

WEST NORTHAMPTONSHIRE COUNCIL FULL COUNCIL

24 February 2022

Portfolio Holder for Finance - Councillor Malcolm Longley

Report Title	Housing Revenue Account Final Budget 2022-23 and Medium Term Financial Plan
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Appendix 2 – HRA Final Capital Programme and MTP Proposals

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1. Purpose of Report

- 1.1 This report sets out the Housing Revenue Account (HRA) Final Budget 2022-23 and Medium Term Financial Plan for West Northamptonshire Council.
- 1.2 The purpose of this report is to approve the HRA revenue and capital budget 2022-23 and set out the future years' projections to 2026-27

2. Executive Summary

- 2.1 The HRA is West Northamptonshire Council's landlord services function. Local housing authorities are required by Section 74 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, which is mainly from rental income.
- 2.2 The HRA budget process incorporates the calculation of the Management Fee for the continuation of delivery of the HRA services by the Council's Arms-Length Management Organisation (ALMO), Northampton Partnership Homes (NPH). The Council has a statutory responsibility for the HRA and will therefore retain management of the HRA. NPH, as part of their responsibilities, provides the Council with information on its activities and advice on how best to make use of the resources within the HRA.
- 2.3 The plans and budget proposals ensure that the Council is continuing to invest in its existing HRA stock, incorporating the decarbonisation agenda, whilst also delivering on a significant new build programme to increase the local housing supply for new council houses.
- 2.4 This budget has been prepared using the latest service intelligence and financial information available, incorporating prudent estimates and financial assumptions. It addresses the risk of increases in National Insurance contributions and other inflation pressures, whilst providing the opportunity to set a balanced budget without the need for service reductions. It also provides service investment in the existing housing stock and new dwellings .
- 2.5 However, there remains a significant amount of financial risk, such as the nationally recognised budget pressures for local government, not only from the longer-term impact of COVID-19 on costs and income, but also from supply chain issues and other cost pressures which pre-date the pandemic or have emerged as the lasting legacy of some of the pandemic effects.
- 2.6 To help maintain and protect levels of service provision and the future sustainability of the HRA the final budget includes a rent increase of 4.1% in line with the maximum limit set by government. The rent increase will contribute approximately £2.2m per annum to the HRA to be invested in existing stock and contribute to funding the borrowing needed to deliver new council homes.

Budget Headlines

- 2.7 This report presents the HRA final Budget 2022-23 and Medium Term Financial Plan and HRA Medium Term Capital Programme for West Northamptonshire Council.
- 2.8 The following summarises the main features of the proposed final Budget:
- A balanced revenue budget achieved in challenging circumstances
 - Investment in existing stock in the capital programme of £28m to improve and maintain incorporating further decarbonisation works.

- New build investment in the capital programme of £42m to deliver up to 200 new homes
- Unavoidable growth of £1.77m to protect existing service levels thereby ensuring no reductions in services, This includes inflationary and real cost pressure increases in repairs and maintenance budgets for the price of raw materials and goods along with establishment provision for pay awards and the 1.25% rise in national insurance. Additional costs on Special services should be recovered through service charges for new schemes as and when they are let. The changes are summarised in the table below:

Area of growth over 2021-22	£k
Establishment /Pay	723
Repairs and Maintenance	639
Special Services	266
Miscellaneous incl ICT licenses, Insurance	149
Total	1,777

- Maintaining minimum working balances of £5m to provide contingency against any unforeseen financial events.
- Average Rent increase of £3.84 per week from 4th April 2022 and increases of 3.1% from service charges to enable continued reinvestment of housing provision.
- Average Garage Rent increase of 3.1% in line with September CPI.

