Part I – Release to Press

Meeting:	**EXECUTIVE**	**Agenda Item:**	**5**
Portfolio Area:	HOUSING HEALTH & OLDER PEOPLE AND RESOURCES		
Date:	**19 SEPTEMBER 2017**		

Excellent council homes for life

Financial security

HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY (2017/18 – 2021/22)

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1. PURPOSE

1.1. To update Members on the national public finance context and the impact on the Council.

1.2. To advise Members on the current and future position of the Council's Housing Revenue Account budget over the next five years.

1.3. To propose Financial Security targets for the period 2018/19 – 2021/22.

1.4. To update Members on any funding gap in the HRA Business Plan

1.5. To update Members on the 'Financial Security' Future Town Future Council priority.

2. RECOMMENDATIONS

2.1 That the Medium Term Financial Strategy (MTFS) principles, as outlined in paragraph 4.1.5 to this report, be approved.

2.2 That, for modelling purposes rents fees and charges increases are in line with inflation (subject to regulation), with any increase above inflation used to contribute towards the Financial Security target.

2.4 That for modelling purposes the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.4 refers) be approved.

2.5 That a HRA Financial Security Target of £0.855million be approved for the period 2018/19- 2020/21, of which £774K which has still to be implemented, (section 4.13 refers).

2.6 That new HRA growth approved for priority schemes be funded from within the existing baseline budgets or further savings in addition to the target identified, (paragraph 4.12.8 refers).

2.7 That the Capital Programme assumptions contained within the report are approved for the existing programme and new build properties.

2.8 That the current £26Million capital funding shortfall over the 30 year business plan, (paragraph 4.12.5 refers) be noted.

2.9 That £2Million of borrowing headroom is reserved within the overall borrowing headroom for the transfer of any General Fund land sites to the HRA to facilitate housing development, (paragraph 4.11.7 refers).

2.10 That £2.46Million of borrowing headroom is reserved for any impact of the revised S20 policy (paragraph 4.11.6 refers).

2.11 That the Leader's Financial Security Group oversees the development of the 2018/19 – 2020/21 savings package.

2.12 That a minimum level of balances for the HRA of £2.793million, be approved for 2018/19 (section 4.11 refers), with balances up to £20.398Million held for to fund the future years capital programme and debt repayments and minimum balance levels.

2.13 That if material changes to forecasts are required following further Government announcements the Assistant Director (Finance and Estates) be requested to revise the Medium Term Financial Strategy and re-present it to the Executive for approval.

2.14 That public consultation is in line with the requirements of the Council's Consultation and Engagement Strategy.

2.15 That the Trade Unions and staff be consulted on the key messages contained within the Medium Term Financial Strategies and more specifically when drawing up any proposals where there is a risk of redundancy.

3. BACKGROUND

3.1 This report provides an update on the full revision of the 2016 HRA Business Plan published in November 2016. This document provides an update on the assumptions contained with the 2016 report, such as inflation and income projections, which will determine whether the capital and revenue programmes are still affordable with the revised resources available.

3.2 This report will update financial assumptions for the impact of government initiatives where they are known and flag as risks those that cannot be quantified at the current time, such as BREXIT.

3.4 The Future Town Future Council priorities of Stevenage include ‘Excellent Council Homes for Life’ and ‘Housing Development’ and there may be a financial impact on the Housing Revenue Account to deliver the Council’s ambitions around its Future Town Future Council priorities. This report will identify known funding options to help deliver these ambitions and identify risks where known.

3.5 Since the last Business Plan update the Chief Executive has delivered a senior management restructure which is now implemented at the tier three level (Assistant Director and above). However, the financial impact of all of the Assistant Directors’ restructures is currently being drawn up and assessed and the impact of these was not identified at the time of writing this report, however any cost base changes will have due regard to the financial envelope the HRA Fund operates within.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 Purpose of the Medium Term Financial Strategy

4.1.1 The MTFS and the HRA Business Plan are the Council’s key Housing Revenue Account financial planning documents, setting out the Council’s strategic approach to the management of its housing stock. This includes:

- Rent Projections
- New Build Projections
- Treasury Management
- Review of the debt scheduling
- Funding of the Capital programme
- Projections of Financial Security targets
- Future pressures and risks
- Inflation projections

4.1.2 The HRA Business Plan is the 30 year plan which demonstrates that the Council’s management of the housing stock and capital works are affordable within the funds available and allows sufficient funding to be available to pay for the interest and debt repayments. The MTFS looks at these plans over a five year horizon and is a check that the HRA Business Plan is still financially viable.

4.1.3 The MTFS underpins the Council’s key priorities for Stevenage as set out in the Future Town Future Council agenda “Excellent Council Homes for Life” and “Housing Development”. The need to set annual financial security targets within the MTFS is not a Council priority in itself, it is rather a tool to facilitate the Council in achieving its Future Town Future Council priorities and maintain adequate funding for the services the Council provides, while maintaining prudent level of reserves. The Council’s ‘Financial Security’ methodology is a five strand approach for achieving this (section 4.3 refers)

4.1.4 The MTFS identifies the level of financial reduction required and the Financial Security priority helps deliver this. The HRA Business Plan was fully reviewed in November 2014, 2015 and 2016 and this report is a refresh of those assumptions.

4.1.5 There are some overarching strategic financial objectives of the MTFS and business plan and the MTFS principles for financial planning purposes are summarised as follows:

MTFS principles
Provide funding to build 1900 new homes over 30 years, new social and affordable rented homes that contribute to meeting local housing demand and the needs of an ageing population.
Provide funding for investment in the existing housing stock to ensure the ongoing quality and sustainability of the assets and levels of decency retained
To meet the cost of borrowing over the 30 year Business Plan
Leave borrowing headroom within the HRA to deal with unforeseen events and changes to government legislation
To consider as part of the budget setting process, and throughout the year as necessary, what support can be given to the tenants and leaseholders in times of particular hardship.
To use the Council's reserves in a cost-efficient and planned manner to deliver the Council's priorities.
To maximise the Council's income by promptly raising all monies due and minimising the levels of arrears and debt write-offs.
In setting HRA balances a % for overruns (currently 1.5%), specific known risks, loss of savings & risks associated with new ventures and the cost of borrowing for the capital programme is included.
To identify variations to the approved budget via quarterly monitoring and only incur additional on-going spending when matched by increased income, identified savings or additional resources.
To set rents and service charges at levels that are affordable and offer value for money to tenants and leaseholders (within national policy constraints), whilst ensuring that a healthy HRA is maintained to enable ongoing investment.
To offer 50% of new build units at affordable rent levels, subject to individual affordability assessments being undertaken and the outcomes of this approach being kept under review.
To propose service charges that are recovered at full cost to ensure adequate resources are maintained in the Business Plan
To ensure that resources are aligned with the Council's Strategic Plan and corporate priorities

4.2 The Economy

4.2.1 Since the last 2016 Strategy update there has been an election (8 June 2017) , a change in Prime Minister and a new government agenda. The snap election cut short parliamentary time to get legislation passed in 2017/18 and some of the previous conservative housing pledges do not seem to be progressed, such as the use of 'Higher Value Voids' to fund an extension to the Right to Buy Scheme. The impact of the Government's main agenda, BREXIT on local government and the housing market is still not clear. In the intervening period the pound is weak against the dollar and euro, so pushing up the cost of imports and inflation.

4.2.2 The Bank of England has lowered its growth forecast for the UK economy in 2017, and now expects GDP to expand by 1.7%, down from a May estimate of 1.9%. CPI Inflation is expected to be up by 2.7% this year, before falling back to 2.6% in 2018 and 2.2% in 2019. Separately, the Bank's rate-setting committee voted 6-2 in favour of leaving interest rates at 0.25% (August) according to minutes from its most-recent meeting. The minutes note that, should the economy evolve as the Bank is expecting, interest rates could be lifted by more than financial markets are currently pricing in. Those market expectations are for two rises to 0.5% and then to 0.75% over the next three years.

4.2.3 Changes to welfare payments in terms of Universal Credit (UC) continues to be introduced a slow pace with all new claims now estimated to have migrated by June 2018. There have been 201 council house tenants that have transitioned to UC to date.

4.2.4 The reductions to the Housing Benefit cap to £20,000 for a couple or a single person with children (outside London) in the Autumn of 2016, have affected 68,000 households nationwide.In Stevenage there were an estimated 153 live cases at the 3 August 2017 (101 SBC tenants).

4.2.5 Since the 2012 self-financing legislation was enacted there has been a number of government initiatives/legislation that have had a significant financial impact on the HRA. The most significant being the Welfare Reform and Work Act 2016 which put in place a 1% rent reduction over a four year period, estimated to cost £225Million over 30 years. In addition increases in the discount level for RTB's has diminished the level of resources available to fund the capital programme and rules around the use of one for one receipts has placed further restrictions on the use of RTB receipts. These changes have resulted in a reduction in planned capital works (2016 HRA BP review) and the need for a Financial Security target for the HRA.

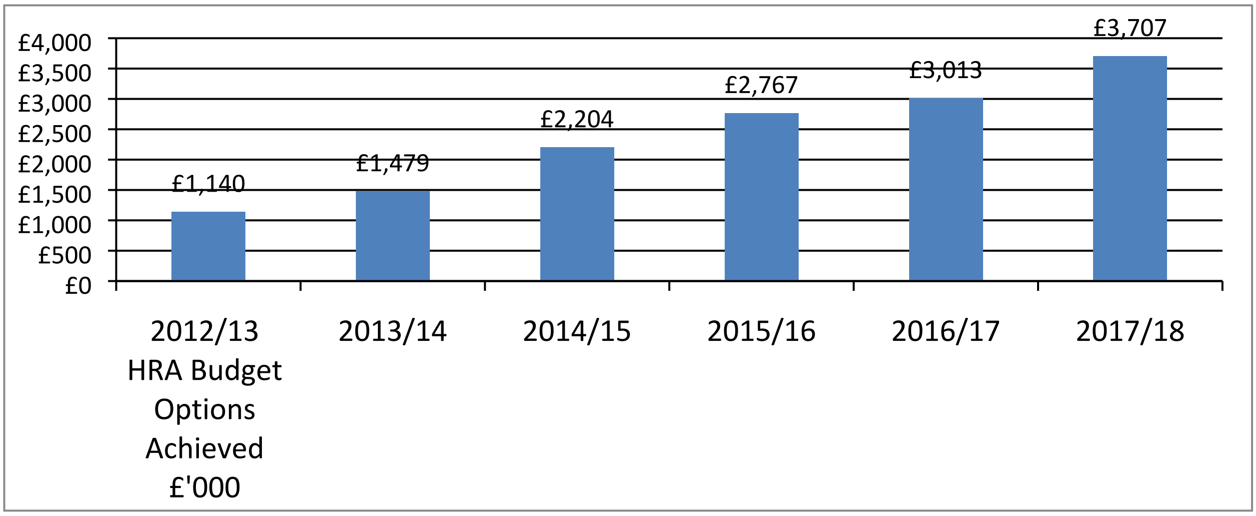
4.2.6 The impact of government legislation over the next five years on the HRA has been assessed/estimated and a total £38.4Million for the HRA.

Housing Revenue Account:	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000	Total £'000
Rent reductions 1% reduction (four years)	2,009	3,672	5,516	5,593	5,683	22,473
Increase in RTB discount	2,230	2,336	2,429	2,520	2,608	12,123
Higher Value voids (not yet introduced)	0	732	756	782	808	3,078
Increased demand for services/impact on arrears - due to welfare reforms	Not yet fully known					
Introduction of state pension (increased national insurance contributions)	105	105	105	105	105	525
Introduction of Apprentice levy	32	32	32	32	32	160
Impact of BREXIT	Not yet fully known					
Total HRA	**4,376**	**6,877**	**8,838**	**9,031**	**9,236**	**38,359**

4.3 Stevenage Financial Position

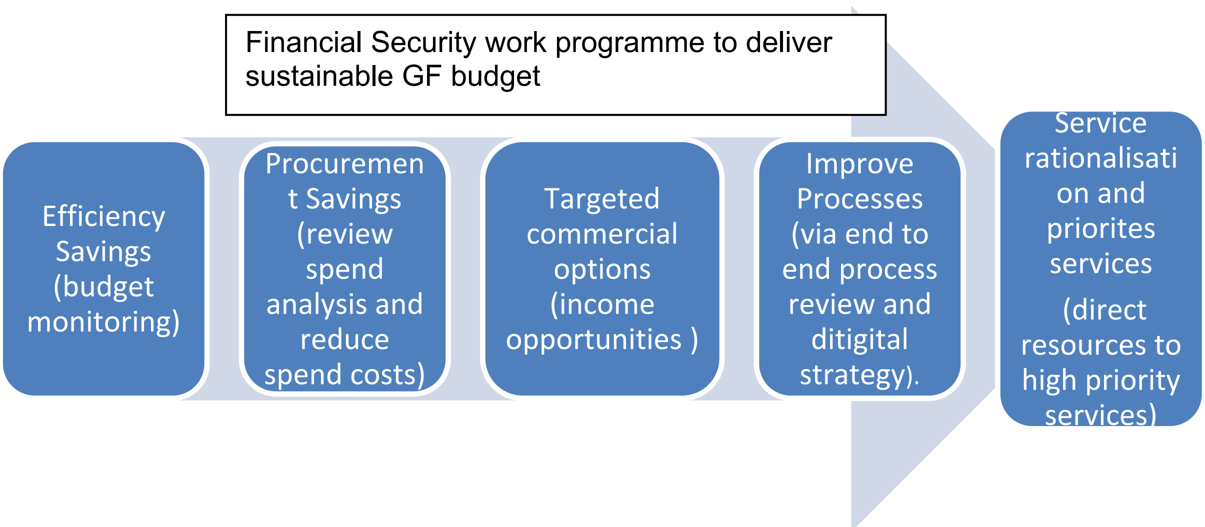
4.3.1 The changes made to Housing finance in recent years have meant the HRA has had to review its delivery plan and reduce expenditure and at the same time find annual savings to meet the cost of maintaining its housing stock and its management. The table in 4.2.6 sets out the income reductions that the HRA has/will experience over the next five years.

