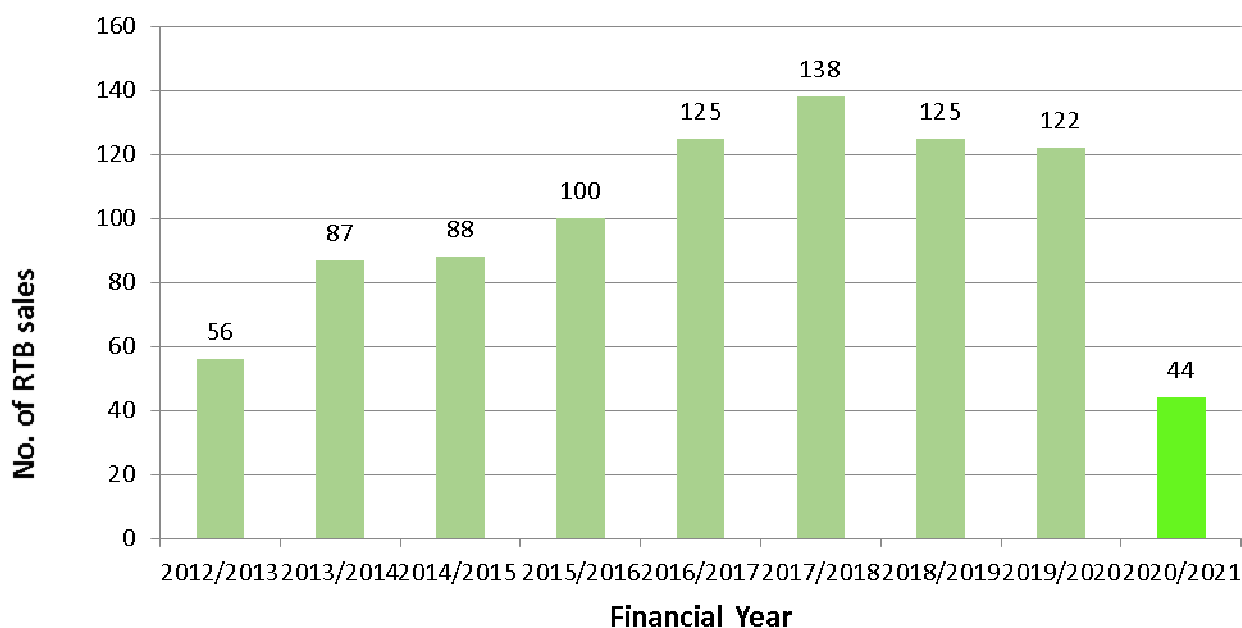
3.4.2 Alongside the implementation of NPH, the Council decided to adopt the "Northampton Standard" for the maintenance and improvement of Council

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 is being reviewed and updated with the latest information. 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 Shadow Executive in 2021/22 as the New Build programme is developed.
- 3.4.4 Included in the capital programme for 2021/22 is a significant investment in the New Build programme (£42.2m). This is in addition to previous year's investment and means that the Council is on schedule to deliver up to 200 new dwellings in 2021/22. The indicative budgeted investment in new build is forecast to deliver a steady stream of new council dwellings of approximately 200 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 high 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 Council's HRA prudential borrowing and affordability. NPH will continue to work closely with the Council to deliver the new build programme for 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 Right To Buy.
- 3.4.6 **Right to Buy (RTB) sales** have increased compared to recent years following an increase in discount levels introduced from April 2012. However, in the current year sales have significantly dropped mainly due to the Covid-19 pandemic. The current year's sales at the end of January are 44.

