

# WEST NORTHAMPTONSHIRE SHADOW AUTHORITY

## SHADOW EXECUTIVE MEETING

5 January 2021

Report Title	Draft Housing Revenue Account (HRA) Budget, Rent Setting 2021/22 and HRA Budget Projections 2022/23 to 2025/26
Report Author	Martin Henry, Executive Director of Finance Martin.henry@westnorthants.gov.uk

### 1. Purpose

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- 1.1 The purpose of this report is to present for consultation the draft budget proposals for 2021/22, including Rent setting for 2021/22, and forecast budgets up to 2025/2026 for the Housing Revenue Account (HRA) and the HRA Capital Programme and financing proposals.
- 1.2 To note the draft capital programme new build programme that is expected to deliver up to approximately 1,200 new council homes over the next 5years.
- 1.3 The report also outlines the draft Total Fees for Northampton Partnership Homes (NPH) based on the draft 2021/22 budgets.

### 2. Recommendations

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- 2.1 That Shadow Executive note the draft HRA budget including charges and rents as detailed in **appendices 1 and 4** for public consultation.
  - 2.2 That Shadow Executive note the draft HRA Capital Programme and financing, as detailed in **appendix 2** for public consultation.
  - 2.3 That Shadow Executive note the draft Total Fees proposed for NPH in **appendix 3** 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. This report provides the updated financial position and indicative Total Fee for NPH for 2021/22 to provide the services in scope. It should be noted that the Total Fee for NPH in 2021/22 will be subject to approval of the HRA and General Fund Budgets by Council at its meeting in February 2021.
- 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 and Choices**

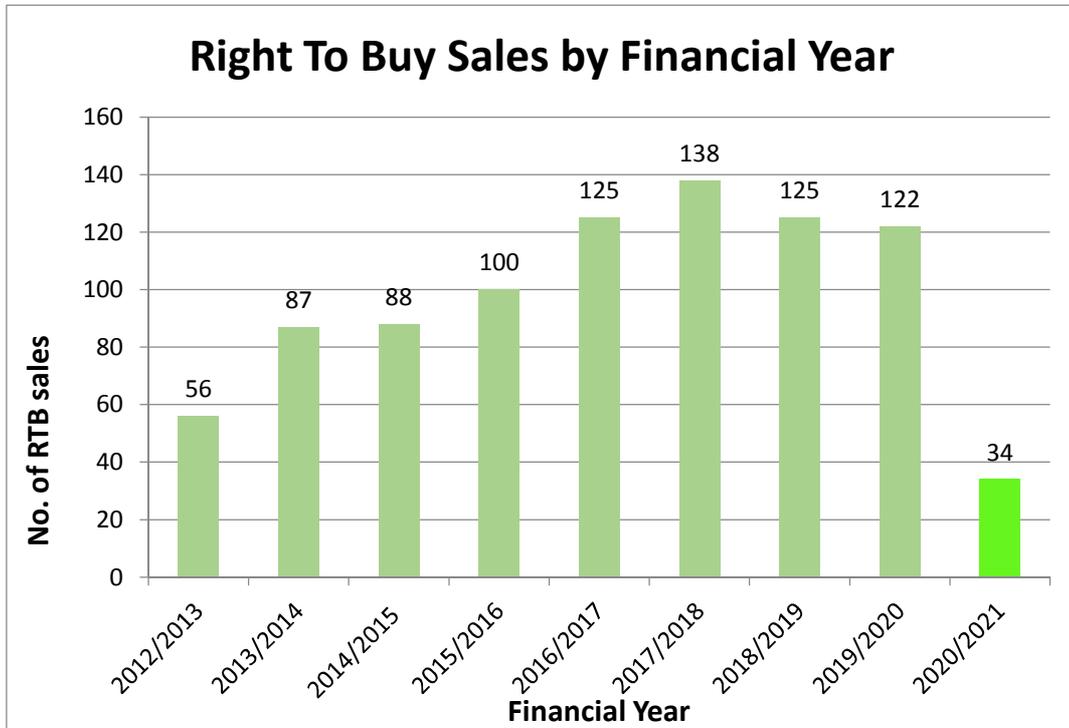
##### **3.2.1 Economic Context.**

There continues to be uncertainty around the national and global economic outlook, caused by various factors including the UK's withdrawal from the European Union and the Covid pandemic. 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.