4.3.2 Over the last few years financing HRA revenue and capital and including changes to government policy have necessitated budget reductions which cumulatively total £3.7Million. The level of budget reductions achieved from initiatives such as 'Priority Based Budgeting' and from 2017/18 the 'Financial Security' priority are shown in the chart below.



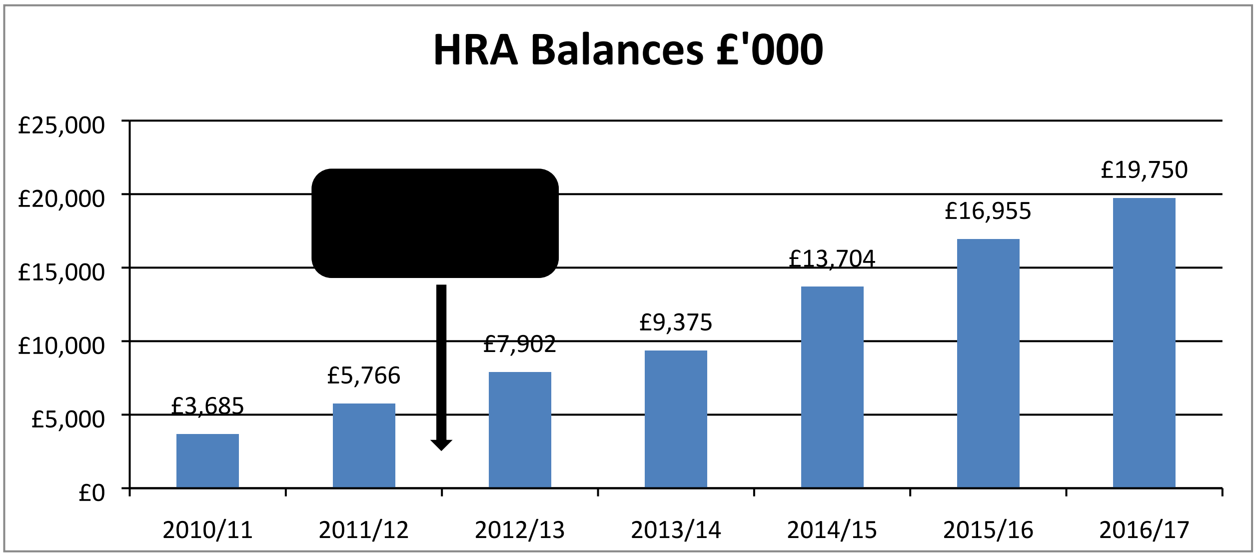
4.3.5 The cumulative budget reductions include efficiencies realised by taking the housing service back in-house from the 'Arms Length Management' Company (ALMO). Budget reductions have also been redirected to support the HRA Delivery Plan ambitions as well as funding shortfalls as outlined above.

4.3.6 As with the General Fund, the Council's Financial Security priority is the process that looks over a three year savings horizon to deliver options to reduce net spend based on five strands which are summarised below.



4.3.7 An officer group led by the Assistant Director (Finance and Estates) meets to discuss and monitor options brought forward under the five strands. This group meets with LFSG on a regular basis to look at these options. ‘Financial Security’ is dealt with in more detail in section 4.13.

4.3.8 The MTFS projections for the HRA must be set in the context of the level of savings that are achievable (‘Financial Security’ work programme), whilst ensuring that a prudent level of HRA balances are maintained for unseen events. The net year end position since self-financing has required the HRA to hold higher balances to allow for the future years repayment of debt. This was because the original business plan had significant debt repayments in the latter part of the 30 year business plan.



4.4 Inflation

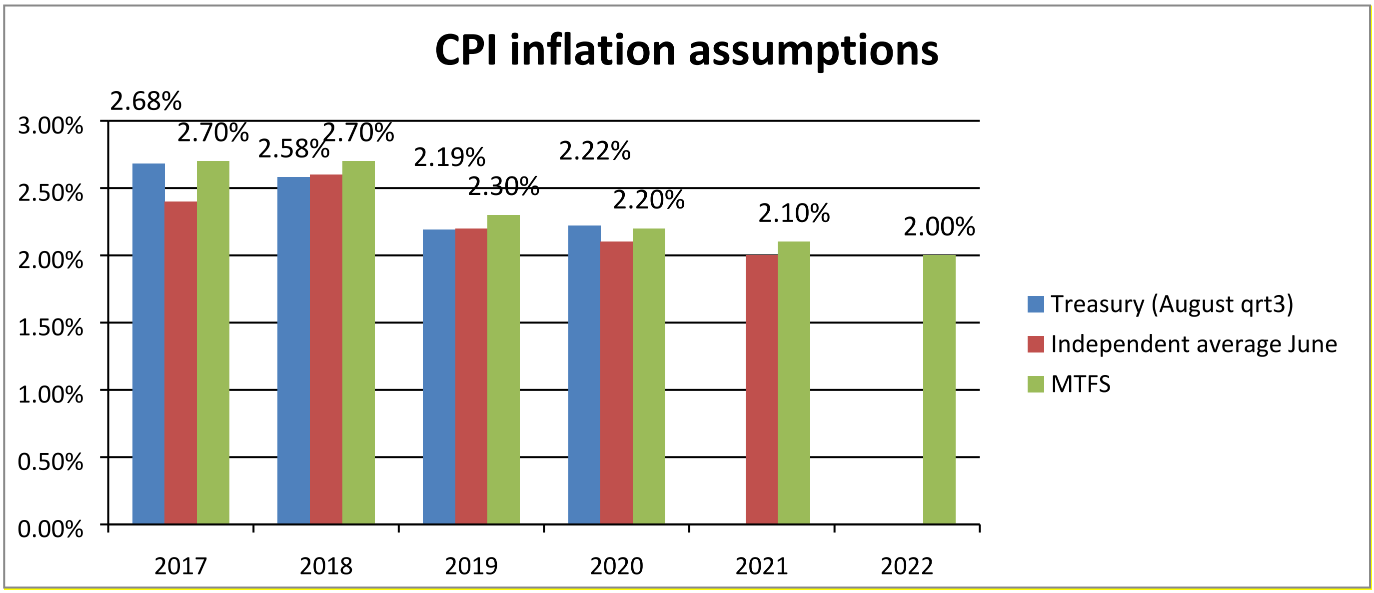
4.4.1 The assumptions made in this report together with other known budget adjustments are detailed in the MTFS in Appendix A. Further detail regarding the rationale for the inflation assumptions made in the MTFS are summarised in the following paragraphs.

	2018/19	2019/20	2020/21	2021/22
Inflation-Applied to:				
Salaries - % increase	2.00%	2.00%	2.00%	2.00%
Pension Increase			0.70%	0.70%
CPI indices increases	2.70%	2.30%	2.20%	2.10%
RPI indices increases	3.70%	3.30%	3.20%	3.10%
BCIS	2.80%	3.80%	4.40%	4.60%
Fuel Increases	4.00%	4.39%	4.64%	4.99%
Gas (unit charge only)	11.55%	11.56%	11.56%	11.56%
Electricity (unit charge only)	8.56%	9.73%	9.73%	9.73%

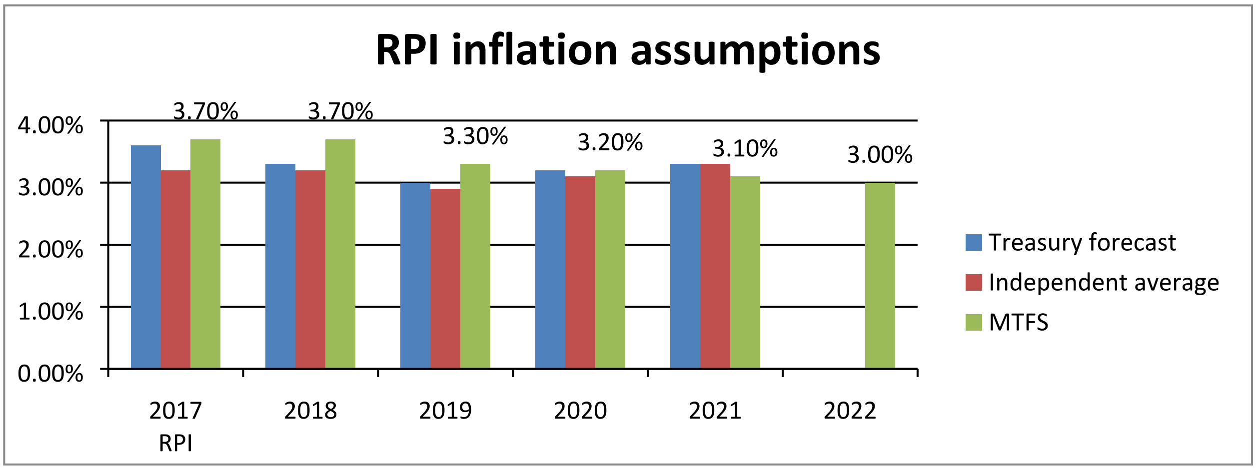
4.4.2 The inflation assumptions shown in the table above have been calculated using a range of information sources which are:

	Rationale for inflation assumption
Salaries - % increase	No pay deal has been agreed for future years however the union have submitted a 5% pay deal. Employers side have acknowledged the pay spinal points need to be reviewed and there have been below inflation pay increases for a number of years. The 2% is for modelling purposes only.
Pension Increase	The increase for 2017/18 at the triennial review was an increase from 16.8% to 18.5%. Previously the lump sum payable had increased. At the next review it is anticipated that there will be a further increase to the percentage of pay of 0.7% to 19.2%.
Consumer Price Index (CPI) indices increases	Based on the Bank of England and independent forecasts as outlined in the August quarterly update. But with higher inflation in 2018/19-2019/20 to factor in any impact from BREXIT and based on 2017/18.
Retail Price Index (RPI) indices increases	This is based on a 1% differential between the CPI forecast.
BCIS	This is 2.5% in 2017/18 and for future years is based on the BCIS future years forecast which are projected to increase higher than the RPI indices.
Fuel Increases	Based on estimate for 2018/19 0.5%-2% above RPI inflation
Gas/Electricity (unit charge only)	This has proved difficult to forecast and the MTFS contains the average increase annually which the council has experienced in addition to the current forecasts.

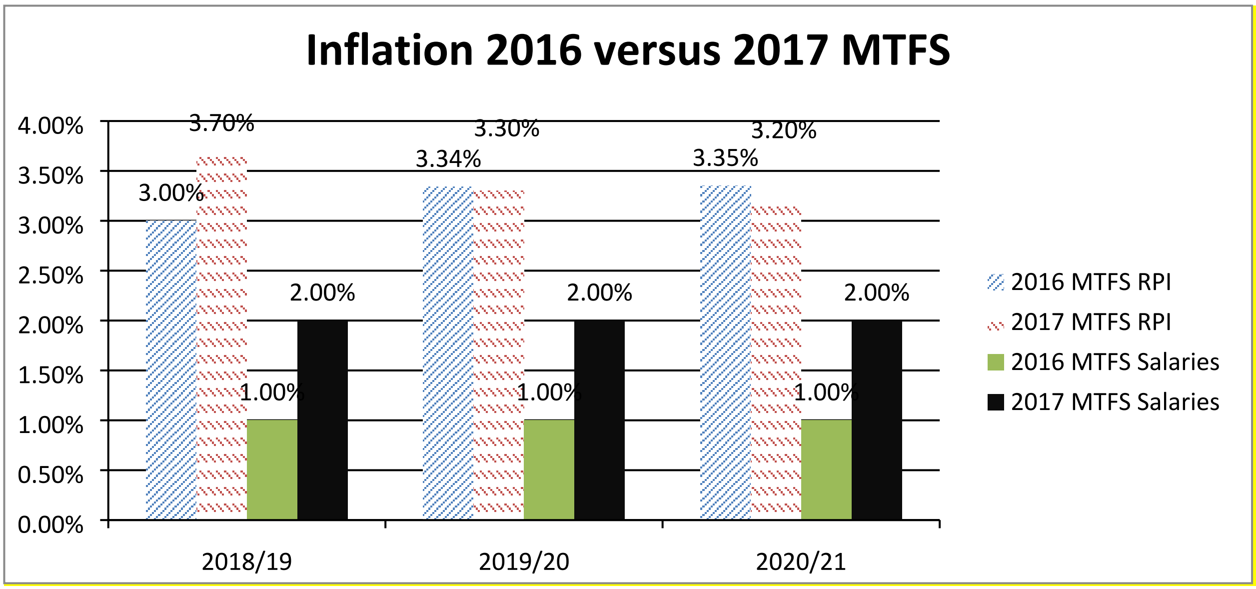
4.4.3 The summary in the following chart is based on the Monetary Panel Committee (MPC) best collective judgement of the most likely path for inflation as published August 2017, Independent analyst published June 2017, compared to the increases included in the MTFS.