3. Recommendations

- 3.1 It is recommended that the Council approves:
- An average maximum rent increase of 4.1% per dwelling, in line with the legislation and the government's national rent standard, to take effect from 4th April 2022.
 - The HRA budget for 2022-23 of £56m expenditure detailed in Appendix 1.
 - The HRA capital programme for 2022-23, including future year estimated commitments, and proposed sources of finance, as set out in Appendix 2.
 - The proposed service charges listed in Appendix 3.
 - The Total Fees proposed for NPH to deliver the services in scope for 2022-23 detailed in Appendix 4.
- 3.2 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 2022/23 having regard to the outcome of the financial risk assessment.
- 3.3 That authority be delegated to the Executive Director of Finance in consultation with the portfolio holder for Finance to amend the capital programme for 2022-23 going forward so that it accurately reflects issues such as slippage on current year projects that will need to be added to the programme, any amendments made to existing capital programmes, adjustments to accommodate any future use of capital receipts policy and for any other reason where the capital programme needs to be adjusted.

- 3.4 That authority be delegated to the Executive Director of Finance in consultation with the Portfolio Holder for Finance, and where appropriate the relevant Director and Portfolio Holder to:
- a) Transfer monies to/from earmarked reserves should that become necessary during the financial year.
 - b) Transfer monies to / from HRA working balances between the Council and NPH for cash flow purposes should that become necessary during the financial year.
 - c) Update prudential indicators in both the Prudential Indicators report and Treasury Strategy report, for Council for any budget changes that impact on these.

4. Reason for Recommendations

- 4.1 To ensure that the Council complies with its Constitution and all other relevant requirements in setting the budget for West Northamptonshire Council.

5. Report Background

- 5.1 This report sets out the Housing Revenue Account (HRA) Final Budget 2022-23 and Medium Term Financial Plan for West Northamptonshire Council.
- 5.2 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.
- 5.3 The HRA Capital Programme includes all capital expenditure on assets accounted for under Landlord services, including council housing, estate shops, and garage sites. This includes the acquisition, replacement and enhancement of assets financed from government grants, external contributions, revenue contributions, capital receipts and borrowing.

6. Issues and Choices

Corporate Plan

- 6.1 The Corporate Plan sets out the Council's priorities, and the way in which we will achieve our vision to make *'West Northamptonshire a great place to live, work, visit and thrive'*.
- 6.2 The plan is based upon the Council's six priorities: These are
- **Green and Clean** - *Environment and Wellbeing*
 - **Improved Life Chances** – *Health, Social Care and Families*
 - **Connected Communities** – *Transport and Connectivity*
 - **Thriving Villages and Towns** - *Place shaping and homes*

- **Economic Development** – *Growth and prosperity*
- **Robust Resource Management** – *Transparency and financial probity*

6.3 The proposed HRA budget is aligned to the delivery of the Corporate Plan particularly in the delivery of good quality affordable homes and the provision of well-maintained carbon neutral homes.

Housing Strategy

6.4 As a new council, WNC has identified a key piece of work for 2021/22 through engagement with key stakeholders to produce a new, evidence-based housing strategy. The strategy is currently being developed and should be finalised by end of March 2022. Key considerations will be:

- The scale and focus of the council house building programme as part of a wider affordable housing delivery programme to meet local housing needs.
- Improving the quality, standard and safety of housing in West Northants. For our council homes this is likely to include meeting any enhanced Decent Homes Standard, decarbonisation and building safety requirements.
- Supporting our residents and communities to recover from the impact of the pandemic and work to create sustainable homes and vibrant places to live.
- How we continue to improve services for our tenants.
- Reducing homelessness and supporting these and other vulnerable households to lead safe, independent and active lives.

Changes from draft to final budget

6.5 Work has continued to review the HRA budget proposals to ensure that they are as accurate and up to date as possible. The review process includes the following;

6.6.1 Budget Consultation Feedback received from the public, partners and other stakeholders through the six week budget consultation exercise. Further information on budget consultation feedback is set out in section 7.4 and Appendix H of the General Fund Budget report on the same Cabinet Agenda. The consultation responses indicated that the majority of respondents were in favour of the proposed rental increase.