##### **National and Local Policy**

- 3.2.2 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.
- 3.2.3 More recently the Government has pledged to spend an additional £2bn on affordable housing and a new policy came into effect from 1 April 2020 for future rent increases from 2020/21 with increases to be capped at CPI plus 1% for 5 years.
- 3.2.4 **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 pandemic. The current year's sales at the end of November are 34.
- 3.2.5 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 revised number of forecast sales in the year is 44 and is expected to generate useable capital receipts of £2.1m compared to an 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:



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. Paragraph 3.2.10 provides more detail.

**3.2.6 Housing Consultation** – A new white paper is due out for Social Housing before the end of this calendar year.

A prior White paper consultation, A new deal for Social Housing, ran until November 2018. Government have yet to enact any such changes so the future is not certain.

**3.2.7 Pay to Stay** The Housing and Planning Bill 2016 made provision for the charging of “high income social tenants” with reference to the market rate or other factors based on income and the 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 one for one RTB Receipts. NPH has been working closely with the Council on a 10-year development plan for delivering 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 new build programme is kept under constant review to ensure that it maximizes HRA capacity, safeguards the use of one for one RTB receipts and, where there is a robust business case, enables the delivery of affordable housing. This programme is also leveraging in grant funding from Homes England to support some of the new build projects. It should be noted under current rules that grant funding of schemes cannot occur where one for one RTB receipts are applied.
- 3.2.9 **One for one RTB Receipts** The use of prudential Borrowing in the HRA that enables borrowing that is affordable to fund the part of new build expenditure that one for one RTB receipts cannot meet under the rules. The one for one RTB receipts must be used to fund up to a maximum of 30% of new build, additionality projects or grants to Housing Association schemes. The RTB receipts must be spent within 3 years from receipt under the rules of the 2012 agreement, otherwise they are paid back to Treasury with interest at 4% above base. The outcome of a government consultation, concluded in October 2018, could increase the flexibilities around use of one for one RTB receipts in the future. However, Government have yet to enact any such changes so the future is not certain.

## **Housing Revenue Account Budget 2021/2022**

- 3.2.10 The HRA is a ring-fenced account that represents the costs of holding the Council's 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 2021/22 reflects the current service levels and any proposed changes in service delivery.
- 3.2.11 The HRA budget estimates are attached at Appendix 1 to this report. The main areas to the HRA are reported below
- 3.2.12 **Rental 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 plus 1 percentage point from 2020, for a period of at least five years ('the new policy'). The new policy came into effect from 1 April 2020.

- 3.2.13 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 policy.
- 3.2.14 **Application of the rent standard to local authority registered providers** from 2020 the government has directed the Regulator to apply its rent standard to all registered providers – i.e. to both local authority registered providers and private registered providers (the vast majority of which are housing associations). The government intends that the rent standard should apply to local authority registered providers from 2020 onwards because the previous arrangements for limiting the welfare costs associated with local authority rents (the Rent Rebate Subsidy Limitation scheme) will not operate alongside Universal Credit.
- 3.2.15 **Service Charges.** The schedule of draft Service Charges for 2021/22 is attached at Appendix 3. The level of Service Charges should be set to enable the full recovery of eligible costs incurred. It is proposed that general Service Charges are increased in line with CPI as at September 2020 (0.5%). The Service Charges have been reflected in the draft budgeted income figures.
- 3.2.16 **Repairs and Maintenance.** The revenue repairs and maintenance budget represent 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 for 2021/22, (approx. £6.7m), are reflective of the move to a Self-financing HRA in 2012 where Northampton Borough Council, under the Government's 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 a significant increase in prudential borrowing to fund the ambitious new build programme and it is forecast to increase as more borrowing is taken on in future years. The additional borrowing and therefore the revenue charges through to the HRA is deemed to be affordable.
- 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 2016-20, 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.
- 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 in 2019. 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 2020/21 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 previously been agreed by Northampton Borough 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 and the changes in available funding services in scope. The HRA Business Plan will be updated for the purposes of setting the final budget. It should be noted that further work with NPH is ongoing and 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 2021. The table below shows a summary of the draft 2021/22 Total Fee proposed. A further breakdown and detail can be found at Appendix 4.

**Summary Table of Total Fee to NPH for 2021/22**

<b>NPH Management Fee</b>	<b>2021/22 £'000s</b>
Management - HRA	14,793
Management - General Fund Housing	282
Maintenance - Responsive & Cyclical (Managed Budget)	12,633
Capital - Improvements to Homes (Managed Budget)	49,868
Capital - Improvement to Environment (Managed Budget)	3,000
Capital - Managed Budget ICT	426
<b>Total Fee</b>	<b>81,002</b>

- Note this includes £228k of additional budget request that will be subject to Executive Director of Finance approval if it is to be included in the final budget

3.2.22 The funding pressures for 2021/2022 have 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 2021 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 and savings will need to be built into NPH future budget plans.