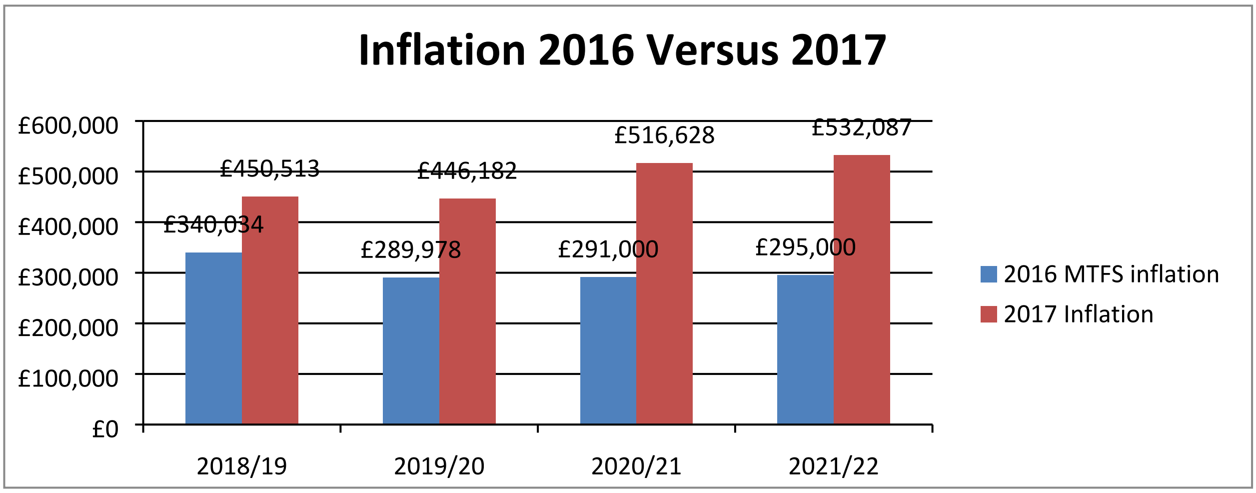
4.4.4 The MTFS RPI assumptions compared to the Bank of England and other independent analysts is shown below. The Government prefers to use the CPI indices to measure inflation, however a number of the Council's contracts and income streams (Business Rates) are linked to the September RPI. There is a differential between the two indices which tends to be about 1% higher than CPI .



4.4.5 The updated assumptions are slightly higher in the next two years than estimated in 2016 Business Plan.



4.4.6 The significant impact is that of increasing the salary inflation from 1% to 2% (inflation totals also include impacts of increments). The 2016 and the revised inflation (revenue) for the HRA for the period 2018/19-2021/22 is summarised in the chart below. This adds £729K of additional expenditure over the period 2018/19-2021/22 (£492K over 2018/19-2020/21).



Note: excludes capital expenditure inflation

4.4.7 Increases in inflation projections which increase future rental streams (legislation permitting beyond 2019/20) also increase costs and has an impact on the revenue and capital programme, the latter is discussed in section 4.8 of this report.

4.4.8 As well as capital works to the existing stock, the development of new homes is not immune from inflationary pressures. The construction industry is experiencing a volatile period where labour, materials and haulage prices are creating an upward pressure on build rates. The uncertainty surrounding Brexit negotiations is further adding fuel to these pressures and making inflation a higher risk item to development programmes that are predominantly focused on delivering a rented product. Development for private sale is able to offset some of these inflationary pressures as shortage in supply as well as increasing build costs have an equalising effect by also increasing sales prices. This will be explored on a case by case basis.

4.4.9 The SBC HRA development programme will seek to contain inflationary pressures within a 3 or 4 year build cycle and as a potential solution aim to develop additional homes for private sale alongside the bulk of the programme which will be for rent to mitigate any additional cost. This is an alternative to building in higher inflationary pressures and potentially being forced to scale back the development programme.

4.5 Rent Policy

4.5.1 The objectives of the Rent and Service Charge Setting Policy are:

- to identify how the Council will set rents and service charges for residential properties;
- to provide for rents at a level that is financially viable for the Council's tenants whilst;
- ensuring the viability and delivery of the Council's 30 year HRA Business Plan and Medium Term Financial Strategy, within the current restraints of Government rent setting legislation and guidance;
- to detail the process for providing statutory notice to tenants of proposed changes in rent levels;
- to ensure transparency and value for money when setting and reviewing service charges for both tenants and leaseholders

4.5.2 Rents will be set at a level, subject to the restraints of current Government rent policy, that ensures that the Council can meet its landlord obligations to tenants by delivering good quality services. This includes continuing to maintain stock to a high modern standard, investing to reduce fuel poverty, providing new social housing to rent and delivering a financially viable Housing Revenue Account over the longer term.

4.5.3 The original HRA Business Plan was approved by Members in March 2012, this was the first 30 year plan and the Council was about to pay the Government £199Million for 'buying' the HRA properties out of the subsidy system in return for 'self-financing', this was predicated on a rent increase of RPI+0.5%+/-£2. This was also government policy at the time and the business plan also assumed that the stock would be 100% social rents.

4.5.4 The Government subsequently switched to a rent policy of CPI+1% in 2015 which resulted in a reduction in rental income projections. The HRA does not have a basket of fee earning streams but is reliant on either rental income or RTB sales to fund its capital programme. Anything that reduces the amount of income that can be raised through rent will have a detrimental impact on the capital programme and any revenue activities.

4.5.5 In 2016 the Government introduced the Welfare Reform and Work Act. This Act changed the provisions for setting social rents, by legislating that social housing rents in England are reduced by 1% a year for four years from April 2016. 2017/18 will be the second year when a 1% rent reduction (excluding LSSO properties) will be applicable for councils with housing stock.

4.5.6 The impact of the 1% rent reduction on an average rent can be seen in the following table. Over the four year period a CPI+1% increase would be 9.55% increase in average rents compared to a 3.94% reduction, giving an overall difference of 13.49% and an estimated rent loss for four years of £5.5Million.

Impact of 1% rent reduction	2016/17	2017/18	2018/19	2019/20	Incr.(decr.) after 4 years £	Incr./(decr.) after 4 years %
Rent based on CPI+1%	£99.48	£101.47	£104.51	£108.00		
Increase per year	£0.89	£1.99	£3.04	£3.49	£9.41	9.55%
Rent with 1% rent reduction	£97.60	£96.63	£95.66	£94.71		
Decrease per year	(£0.99)	(£0.98)	(£0.97)	(£0.96)	(£3.88)	-3.94%
Overall loss per average property	£1.87	£2.97	£4.01	£4.45	£13.30	
Estimated rent loss per year	£777,711	£1,231,047	£1,663,670	£1,843,108	£5,515,537	

4.5.7 The key principles behind charging and as approved in the rent and service charge policy in January 2017 are:

- The Council will continue to re-let at formula rent. This re-let at formula rent is subject to the 1% rent reduction. The re-let at formula rent will not apply to mutual exchanges where a new tenancy is not created. It also does not apply to transfers where the under-occupation charge is a factor

- Properties exempt from the 1% rent reduction will have rents set in line with CPI+1%

- New build properties will be let at a ratio of 50:50 social to affordable (subject to .4.5.8-4.5.9 below).

4.5.8 The Council piloted a new build scheme let at affordable rents (2016) and is continuing to monitor the outcomes in terms of demand and affordability. It was recommended that agreement to 50% affordable rents is subject to its implementation being kept under review. Members noted that should 50% of new builds not be let at affordable rents, then alternative options for reducing expenditure to offset the estimated additional rental of £36Million (over 30 years) would have to be found.

4.5.9 Therefore the specific proposal to offer 50% of new build units at affordable rent levels was agreed, subject to its implementation being kept under review by the Housing Development Executive Committee, to inform future decision making in this regard. This assumption has been included in the Business Plan rent calculations.

4.5.10 The rent projections include assumptions about void levels which are based on the a percentage of rental income, the percentages (as shown in the table below) were used for the 2016/17 and 2017/18 budget setting process. However in the current year void loss to week 13 is £101,832 with an additional void loss of £145,000 over the original budgeted amount of £201,000 giving a total void loss projected of

£346,000 for the year. A new process for voids has been implemented by the Repairs and Voids Team with the empty homes officers being relocated to Cavendish Road.

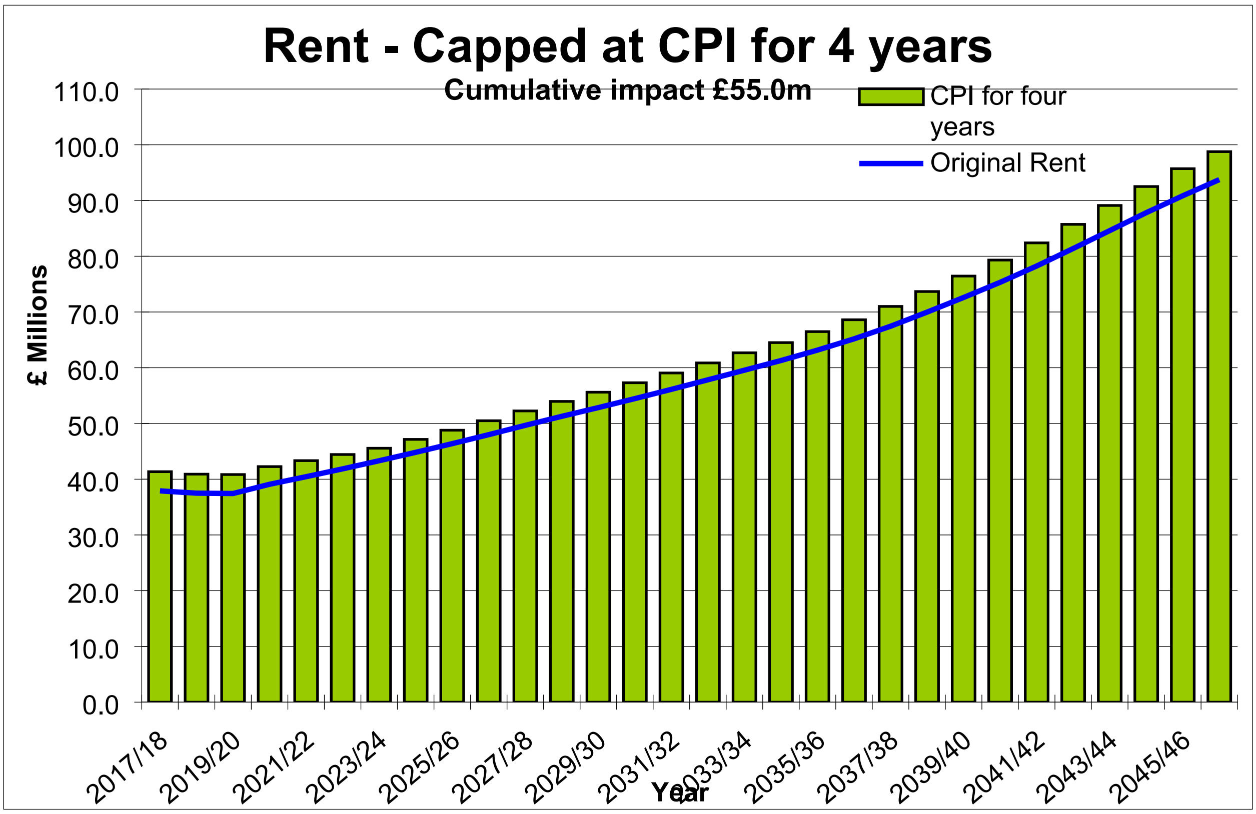
Officers are currently looking at how performance can be improved. The losses are exacerbated by voids being re-let at formula rents so increasing the projected rental loss. The rent estimates for 2017/18 include an additional £19,890 of income from letting void properties at their formula rent.