6.6.2 2021-22 Monitoring. Since the publication of the draft budget the Council has undertaken period 9 of its monthly budget monitoring process for 2021-22. Any budget variations of an ongoing nature are captured in the final budget position.

6.7 The details of the HRA proposed budget are shown at Appendix 1 . There have been no changes to the HRA Revenue Budget since the draft was prepared, the final budget is summarised in the table below:

Description	Final Budget 2022/23
INCOME	£'000
Rents - Dwellings Only	(53,050)
Rents - Non Dwellings Only	(951)
Service Charges	(2,435)
Other Income	(16)
Total Income	(56,452)
EXPENDITURE	
Repairs and Maintenance	14,892
General Management	9,390
Special Services	5,277
Rents, Rates, Taxes & Other Charges	302
Increase in Bad Debt Provision	400
Total Expenditure	30,262
Continuation Budget	(26,190)
Net Recharges from the General Fund	2,650
Interest & Financing Costs	8,802
Revenue Contributions to Capital	1,238
Depreciation	13,500
Contribution to / (from) Reserves	0
Remaining Deficit / (Surplus)	0

6.8 The above budget has been prepared in accordance with the latest legislation and guidance. The principal features of the budget are as follows :

Rents and Rents Setting

6.9 Rental income is the largest single budget within the HRA and is calculated in accordance with national rent policy. The Rent Standard was introduced on the 1st April 2020, and applies to all registered social landlords including local authorities and housing associations

6.10 The Rent Standard 2021 allows all registered providers to increase both social and affordable rent by the Consumer Price Index (CPI) plus 1%. The CPI is what is published by the Office of National Statistics in the September prior to the year of the increase. The CPI in September 2021 was 3.1% and therefore it is proposed to increase the rents by the maximum 4.1% with effect from 4th April 2022. This will increase the average rent from £93.66 to £97.50 per week

6.11 The increase in dwelling rents is essential to ensure the continuing investment in high-quality housing service for our tenants. Failure to increase the rents by the statutory amount will not only have a significant impact on income in the current year, but also in each year going forward. It is estimated that a 1% reduction in the rent increase would reduce the rental income by approximately £0.5 million in the current year. This potential loss of 1% would be compounded over the life of the 30 year HRA business plan resulting in approximately £15m reduction in revenues to reinvest into the stock over the business planning period.

Service Charges

- 6.12 The schedule of proposed Service Charges for 2022-23 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 2022/23 are increased in line with CPI as at September 2021 (3.1%). The Service Charges have been reflected in the budgeted income figures.

NPH Management Agreement / Services Being Provided .

- 6.13 The HRA is the Council’s statutory account for the provision of landlord services, This account pays NPH a contractual payment (“Total Fee”) to provide those services. In addition, NPH receive a fee for the provision of Housing General Fund (HGF) services of £281k which is paid from the General Fund.
- 6.14 The NPH management fee for 2022-23 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 2022-23 which will be interpreted and modelled through the HRA 30 year Business Plan model.
- 6.15 There have been no changes to the revenue proposed in the draft budget although there has been a change made to the Capital Programme.
- 6.16 There has been a reworking of the Asset Management Plan to smooth out the major repairs and improvement programme that incorporates the decarbonisation works extending it over two years to reflect the delays in deliverability on the back of the council awaiting an external funding bid decision. In addition to this the budget on acquisitions and buybacks has been spread over the next three years reflecting the pause in the programme which is currently being reviewed alongside the refresh of the Housing Strategy.
- 6.17 A summary of the 2022-23 NPH total Fee proposed is shown below.

NPH Management Fee	Draft 2022/23 £'000s	Final 2022/23 £'000s
Management - HRA	15,276	15,276
Management - General Fund Housing	281	281
Maintenance - Responsive & Cyclical (Managed Budget)	13,312	13,312
Capital - Improvements to Homes (Managed Budget)	66,826	66,187
Capital - Improvement to Environment (Managed Budget)	2,625	2,788
Capital - Managed Budget ICT	496	496
Total Fee	98,816	98,340

- 6.18 The detailed NPH Fee schedule 5 is attached at Appendix 4. Any requirement for a virement to these budgets, or of the Housing General Fund element will be carried out within the rules of the Management Agreement and/or need Council approval through the Executive Director –

Finance. This enables the Council to have assurance that the budgets are spent in line with the budget the Council approves.