- 3.2.23 A summary of the overall draft HRA budget for 2021/22 and 2022 to 2026 is contained in Appendix 1.

### **HRA Reserves**

- 3.2.24 In previous years, Northampton Borough Council 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 2021. 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>Reserves</b>	<b>Balance B/f 01/04/2021</b>	<b>Earmarked in Year</b>	<b>Applied in Year</b>	<b>Balance C/f 31/03/2022</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
HRA Reserves	(128)	0	128	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>(1,928)</b>	<b>0</b>	<b>128</b>	<b>(1,800)</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>(6,928)</b>	<b>0</b>	<b>128</b>	<b>(6,800)</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. These reserves can only be used for the HRA.

### **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 Executive Director of Finance will review the level of balances required to support the HRA spend

annually as part of the formulation of the budget. The view of the Executive Director of Finance is that the HRA balance should remain at the current level of £5m for 2021/22. This minimum level is designed to cope with unpredictable circumstances, which cannot be addressed by management or policy action within the year. 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 shadow executive in February 2021.

### Housing Revenue Account Capital Programme

- 3.2.27 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.
- 3.2.28 The proposed HRA capital programme for 2021/22 to 2025/26 is attached at Appendix 2 and summarised in the table below for 2021/22. The value of the total proposed HRA capital programme for 2021/22 is £59.8m.

<b>Capital Programme 2021/22</b>	<b>2021-22 £'000</b>
External Improvements	11,650
Internal Works	3,050
Structural Works and Compliance	450
Disabled Adaptations	650
Environmental Improvements	3,000
IT Development	426
New Build Programme/Major Projects	34,068
Buybacks and Spot Purchases	6,500
<b>Total HRA Capital Programme</b>	<b>59,794</b>
<b>FINANCING:</b>	
Major Repairs Reserve/Depreciation	15,150
Capital Receipts - RTB (excl 1-4-1)	2,912
Capital Receipts - RTB 1-4-1 Receipts	6,270
Capital Receipts - Grant Funding	12,482
Revenue/Earmarked Reserve	1,083
Borrowing / CFR	21,897
<b>Total Financing - HRA</b>	<b>59,794</b>

- 3.2.29 The Asset Management Plan has been reviewed by NPH and is refreshed annually with the latest information. This will need to be put through the HRA Business Plan and future budgets. In addition to this included in the draft capital programme is a significant investment to the New Build and Major works for 2021/2022, (£34.1m to deliver up to 200 new homes in year), reflecting the ability to prudentially borrow within the HRA, use of one for one receipts and leveraging in of grant funding. This has been included in the draft

budget and will inform the refresh of the Council's HRA Business Plan for 2021/2022. 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 and the revenue impact has been factored into the budget for 2021-22.

3.2.30 Although the 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 for the following 5 years is expected to deliver up to 1,200 new council homes.

3.2.31 The detail of the HRA capital programme for 2021/22 and beyond will be refined in line with annual updates to the Business plan, Asset management plan, and any changes to government policy and legislation.

3.2.32 The proposed HRA capital programme for 2021/22 includes a £6.5m budget to purchase former council properties and purchase properties available on the market which are of a strategic importance.

### **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 overall strategy has been refreshed and will be part of the budget setting documentation that is considered by the full authority in February.

## **3.3 The Next Steps**

3.3.1 This report seeks the noting and endorsement of the HRA draft budget. The final HRA budget will be brought back to shadow executive in February and then onto the full authority meeting on 23 February 2021 where it will be considered alongside the general fund revenue budget and Council Tax setting report.

## **3.4 Consultation**

3.4.1 Formal consultation with the public and stakeholders including local businesses will be launched in January 2020 and will continue for four weeks.

## **3.5 Choices (Options)**

3.5.1 Shadow Executive are requested to receive the draft budget proposals for 2021/22 for the HRA and HRA Capital programme and indicative budgets for 2022/23 to 2025/26 as summarised in the appendices to this report for information and note they will be used for consultation purposes.

3.5.2 Cabinet can note the proposed Rent increase of 1.5% for 2021/22 and increases in service charges.

## **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 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 must comply with various legislation and administrative duties.

## **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 Appendices**

The **Appendices** are set out as follows:

- 1 Draft HRA Budget Summary
- 2 Proposed HRA Capital Programme and Financing
- 3 Schedule of Proposed HRA Fees and Charges
- 4 NPH Total Fee Detail

## **4.6 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. They seek to avoid any negative environmental impact.

4.6.2 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

#### **4.7 Other implications**

4.7.1 None.

### **5. Background Papers**

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5.1 None