	Rent loss Assumed for 2018/19						
	Houses General Needs	Flats General Needs	Sheltered Properties	LSSO	Homeless	New Build	Total Loss
Void Loss %	0.24%	0.24%	2.43%	0.00%	5.80%	0.40%	
Void Loss £	£62,123	£22,198	£95,524	£0	£34,558	£1,588	£215,992

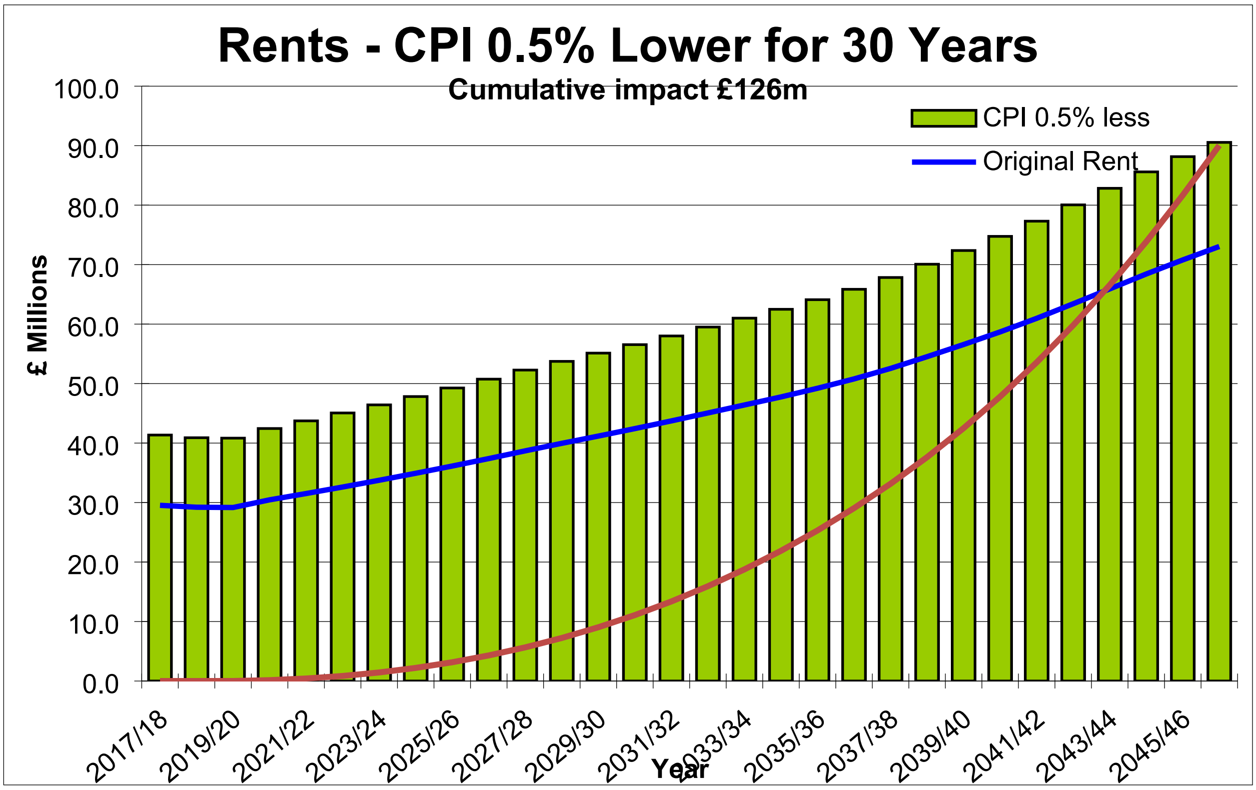
4.5.11 The estimated rent increases in the MTFS are shown in the table below and the impact of the 1% rent reduction is evident, the rent loss is higher in 2018/19 as a number of properties are decanted ready for demolition and a new sheltered scheme is built.

	2018/19	2019/20	2020/21	2021/22
CPI increases	2.70%	2.30%	2.20%	2.10%
General Housing stock	-1.00%	-1.00%	3.20%	3.10%
Low start shared ownership	3.70%	3.30%	3.20%	3.10%
Rental income ()= income	£567,693	£90,086	(£1,844,205)	(£1,465,148)

4.5.12 The Business Plan assumes that after 2019/20 there will be a return to CPI+1% rent increase from then on, however there is no guarantee this will be the case. Some scenario testing has been done regarding different rent increases and if rents were restricted to just CPI for the four years post 2019/20 there would be rental loss of £55Million as shown in the chart following.



4.5.13 Should CPI be 0.5% lower for 30 years there would be a £126Million loss of rental income, albeit this could be partly offset by lower inflation increases depending on the relationship between CPI, RPI and the BCIS index. Until more is known about rent increases beyond 2019/20 it makes accurate modelling over the 30 years very difficult.



4.6 Service Charges

4.6.1 The MTFS assumes for modelling purposes a RPI inflation increase for service charges and the higher utility inflation for those relating to heating or electricity. However only the actual cost of providing those services can be charged and these charges will be estimated as part of the budget setting process in December 2017.

4.6.2 The rent and service charge policy says that 'any service charges will be set annually to recover the full costs incurred in providing the services. The Council will consult with tenants and leaseholders regarding the setting of service charges, including what services are provided and why charges are incurred.'

4.6.3 The estimated service charge increases in the MTFS are shown in the table below and the charges match the anticipated cost increases from inflation. Actual service charges for 2018/19 onwards will be based on the most up to date information and inflation costs known at the time.

Service Charges *()=increased income)*	2018/19	2019/20	2020/21	2021/22
RPI indices increases	3.70%	3.30%	3.20%	3.10%
Utility increases- gas	11.55%	11.56%	11.56%	11.56%
Utility increases- electricity	8.56%	9.73%	9.73%	9.73%
Service Charge (tenant) income increase	(£51,477)	(£51,116)	(£53,529)	(£56,156)
Service Charge (leaseholders) income increases	(£27,319)	(£25,267)	(£25,310)	(£25,304)
Total service charge increase	(£78,796)	(£76,383)	(£78,839)	(£81,460)

4.6.4 There is a review of service charges currently underway which may see additional services included in service charges as opposed to rent or a change to the level of service provided. This will be subject to tenant and leasehold consultation and is not likely to be in place until April 2019.

4.7 Supported Housing Charges and Other Fees and Charges

4.7.1 Supported Housing has been funded through significant supported people grant (from HCC), which over time has been eroded. The grant for 2013/14 was £519,000 for 2014/15 this was reduced to £385,909 and then cut completely for supported housing from April 2015, (there is a small amount of grant remaining for temporary housing). In addition the HRA was not charging the full cost of the supported housing service and the HRA was therefore subsidising it to those living in sheltered accommodation, with some tenants not paying anything for the service provided. In 2016/17 and for the current year, Members agreed an increase in charges, together with a reduction in service costs based on improved ways of working. However, there is still a net cost to the service. As the HRA builds more supported housing units officers will need to ensure that the services is financially sustainable for the HRA.

4.7.2 In addition to the cost of supported housing, Members agreed an increase in Careline charges from April 2016 to start moving this service towards a full recovery of costs by 2018/19. A full review of all supported housing costs will be included in the service charge review which will be reported back to Members and with a potential implementation date of 1 April 2019, subject to consultation with residents and Member approval. Officers are mindful that part of the supported housing service is not eligible for housing benefit so any proposals need to be reasonable and affordable for vulnerable residents on low incomes. A full Equalities Impact Assessment will be completed for any future proposals.

4.7.3 The MTFS makes the following assumptions for fees and charges for modelling purposes.

	2018/19	2019/20	2020/21	2021/22
RPI indices increases	3.70%	3.30%	3.20%	3.10%
Non Dwelling Rents	(£5,674)	(£5,247)	(£5,256)	(£5,255)
Charges for Facilities	(£36,378)	(£38,829)	(£41,450)	(£44,386)
Court costs	(£1,351)	(£1,249)	(£1,251)	(£1,251)
Mortgage income	(£27,398)	(£39,511)	(£50,470)	(£43,260)
Total Fees and other income increases	(£70,800)	(£84,836)	(£98,428)	(£94,152)

4.7.4 If the fees and charge increases projected in the MTFS are not realised then the Financial Security target will need to be increased for future years. The mortgage income from S20 charges is used to fund part of the major repair works.

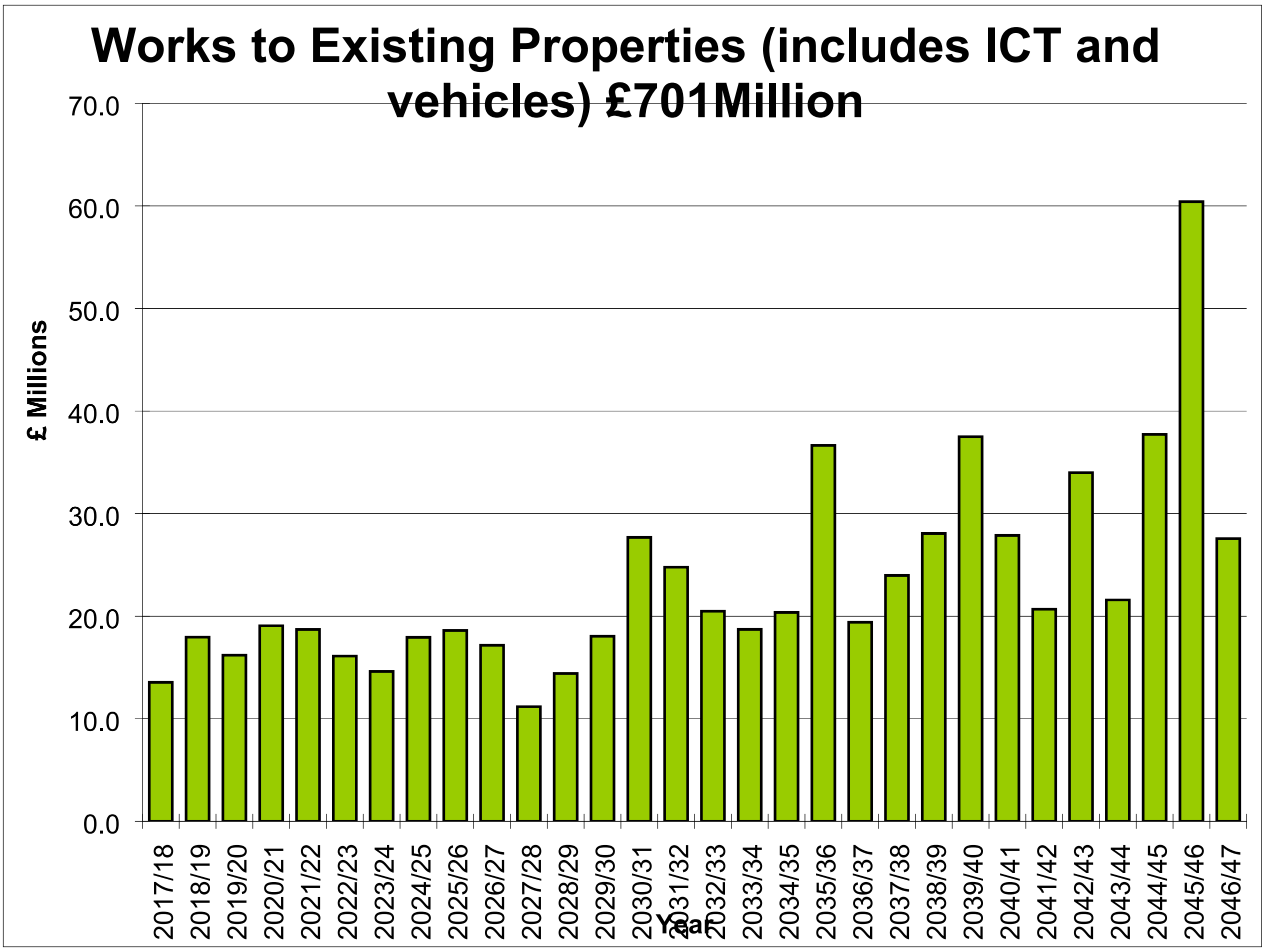
4.8 Capital works to existing properties

4.8.1 The works to existing properties remains largely unchanged from that presented in the November 2016 HRA BP update. The main differences are

- Programme slippage as reported in the Capital Strategy £4Million
- Re-profiling of the Major Repairs Contract in line with tendering deadlines
- Re-profiling of £2Million of works to challenging assets from 2020/21 (£1Million) and 2021/22 (£1Million) to 2025/26 and 2026/27. This was to reduce the capital funding shortfall as a result changes above, MRC leaseholder income revised projections and the impact of inflation

4.8.2 The Capital programme is summarised in the chart below and totals £701million over 30 years, (includes ICT and vehicles) an increase of £33Million over the previous business plan. The increase relates to:

- Inflation (see section 4.4 above) estimated at £19.3Million
- The business plan has moved on a further year. The difference between 2016/17, (year one 2016 BP) and 2046/47 (year 30 revised BP), is a difference of £9.7Million
- £4Million of 2016/17 slippage now included in the 2017/18 programme



4.8.3 The BP review in 2016 stripped back a considerable amount of capital works as a result of the downturn in available resources. This was mainly rent loss of £225Million over the 30 years due to the 1% rent reduction. Officers have indicated It would be very challenging to further reduce the programme to meet any further funding shortfalls.

4.8.4 As in the 2016 Business Plan update the capital budgets have been reduced based on an assumption that capital spend reduces as properties are sold, this has been projected at a 25% reduction of the average spend per property. This is based on the assumption that:

- The better condition properties are sold
- There are works to properties which are not subject to the Right to Buy (RTB), such as sheltered properties and those used for homeless, which equates to 13% of the 2017/18 stock.
- There will be works to communal areas which may/may not be rechargeable to leaseholders. This assumption will be regularly reviewed together with stock condition surveys.

4.8.5 In addition there is a procurement efficiency saving assumed with the capital spend of 1.5% per year which reduces the projected costs in the programme. Capital programme inflation has been based on the BCIS inflation indices, which are projected based on the specific BCIS projections as shown in paragraph 4.4.1.