When the budget was set for this year it was assumed that there would be approximately 90 sales in the year at this stage. The reduced forecast in sales in the year is expected to generate useable capital receipts lower than the original budget estimate of £7.7m. However, the flip side of this reduction in RTB sales is that the amount rental income should be greater than originally anticipated. The fall in sales is expected to be a one off and estimates for the draft budget include sales back at a prudent assessment similar to prior year levels. The pipeline of potential sales still looks to be at the same levels as prior years. The total RTB sales by financial year, including the current year to date is shown in the graph below:

Right To Buy Sales by Financial Year



Assumptions based on these recent trends are included within the indicative HRA capital programme financing shown at Appendix 2. There are two additional considerations arising from RTB sales:

- 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 one for one RTB receipt element 2021/22), must be used towards the provision of new social housing and can only be used to finance up to 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.

Draft HRA Capital Programme and Funding 2021-22

- 3.4.8 The proposed HRA capital programme for 2021/22 to 2025/26 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 2021/22.

	Draft 2021-22 £000	Proposed 2021-22 £000
External Improvements	11,650	11,650
Internal Works	3,050	3,050
Environmental Improvements	450	450
Disabled Adaptations	650	650
Structural Works and Compliance	3,000	3,000
IT Development	426	276
New Build Programme/Major Projects	34,068	42,180
Buybacks and Spot Purchases	6,500	8,500
Total	59,794	69,756

FINANCING:		
Major Repairs Reserve/Depreciation	15,150	15,150
Capital Receipts - RTB (excl 1-4-1)	2,912	2,912
Capital Receipts - RTB 1-4-1 Receipts	6,270	6,270
Capital Receipts - Grant Funding	12,482	18,612
Revenue/Earmarked Reserve	1,083	642
Borrowing / CFR	21,897	26,169
Total Financing	59,794	69,756

As reported in paragraph 3.3.4.3 above, the capital programme has increased between draft and final to mainly to reflect a change in the funding arrangements of a new build project that was previously to be funded via a lease arrangement but is now to be funded upfront through a mixture of borrowing and one for one receipts. The other material change is due to the re-phasing of street acquisition programme. The New Build/ Major projects budget and indicative budgets for the following 4 years is expected to deliver up to 1,200 new council homes.

3.5 The Next Steps

- 3.5.1 The HRA budget, once considered by Shadow Executive will be considered at the full authority meeting to be held on 23 February 2021.

3.6 Consultation

- 3.6.1 The general fund and HRA budget was subject to a public consultation which closed on 2 February 2021. The analysis relating to this exercise is included as an Appendix to the GF budget report but covered both the General Fund and the HRA. There was a significant majority of respondents in agreement with the rental increase of 1.5% and the general service charge increases of 0.5%

3.2 Issues and Choices

- 3.2.1 It is recommended that Shadow Executive 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 Shadow Executive 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 HRA revenue budget is set in the overall context of the HRA 30 year business plan.
- 4.1.2 The Capital Programme for the HRA is set in the context of the Council's HRA 30 year Business Plan.

4.2 Resources and Risk

- 4.2.1 HRA budgets may be subject to further changes to reflect the Government's settlement and any Housing White Papers.
- 4.2.2 The HRA 30 Year Business Plan for 2021/2022 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 reported on in year to the Shadow Executive.

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 must comply with various legislation and administrative duties.
- 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.

4.4 Equality and Health

- 4.4.1 The Public Sector Equality Duty (PSED) requires the shadow authority 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 impact assessments are 'living' documents and relevant feedback from the consultation process will be considered with any mitigations to limit its impact implemented alongside the final options taken forward and approved in February 2021

4.5 Environmental implications (including climate change issues)

4.5.1 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. They seek to avoid any negative environmental impact.

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

- Reviewing waste strategies for new build schemes both in construction and in occupation once completed
- 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 a number of developments including The Roof Gardens.
- Installing loft insulation (where it is absent) and where appropriate external wall insulation 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.
- Installation of LED lighting in communal areas of existing apartment blocks and in new build schemes
- Providing opportunities for tenants in apartments to grow their own food through the installation of raised beds and water butts in communal gardens.
- Piloting new 'fabric first' approaches to whole house retrofit on solid wall properties
- Promoting energy and water monitoring
- Publishing a new three year sustainability strategy

4.6 Other implications

4.6.1 None.

5. Background Papers

5.1 None