HRA Reserves

- 6.19 The HRA has previously prudently 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.
- 6.20 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.
- 6.21 The 2021-22 current budget assumes a contribution to reserves of £639k which will be carried forward to cover future budget pressures. Latest forecasts are indicating that there will be a much smaller contribution to reserves of £120k. The starting reserves position for 2022-23 is therefore forecast to be lower by £519k to what was reported through the draft budget.
- 6.22 The table below shows the estimated balance of reserves at the start of 2022-23, together with any forecast movement during the year. Due to the continuing budget pressures it is not anticipated that there will be any increase in the reserves carried forward. Similarly, at this stage it is not envisaged that any of the reserves will be used to finance any shortfalls.

Reserves	Balance B/f 01/04/2022	Earmarked in Year	Applied in Year	Balance C/f 31/03/2023
	£'000	£'000	£'000	£'000
HRA Reserves	(150)	0	0	(150)
Revenue Reserve	(120)	0	0	(120)
HRA Leaseholder Reserve	(500)	0	0	(500)
HRA Service Improvement Reserve	(950)	0	0	(950)
ERP Agresso Reserve	(50)	0	0	(50)
HRA Insurance Reserve	(300)	0	0	(300)
Total HRA Reserves	(2,070)	0	0	(2,070)
Min Level of Working Balanc	(5,000)	0	0	(5,000)
Total HRA Reserves	(7,070)	0	0	(7,070)

- 6.23 These reserves can be drawn down, at the discretion of the Executive Director – Finance, , to finance the future strategic requirements of the service. The reserves will be subject to change depending on the final outturn position for 2021-22.

Adequacy of Working Balances

- 6.24 A prudent level of working balance, along with appropriate application of reserves, should be part of the overall budget. The Executive Director of Finance reviews the level of balances required to support the Housing Revenue Account spend annually as part of his risk assessment of the budget.
- 6.25 The Executive Director of 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 2022-23. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year.
- 6.26 The Executive Director - Finance has carried out a 'Section 25' analysis which provides a view on the robustness of the estimates and levels of balances held in the general fund and the HRA. The full review is contained within the final budget report elsewhere on this agenda but concludes with a positive opinion on the HRA budget and reserves.

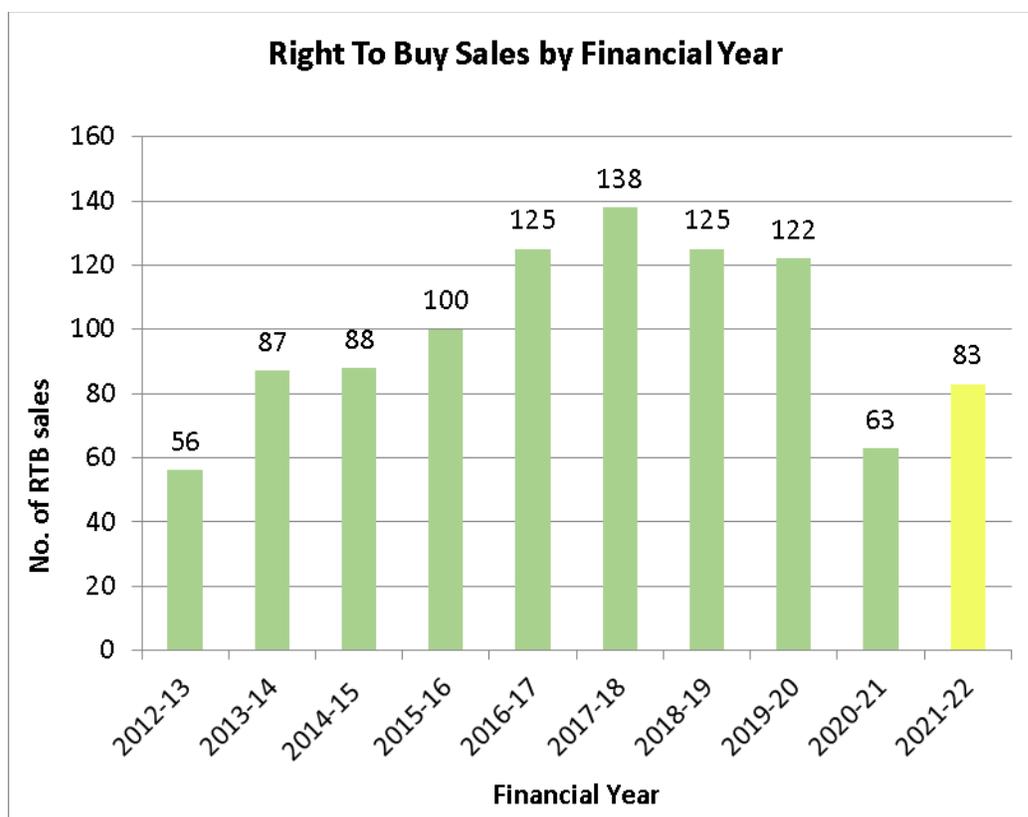
Capital Strategy and HRA Capital Programme 2022-23