4.8.6 Not included in the chart for works to existing properties is an assumption within the plan of £29.8Million of higher value void levy (HVV), the government had signalled their intention to introduce the HVV in 2018/19 to fund the extension to RTB for Housing Association tenants. However, there has been no further information on the initiative since the June general election, (see also section 4.12 below).

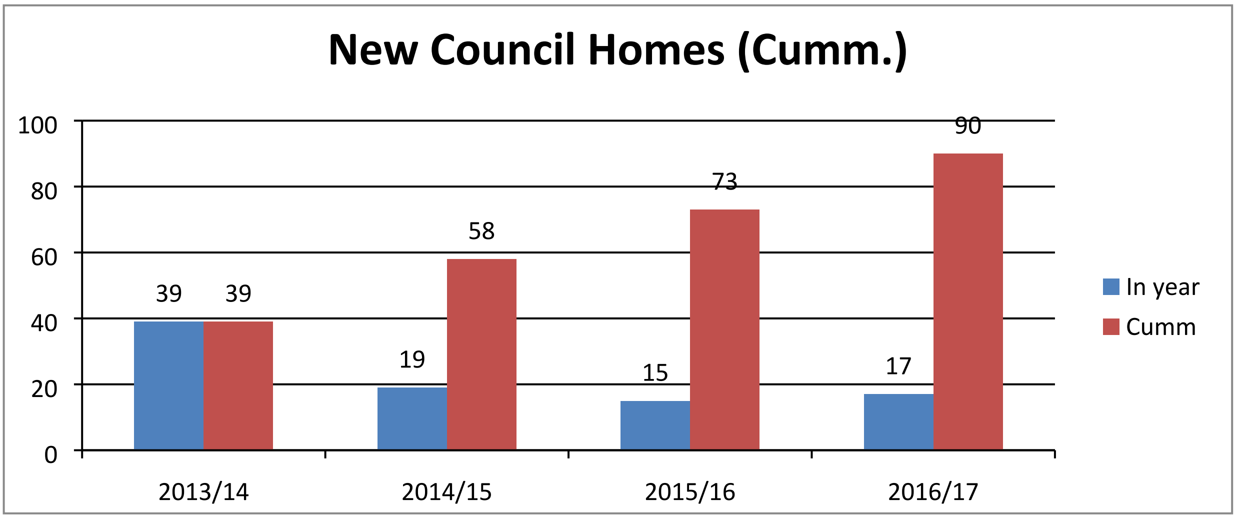
4.8.7 The Asset Management Strategy due to be presented to the Executive later in the year should set out the plan for the investment in the Council's assets. This should be used to help inform the budget setting process and the use of limited capital resources.

4.8.7 Progress against the capital programme is monitored through a procurement officer group which meets monthly and the Assets and Capital Board.

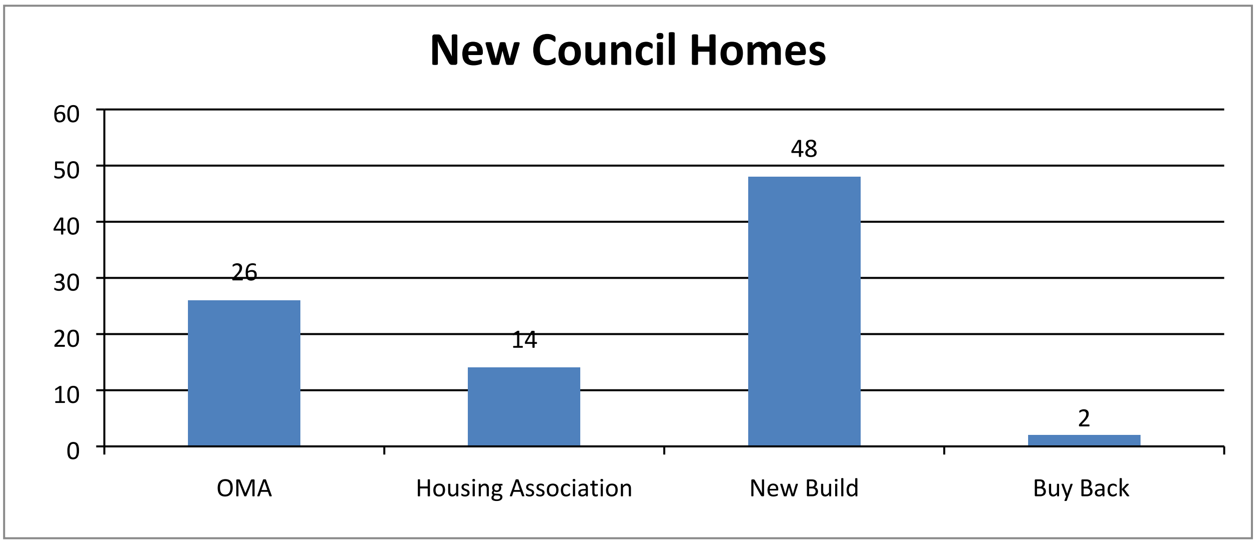
4.9 New Build Programme

4.9.1 The self-financing deal for housing authorities in March 2012 gave councils the opportunities and the funds to build new homes for the first time in decades. This was because the rental income of Stevenage council homes would remain in Stevenage providing a funding stream to borrow or fund new homes.

4.9.2 A key objective of the first business plan was to build 1900 homes over the 30 year business plan period. Since 2012, 90 new council homes have been added to the councils existing housing stock. This is shown in the chart below



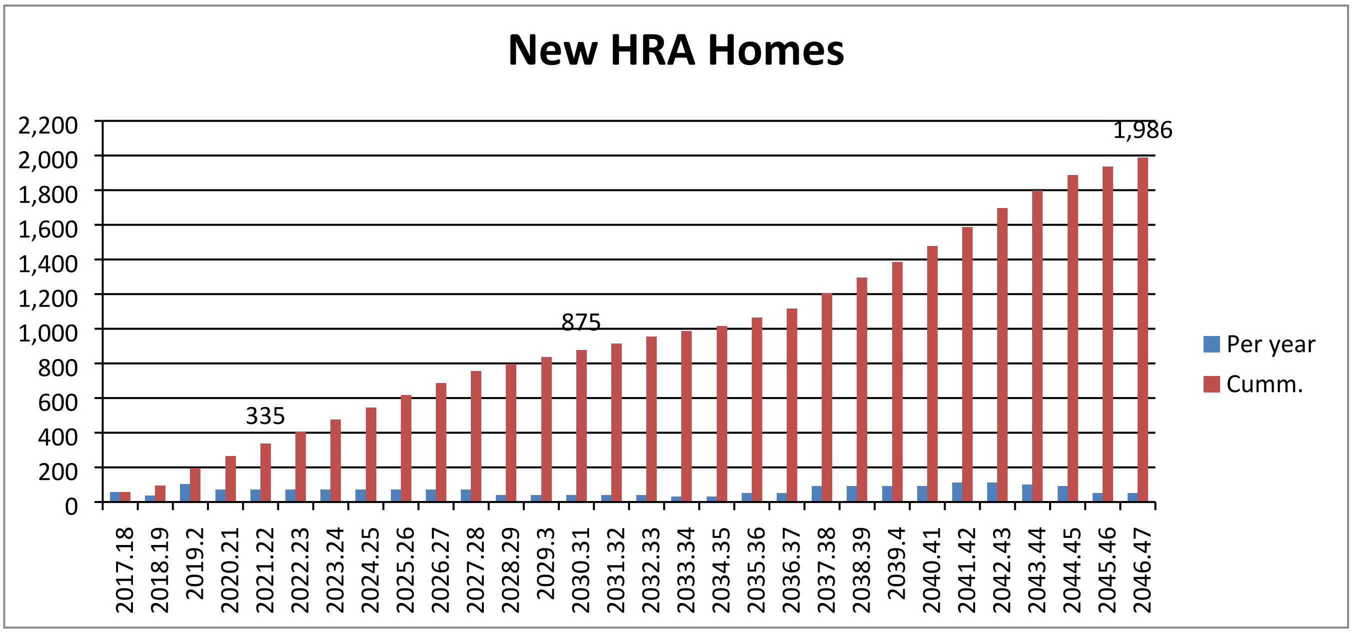
4.9.3 In addition a further 4 properties at Archer Road which were replacement rather than additional new homes have been delivered this year. The properties delivered to date have been acquired by open market acquisitions while the council has geared up to develop and build new properties. A breakdown of the property types delivered to date is summarised as follows.



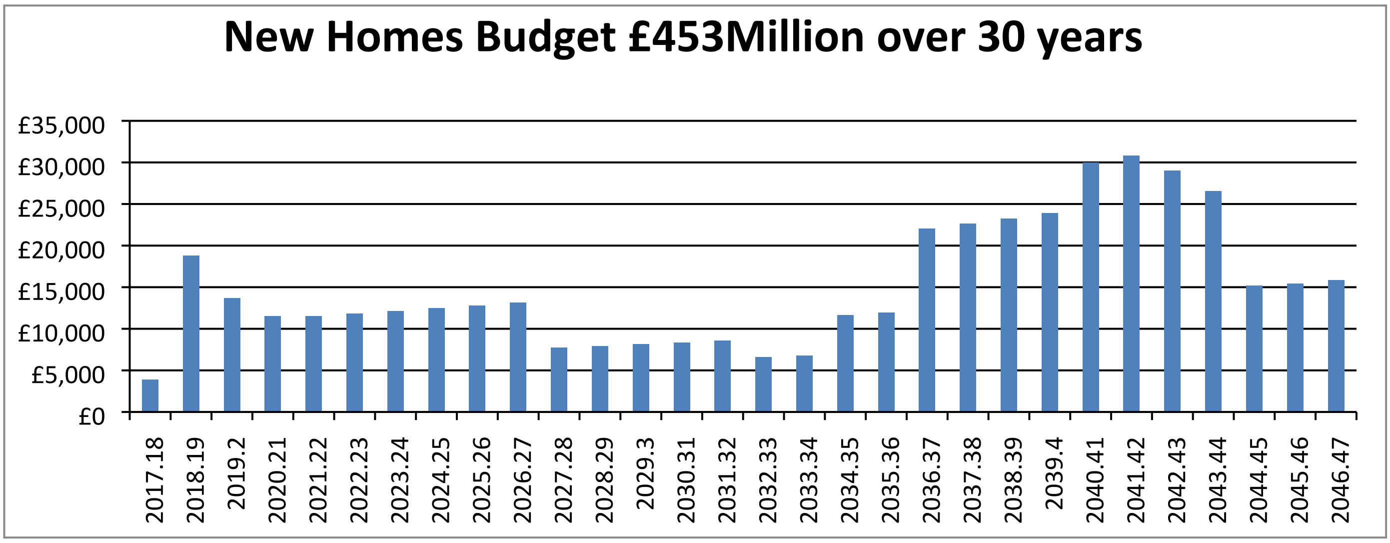
4.9.4 The development programme has tried to incorporate a number of strategic buybacks where residents in private sector housing, who are unable to access specialist older person's accommodation, are allowed an opportunity to sell their home to the Council at a discounted rate and access Sheltered Housing. Whilst enquiries remain strong with this initiative, final take up is low, indicative of the fact that some households prefer to keep their equity.

4.9.5 When making offers under this policy officers are minded that the cost of developing new build homes is in the region of £145,000 to £160,000 per unit where as a buy back can cost in the region of £280,000 if it is a 2 or 3 bedroom house. In such cases, offers will never exceed 80% of the market value and in some cases are below this level to ensure the Council is not displacing funds that could be better utilised delivering new build properties, whilst still remaining respectful to the vendor's time earned equity. A number of enquiries for this policy are being progressed at present.

4.9.6 The new homes included within the HRA Business Plan are summarised in the chart below and for modelling purposes show an estimated total of 1986 new homes over the 30 year period.



4.9.7 The total budget for new homes over the next 30 years is £453Million as shown in the chart below and uses £132.6Million of RTB one for one receipts, with the remainder coming from rents and other RTB receipts. This is comparable with the previous business plan presented to the Executive in November 2016.



4.9.8 The level of new homes the council could potentially build using sale receipts is constrained by the restricted use of one for one receipts (see also section 4.10) as well as other competing demands on HRA resources. One for one receipts can only contribute to 30% of the overall cost of a new home and cannot be used for replacement homes, such as some of those at Archer Road or the Kennilworth scheme. The Council will continue to lobby the government to relax the restrictions around these receipts to allow more new council homes to be built in Stevenage. The additional problem the Council has is of increasing one for one receipt due the volume of sales and increasing house prices. This has meant that a significant amount of RTB receipts that could have been used to build new homes in Stevenage are being used instead for nomination rights with Housing Associations or having to be returned to the Government if not used within the three year period. To date £3.9Million of one for one receipts have been returned.

4.9.9 Stevenage Borough Council's housing development programme has now moved away from concentrating on open market acquisitions on the resale market that involved a high degree of repair as well as acquisition costs. The programme is now matured into delivering, through Development Agreements new build housing on a turnkey basis and commissioning new build projects that allow the council to control the design, density and quality of the build. This change in focus has helped to deliver a more diverse and higher quality housing offer that gives tenants more choice and has also enabled the introduction of affordable rents that are crucial for the long term stability of the Housing Revenue Account.

4.9.10 Schemes such as Vincent Court and Kilner Close are examples of turnkey acquisitions that have completed. These schemes were delivered through Development agreements and were built by national housebuilders Taylor Wimpey and Keep Moat respectively.

4.9.11 Land and design led schemes include Archer Road, the March Hare and Twin Foxes developments that will complete from 2017 through to 2018 delivering 59 new homes. Larger schemes in clusters also allow the Council to plan and allocate one for one receipts more effectively as the programme and timing of the schemes can be estimated.

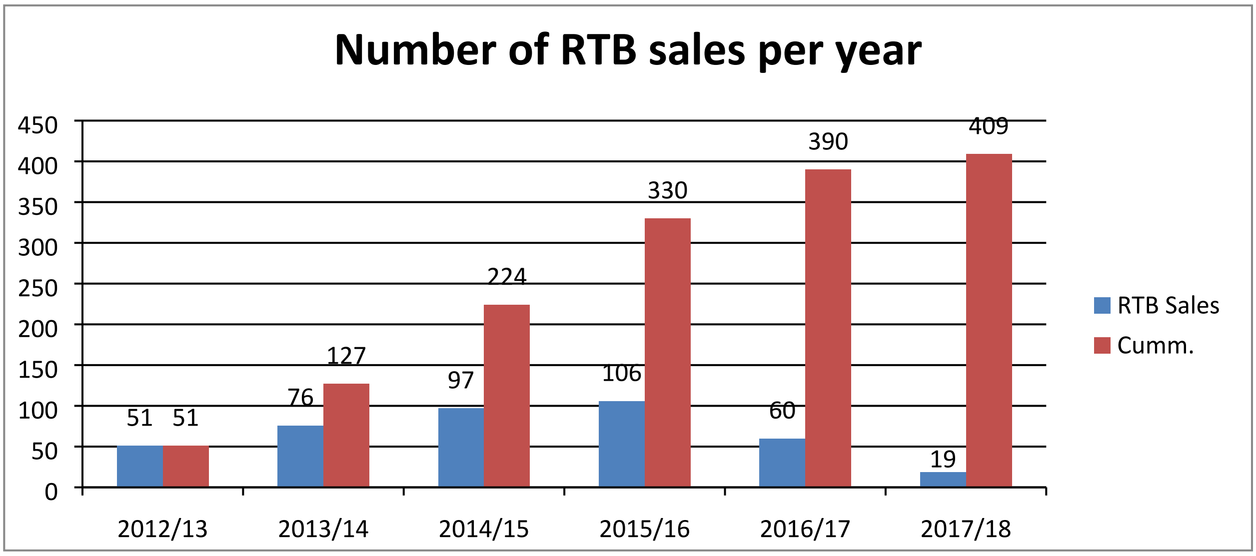
4.9.12 Despite the measures taken above the Council does expect to have excess one for one receipts that it will seek to allocate to Registered Providers to deliver greater volumes of affordable housing in the borough to support the Council's own direct interventions.

4.9.13 In 2018 schemes such as Gresley Way and Symonds Green developments should commence on site ensuring the council has a continuous programme over the next five years and the team will also develop design proposal for alternative schemes to ensure we have a healthy development pipeline

4.10 Right to Buys (RTB's)

4.10.1 Since the 1980s when the policy was introduced, more than 1.5million council homes have been sold nationally under the Right to Buy. The use of one for one receipts was introduced in 2012. Since then 54,000 more council homes have been sold with just under 11,000 replacements started, (source:Inside Housing), with 48% of these replacements were social rent, with the remainder affordable rent – up to 80% of market rates.

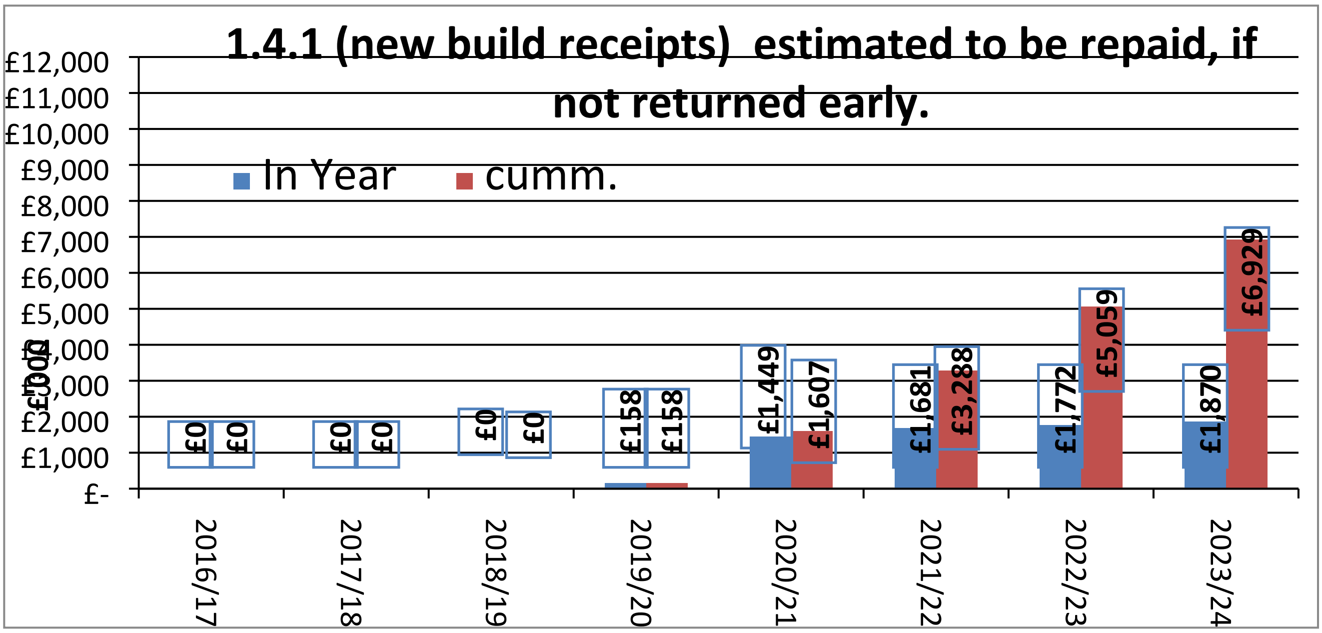
4.10.2 The original HRA business plan was based on sales of 10-12 per year (historically the case prior to 2012), however the number of sales has increased, partly attributed to the increase in the discount offered from £34,000 to £78,600 (2017/18), which is now indexed annually to CPI, the sales per year are shown in the chart below.



** 2017/18 to 21 August 2017*

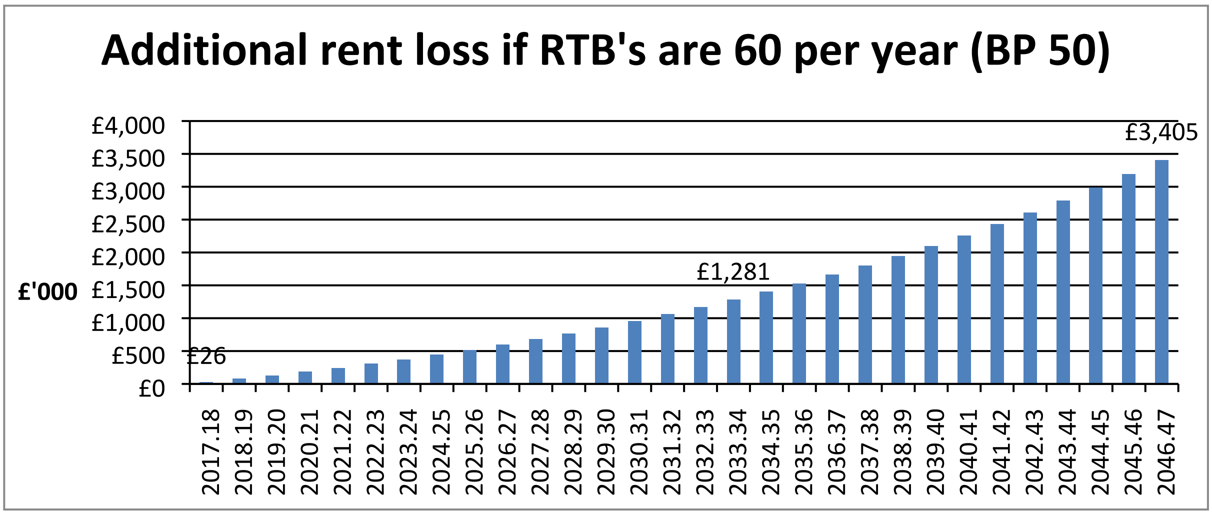
4.10.3 The projection in the 2016/17 business plan update was 50 RTB properties per year, however the number of sales in 2016 exceeded that. This revision of the plan still assumes 50 sales per year, the average sale price has increased and that may have a dampening impact on the level of sales going forward. The total number of RTB sales assumed in the BP is 1500 sales compared to 1986 new build properties, a net gain of 486 properties over the 30 year period.

4.10.4 Despite the number of new properties being built there is still a projected amount of one for one receipts that will need to be returned to the Treasury, or as modelled in the business plan that will be used with housing associations to gain nomination rights. The chart below shows £6.9Million receipts not projected to be utilised within the three year period and a potential £12.9Million over the first 10 years of the business plan.



4.10.5 Officers will be monitoring the one for one balances and their potential uses, all numbers quoted above are based on future estimated sale prices and future capital costs. Officers will take steps to mitigate the impact of returning receipts through lobbying the government to change the one for one receipt rules, ensuring all costs are charged to schemes, however as stated earlier in the report there have been significant changes in housing finances over the last six years and there is no guarantees about future rent levels etc.

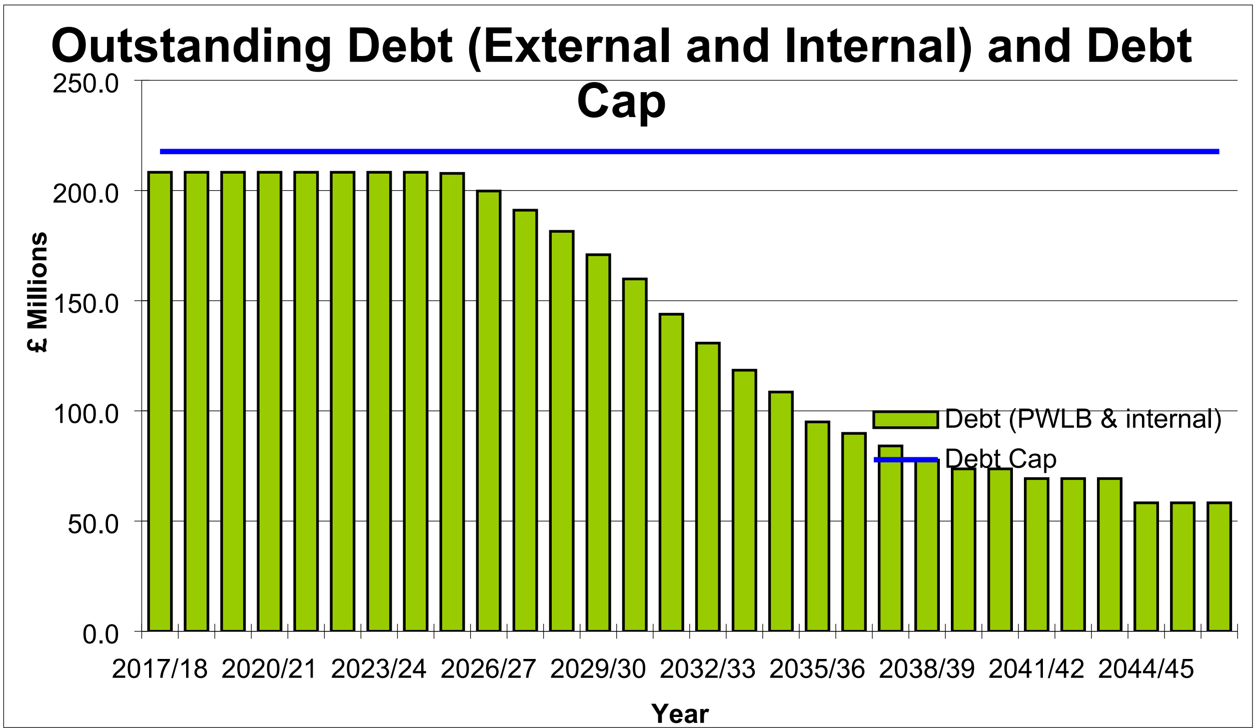
4.10.6 If there were an additional 10 RTB properties sold per year, it would mean rent loss of £39.7Million in total over 30 years and the annual rent loss is shown in the table below. Perversely the projected capital funding deficit reduces by £1.77Million as there are more RTB receipts initially available to fund capital, however it would also mean an increase in the amount of one for one receipts that need to be returned or spent with Housing Associations.