- 6.27 The Capital Strategy demonstrates how the Council will make expenditure and investment decisions in line with the Corporate Plan, which sets out the Council's priorities. It sets out the key objectives and broad principles to be applied by the Council when considering capital investment and its funding, and provides the context for how the Medium Term Capital Programme seeks to support the realisation of the Council's vision and corporate priorities.
- 6.28 The Strategy also provides details of the Council's planned future capital programme and capital funding expectations. The emphasis will be on ensuring a robust mechanism to deliver our priorities within the finances available.
- 6.29 A summary of the HRA capital programme for 2022-23 is set out in Appendix 2.
- 6.30 The Capital Strategy is being developed with reference to the requirements of the updated Prudential Code and Treasury Code of Practice and is contained as part of the general fund final budget proposals.

HRA Capital Programme

- 6.31 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.
- 6.32 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 into the capital programme.
- 6.33 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 to the MTFP being brought back Cabinet in 2022-23 as the New Build programme is developed

- 6.34 Included in the capital programme for 2022-23 is a significant investment in the New Build programme (£42.2m). The indicative budgeted MTP 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.
- 6.35 The medium-term plan currently shows a similarly high level of investment in new build over the next 5 years, this is continuously monitored and 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.
- 6.36 Right to Buy (RTB) sales continue to be relatively high due to the increase in discount levels introduced from April 2012. The level of stock loss through RTB sales is set out in the graph below:



- 6.37 It can be seen from the graph that whilst there was a drop in sales in 2020-21 due to the Covid 19 restrictions the forecast sales in 2021-22 are expected to be back to pre-pandemic levels with 83 sales in the year already completed up to the end of November.
- 6.38 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.
- Additional pressure is placed on the revenue budgets through reduced rental income; assumptions around this have been built into the HRA final budgets; and

b) The additional capital receipts, (retained one for one RTB receipt element), must be used towards the provision of new social housing and can only be used to finance up to 40% of this cost. If the Council does not spend the capital receipts within a 5-year rolling timeframe, the receipts, plus an amount for interest, are payable to Government.

6.39 It should be noted that an overarching Housing Strategy is in the process of being formulated. Once the overall approach to Housing is determined within the context of the Housing Strategy there is likely to be a need to fundamentally reconsider the Housing Capital Programme and the financing of that programme going forward.