4.11 Borrowing and Debt Scheduling

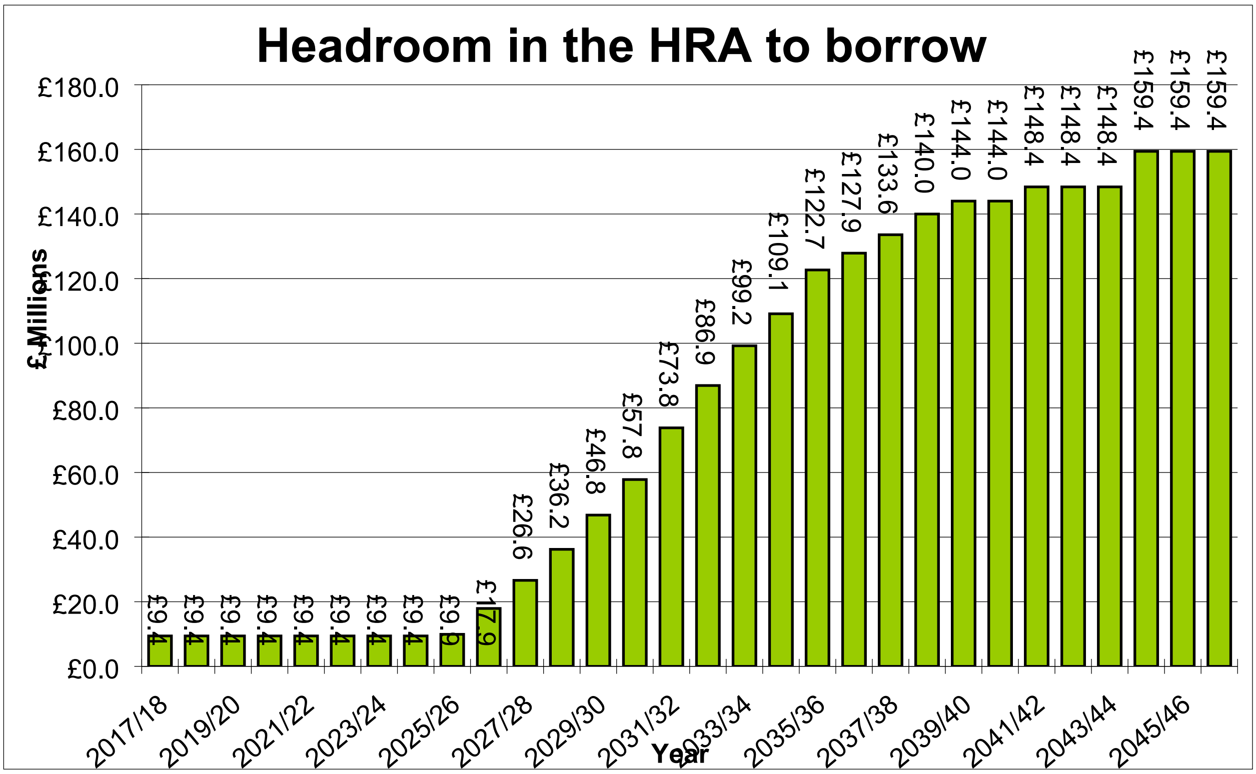
4.11.1 The debt profile in the current Business Plan is based in the main on the revised loans included in the 2016 HRA BP update. However based on the level of balances remaining in the Business Plan in 2033/34 one loan of £3.5Million has been revised to be repaid in 2036 rather than in 2033, (see also section 4.12 below).

4.11.2 The level of debt in the 2016 Business Plan update had to be increased as a result of the impact of the 1% rent reduction and projections around the HVV levy. This increased the debt taken in the business plan over the 30 year programme by £75Million. The debt profile in the business plan is shown in the chart below.



4.11.3 The amount of debt the HRA can have is constrained by law, this is called the debt cap, which for SBC equated to the total cost of the self- financing deal of £217,685Million. The amount of 'headroom' the HRA currently has or the additional borrowing that could be taken, (see section 4.12 budget pressures) is £9.42Million and this limit remains unchanged for the next nine years.

4.11.4 It is not just borrowing that can impact on the debt cap but also the value of land transferred between the General Fund and the HRA , e.g. the Archer Road scheme required a transfer of land into the HRA equating to a value of £770K. The headroom in the Business Plan before any changes is shown in the chart below.



4.11.5 The Business Plan assumes that there will be new borrowing of £3.5Million in 2017/18, however the HRA does not have an immediate need to borrow to fund the capital programme and the decision to borrow will be included in the 2017/18 revised and 2018/19 budget setting process so as to minimise the cost of carrying borrowing costs to the HRA.

4.11.6 There is a funding gap in the 2017 HRA MTFS update of £26Million (see section 4.12 below), but borrowing headroom has been a policy decision for the HRA. This allows for the funding of emergency or unforeseen event, such as fire safety measures and changes to the S20 policy (forecast a further £2.46Million of borrowing may be required) and finally allows for land transfers into the HRA to meet the council's housebuilding ambitions.

4.11.7 The CFO recommends that headroom of £2Million is retained as an allowance for the transfer of General Fund land into the HRA to enable new council house building. In addition that £2.46Million is reserved for any impact of the revised S20 policy.

4.12 Budget Pressures

4.12.1 **Fire Safety**- Following the tragic fire at Grenfell earlier this year housing officers have thoroughly self-assessed processes and procedures regarding fire safety. No failings have been found but officers have put in place an action plan to further enhance the processes and ensure the continued safety of residents. In the period immediately after Grenfell all properties within the high rise blocks were visited, providing reassurance and the latest advice to residents regarding fire safety, in addition there was a review of all existing Fire Risk Assessments.

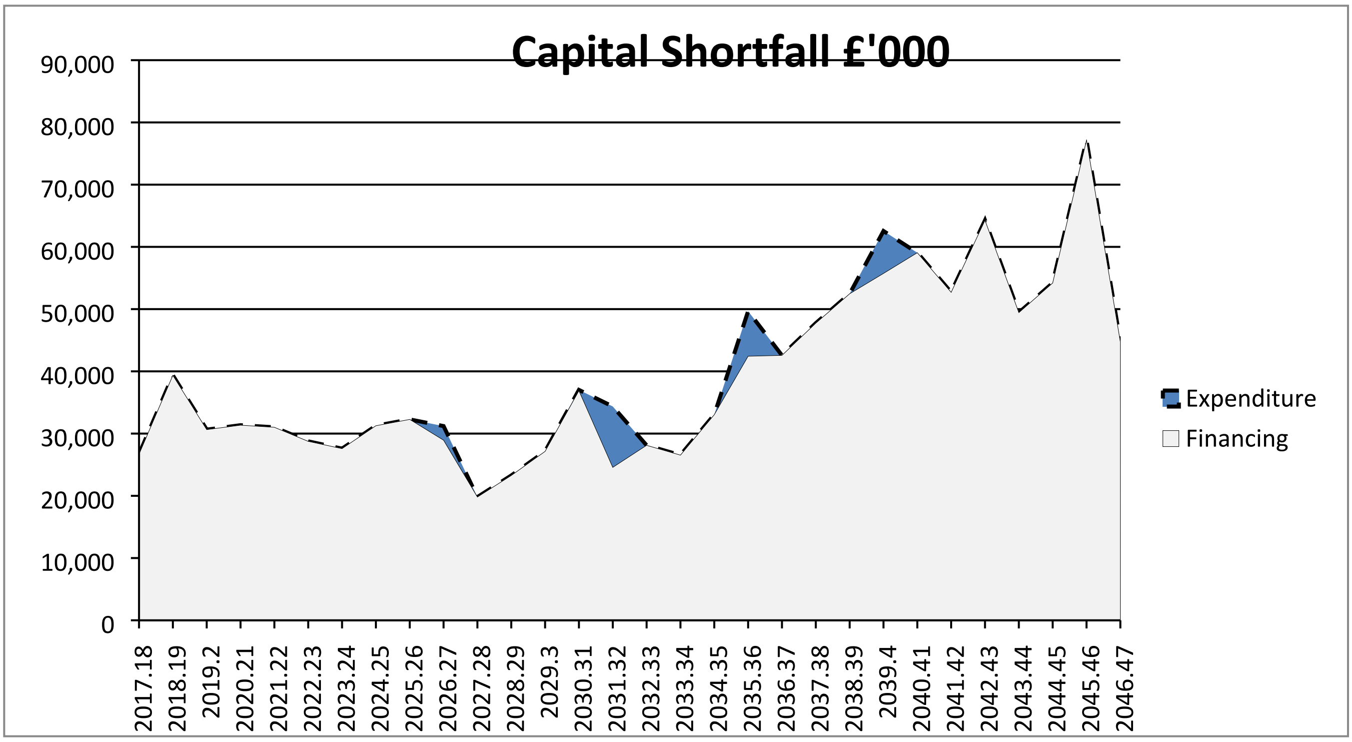
4.12.2 Officers are currently carrying out home safety visits to all properties with the seven high rise blocks, the purpose of the visits is to both provide additional re-assurance and advice along with carrying out a safety audit within the flats. The home safety visit includes and assessment of:

- Compliance of flat entrance doors
- Internal doors
- Smoke detectors
- Electrical systems
- Conduct a Housing Health and Safety Rating System (HHSRS) check that will look at various safety standards in people's home, including fire safety

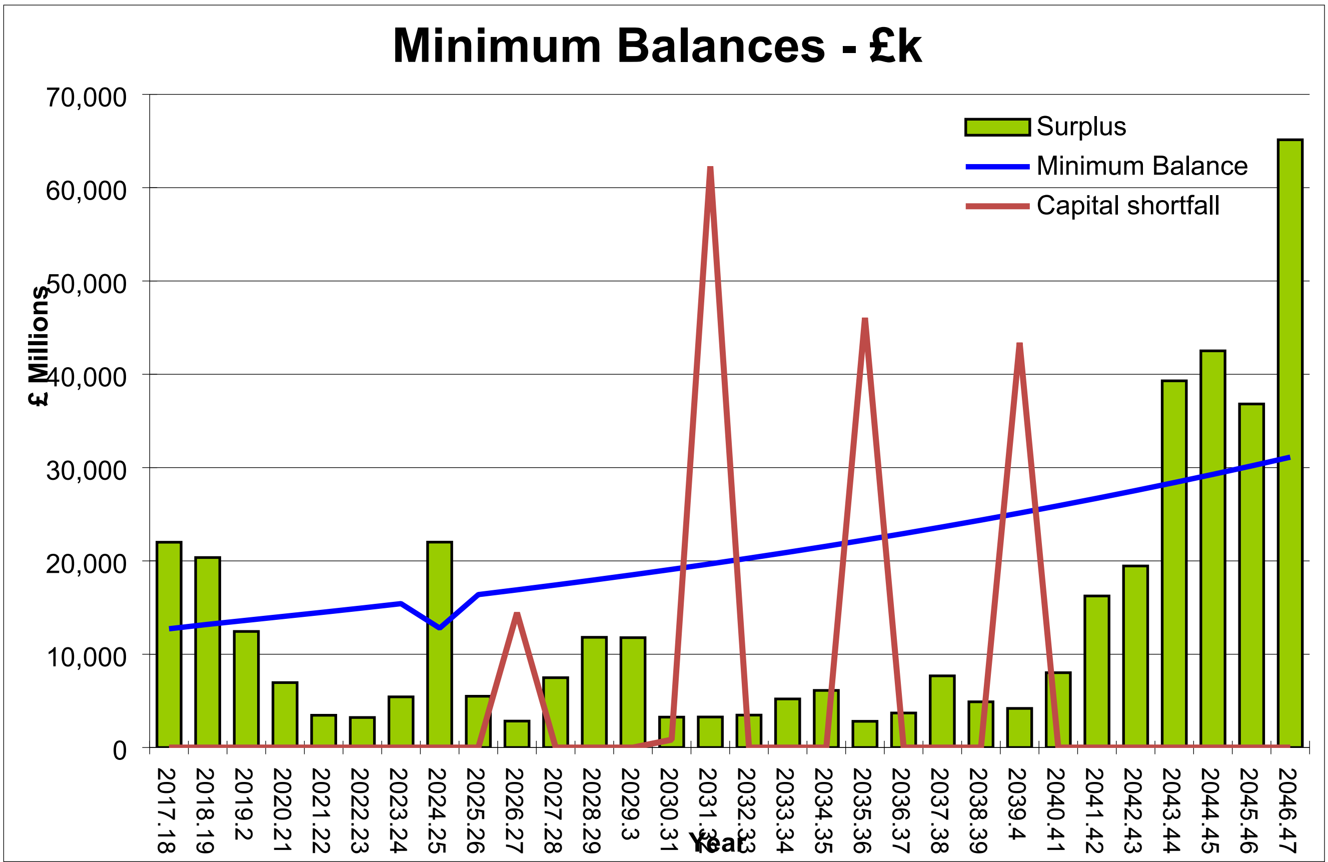
4.12.3 Officers are looking at the feasibility of retro fitting sprinkler systems to high rise blocks and the associated costs. Work is also underway to review the physical protection on escape routes, such as fire doors, glazing panels and the internal walls, ceilings and floor coverings. The cost of this is currently not known but could be in the region of £1-2Million. If there are no capital programme delays in the capital programme (freeing up spending capacity), the Assistant Director (Finance & Estates) recommends that the cost of borrowing is considered for the works.