Changes between Draft and Final capital Programme 2022-23

6.40 The table overleaf shows the changes between draft budget and final budget for the capital programme:

	Draft 2022-23 £000	Proposed 2022-23 £000
External Improvements	17,232	20,430
Internal Works	2,564	2,250
Environmental Improvements	2,625	2,788
Disabled Adaptations	1,500	1,500
Structural Works and Compliance	450	450
IT Development	496	496
New Build Programme/Major Projects	45,080	41,557
Buybacks and Spot Purchases	500	2,500
Total	70,447	71,971

FINANCING:		
Major Repairs Reserve/Depreciation	13,500	13,500
Capital Receipts - RTB (excl 1-4-1)	3,192	3,192
Capital Receipts - RTB 1-4-1 Receipts	3,100	3,100
Capital Receipts - Grant Funding	11,408	11,408
Revenue/Earmarked Reserve	1,238	1,238
Borrowing / CFR	38,009	39,533
Total Financing	70,447	71,971

- 6.41 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.

7. Implications (including financial implications)

Resources and Financial

- 7.1 The resource and financial implications of the Council's draft plans are set out in the body of, and appendices to this report.

Legal

- 7.2 The setting of the budget is carried out in accordance with the Budget and Policy Framework Procedure Rules set out in the Constitution.
- 7.3 The provisions of the Local Government Finance Act 1992 set out what the Council has to base its budget calculations upon, and require the Council to set a balanced budget with regard to the advice of its Chief Finance Officer (Section 151 Officer).

7.4 The robustness of the proposed estimates and the adequacy of the proposed reserves must be addressed in the formal report to be made in February 2022 to both the Cabinet and the Full Council by the Chief Finance Officer (Section 151 Officer). This report is required under Section 25 of the Local Government Act 2003. This report is contained within the general fund final budget proposals considered elsewhere on the agenda but does cover the HRA budget and reserves.

Risk

- 7.5 Whilst the progress made in compiling the statutory accounts for predecessor authorities provides some reassurance regarding the levels of inherited reserves, provisions and liabilities, these accounts are still subject to audit and as such there remains a risk that there may be some changes. The level of balances and reserves is considered sufficient to manage these risks.
- 7.6 Significant risks remain in the HRA budgets such as cost of materials and supply chain issues impacting on delivery of programmes of work, particularly in light of the ongoing impact of Covid-19 and Brexit. The pandemic also has potential ongoing impacts on tenants of the Council. The draft budgets have been constructed having due regard to these risks.
- 7.7 The detailed HRA budgets are subject to continual review and refinement and budgets will continue to be reviewed and refined as part of the on-going budget monitoring process.

Consultation Feedback

7.8 The general fund and HRA budget was subject to a public consultation which closed at midnight on 1 February 2022. The analysis relating to this exercise is included as Appendix H to the GF budget report but covered both the General Fund and the HRA. There was a majority of respondents in agreement with the rental increase of 4.1% and the general service charge increases of 3.1%. The majority of respondents were not in favour of the service charge increases.

Community Impact/Equalities

7.9 An overall Equality Impact Assessment has been completed for the HRA budget proposals for 2022-23. The potential impact of the proposals on those groups has been assessed and, taking into account mitigating action that is planned or that is in place the proposals are considered to have no or low negative impact and in some cases a positive impact on service users.

8 Background Papers

8.1 The following documents disclose important facts on which the report is based and have been relied upon in preparing the report

- Spending Review Announcement 27th October 2021
[Autumn Budget and Spending Review 2021 - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/news/spending-review-announcement-27-october-2021)

- Provisional Local Government Finance Settlement announcement 16th December 2021
[Written statements - Written questions, answers and statements - UK Parliament](#)
- Draft 2022-23 West Northamptonshire Council budget report 21st December 2021
[Agenda item - Draft Budget 2022-23 and Medium Term Financial Plan - West Northamptonshire Council \(moderngov.co.uk\)](#)
- West Northamptonshire Council budget 2012-22, approved by Shadow Authority 23rd February 2021.
[Meeting of West Northamptonshire Shadow Authority on Tuesday 23rd February 2021 - West Northamptonshire Council \(moderngov.co.uk\)](#)