4.12.4There may be other budget pressures that arise which will be included in the budget setting process as part of the November Financial Security report to the Executive. The Business Plan includes the previously agreed growth including that associated with the revision to the S20 policy.

4.12.5 **Funding Shortfall over 30 years**-As a result of the updates to the Business Plan contained within this report, the capital programme is not fully funded. There is currently a shortfall of £26Million as shown in the chart below, (year 10, 2026/27, £2.271Million shortfall).



4.12.6 In addition the business plan has minimum balances for a number of years as shown in the chart below. The higher balances in the HRA in first four years of the BP are required to be held to fund the HRA revenue and capital programme when the HRA is at minimum balances and/or cannot fund all the capital programme.



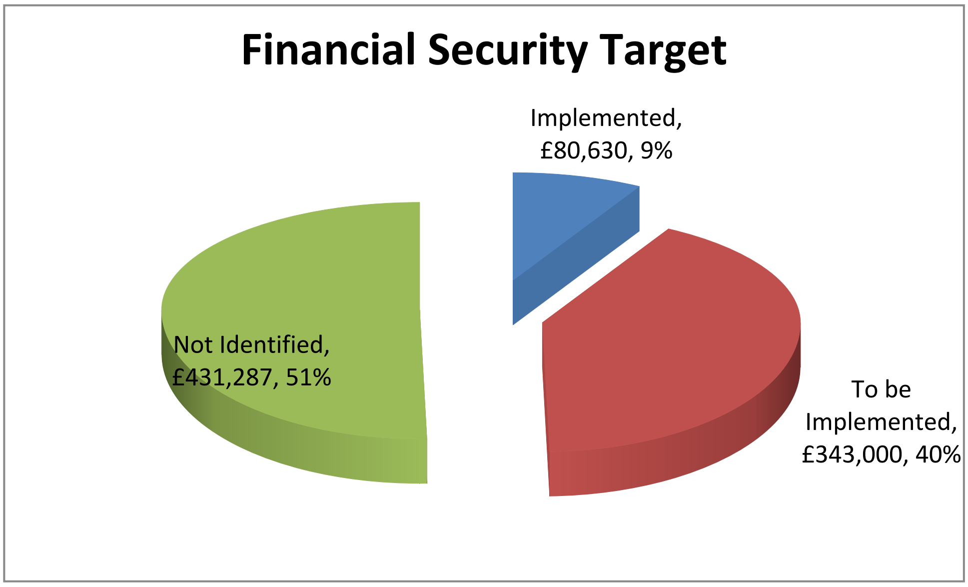
4.12.7 There are some significant unknowns, should the HVV levy not be introduced then there would be an additional £29Million available to fund the capital programme which would significantly reduce the funding shortfall, (see also risk implications). In addition there are assumptions around rental income that could change, or the number of RTB's increase/decrease. The capital programme is funded within the next five years and officers will keep the HRA finances under constant review.

4.12.8 There is no provision for further growth in the HRA Business Plan and any new growth would require funding from an increased Financial Security Target or deferral of revenue or capital spend.

4.13 Financial Security

4.13.1 As part of the Financial Security work the Members group (LSFG) chaired by the Resources Portfolio holder. LFSG Members supports the Financial Security work programme and reviews Financial Security options that come forward as well as revenue and capital growth bids.

4.13.2 The Financial Security Target for 2018/19-2020/21 for the HRA is £855,000 with a total of £81,000 implemented, leaving £774,000 over the next three years, this is shown in the pie chart below.



4.13.3Included within the identified but not implemented are Priority Based Budgeting (PBB) or Financial Security options which have been deferred or the Future council business reviews which have an assumed target (£63,000 for the HRA) but which has yet to be tested as the business review plans are currently being complied and have yet to be completed.

4.13.4 The Financial Security package will be considered by the Leaders Financial Security Group and then by the Executive and Scrutiny Committees in November 2017. This report will also include any fees and charges increases and growth options.

4.13.5 The HRA BP assumes an annual £200K financial security target per year beyond the three year time horizon in order to fund the programme (with the exception as outlined in section 4.12 above).

4.14 HRA Balances and Reserves

4.14.1 The Council's HRA reserve is designed to cushion the impact of unexpected events/emergencies and help absorb the impact of uneven cash flows. HRA balances are also required to meet future debt payments and revenue contributions to capital.

4.14.2The Council's HRA balances as at 1 April 2017 was £19.75million and is forecasted to be £3.7million by 31 March 2022. This is a reduction of £14.76Million in balances while still having to achieve the implementation of £974K of unidentified/not implemented budget reductions, plus realising assumptions about rent increases and inflation.

4.14.3 The HRA balance projections based on the MTFS projections are summarised in the following table.

HRA balances £'000	2017/18	2018/19	2019/20	2020/21	2021/22
Opening Balance	(£19,750)	(£22,049)	(£20,398)	(£12,481)	(£7,098)
In Year	(£2,299)	£1,651	£7,917	£5,383	£3,383
Closing Balance	(£22,049)	(£20,398)	(£12,481)	(£7,098)	(£3,715)

*() equals surplus

4.14.4 As with the level of General fund reserves, the HRA balances need to be carefully considered. It is expected, that authorities will have regard to the CIPFA guidance when considering the adequacy of balances for the HRA.

4.14.5 It is important that the Council has sufficient reserves to enable it not only to achieve its ambitions but also to ensure that the Council can meet its service provision expectations.

4.14.6 Reserves can be held for these main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies;

4.14.7 In order to assess the adequacy of unallocated reserves when setting the budget, the Assistant Director (Finance and Estates) must take account of the strategic, operational and financial risks facing the authority.

4.14.8 In terms of determining the level of balances for the MTFS and 2018/19, the Assistant Director (Finance and Estates) has based her advice on consideration of the factors included in the table below which project a £2.793Million minimum level of balances. This will be further reviewed as part of the budget setting process.

HRA balances Minimum Level Assessment	2018/19 £'000
An amount necessary to cover a 1.5% overrun in gross expenditure	659
An amount necessary to cover a 1.5% overrun in gross income	634
An amount to cover Strategic risks	1,500
Total Estimated HRA Reserves before balances held for debt and future years capital programme	**2,793**

4.14.9 The MTFS projects the HRA balances to be within the minimum level set for the HRA in 2018/19, however balances above the minimum are required to meet future debt and capital programme payments. The HRA BP shows that not all the programme is currently funded.

4.15 Approach to Consultation and HMB

4.15.1 'The Council's Resident Involvement Strategy 2015-2018, 'Having Your Say in Housing Services' confirms the Council's commitment to working in partnership with council tenants and leaseholders to shape, strengthen and improve council housing services and sets out a range of options to enable housing customers to be involved.

4.15.2 The Housing Management Board (HMB) acts as an advisory body to the Executive for council housing-related matters, including participation in the HRA budget-setting process and the development of the HRA Business Plan. HMB currently includes one leaseholder and five tenant representatives in addition to Member and officer representation. Its terms of reference allow for up to ten customer representatives in total. HMB received a presentation on the Business Plan update and asked a number of questions and proposed that:

- Consideration is given to re-borrowing to resource the business plan principles e.g. provision of new homes. This would be predominately in the last 15 years of the business plan as the board understood the need to leave some headroom for unforeseen events and the transfer of land to the HRA. The AD Finance and Estates agreed once there was sufficient headroom in the plan the borrowing requirement should be reviewed, however the social housing financial environment has changed significantly over just the last six years.

- Consideration given as to how the business plan would be communicated to tenants and leaseholders in a short simple format.

4.15.3 The Chair of the Board thanked officers for the presentation and members of the Board had found the discussion and presentation useful.

4.15.4The Council periodically seeks the views of housing customers through a postal survey of a sample of housing customers. This 'STAR' survey is used across the housing sector and enables the council to assess levels of customer satisfaction, to compare results with previous years and to identify customer priorities. The next STAR survey is due to be undertaken in early 2018. A further initiative is being carried out this year as part of the ‘Knowing Your Customer’ strand of the Housing Transformation Programme, which will involve home visits to a sample of housing customers across the town, to gain and understanding of their perception of the housing service and their views on how services can be improved. This feedback will inform future decisions on the delivery of housing services.

4.15.5 In addition, targeted consultation is being carried out in relation to specific elements of the delivery programme, key examples of which include consultation on the Major Repairs Contract, asset review programme works to sheltered housing schemes, the service charge review and plans for the new sheltered housing scheme at Kenilworth Road.

4.16 Decision Making Process

4.16.1The Leader’s Financial Security Group, (LFSG) will play an important part of the Financial Security process. The Members group consists of Executive and Non-Executive Members from the three political groups. This process, runs throughout the financial year.

4.16.2 It is currently planned that the normal approval process will be followed:

September 2017	Executive	MTFS
	Overview and Scrutiny	MTFS
November 2017	Executive	GF and HRA 2018/19 Financial Security Package
	Overview and Scrutiny	GF and HRA 2018/19 Financial Security Package
December 2017	Executive	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
	Overview and Scrutiny	Draft HRA 2018/19 Budget (incorporating Financial Security Options)
January 2018	Executive	Draft GF 2018/19 Budget (incorporating Financial Security Options)
	Executive	Final HRA 2018/19
	Overview and Scrutiny	Draft GF 2018/19 Budget (incorporating Financial Security
	Council	Final HRA 2018/19
February 2018	Executive	Final GF 2018/19
	Council	Final GF 2018/19 and Council Tax

4.15.3 Following the approval of the proposed Financial Security options for 2018/19, the Council will have an obligation to begin consultation with staff and partners

.
4.15.4 Future years' proposal beyond 2018/19 will be monitored via the officer Financial Security group on their development for the following budget cycles as reported to the LSFG. These will come forward as reports to the Executive as options are developed and signed off by SLT and the LFSG.

4.16 SUMMARY

4.16.1 A summary of the capital programme, debt costs and property changes are shown in the table below.

SUMMARY- 30 years	2018/19 £Million
Capital Expenditure:	
Works to existing properties & Equipment	£701.08
New Build Programme	£453.87
Higher Value Voids Levy	£29.84
Total Capital works	**£1,154.96**
Capital Deficit	**£26.25**
Borrowing costs:	
Borrowing Interest Costs	**£159.27**
Borrowing repaid	**£225.32**
Total Debt Costs	**£384.59**
Property stats: (numbers)	
Estimated RTB sales	**-1,500**
Estimated new properties	**1,986**
Net increase in properties	**486**

5. IMPLICATIONS

5.1. Financial Implications

5.1.1 It is the CFO's view that the housing finance environment experienced over the last six years is not been conducive to long term planning, because of the number of legislative changes planned and/or implemented. It is critical that the next five year capital programme and revenue commitments are funded and any corrective actions are identified. The Business Plan shows the five year programme is funded and there is a Financial Security target (section 4.13 refers) in the Business Plan to achieve this. There is also an on-going annual target of £200,000 per year currently in the Business Plan. There is a capital deficit in year 10 of the plan (2026/27) and in a further four later years, however so much is dependent on future increases in rental streams that the current level of funding is deemed satisfactory and later years deficits should be addressed in future updates.

5.1.2 There is very little headroom within the Business Plan to borrow further to fund additional capital expenditure, £9Million in total. Some of the £9Million headroom will be required (as recommended in this report), to allow land transfers between the General Fund and the HRA and to potentially fund any costs relating to fire safety measures. Rescheduling the current loans is not a financially viable option, as this would cost the HRA in the order of £50Million. Taking additional borrowing would need to be funded and there are risks around rent increases contained with the Business Plan beyond 2019/20 and within the five years of the MTFS. Borrowing an additional £7Million over 10 years would cost the HRA £130,900 per year or £1.3Million in total, leaving no leeway for any unforeseen events or reduced levels of rental income/higher levels of spend. The balances projected for 2021/22 are £3.7Million which is a significant reduction on current levels and close to minimum levels in the years 2021/22 and 2022/23.

5.1.3 The capital programme was reduced at the November 2016 Business Plan update and officers have indicated it would be difficult to reduce further, in addition the programme is reliant predominately on contributions from the HRA to fund the programme. However should the HVV levy not be enacted by the Government this would enable a further £29Million to be spent on the council's housing stock.

5.2. Legal Implications

5.2.1 The objective of this report is to outline a medium term financial strategy and forecast for the next five years. There are no legal implications at this stage of the planning cycle, however, Members are reminded of their duty to set a balanced budget.

5.3. Risk Implications

5.3.1 A review of the risks facing the HRA budgets has been listed in the table below, not all the impacts are known at the present time. The current MTFS projections are based on prudent assumptions, and include the Assistant Director (Finance and Estates) best assessment of the financial risks. However, if any of these risks become a reality then the MTFS will need to be updated once the actual impacts are known.

Risk Area	Risk Mitigation	Likelihood	Impact
Inflation (Negative Risk) – Rent changes are not linked to inflation, whilst the majority of HRA Related contracts include an annual price increase usually in line with RPI or BCIS	General balances are risk assessed to ensure overall levels are maintained that can meet higher than expected inflation rates. Service charge recovery is based on actual costs.	Medium	Medium
Welfare Reform Impact (Negative Risk) - Tenants and leaseholders affected by welfare changes have insufficient income to	The council has a welfare reform group which monitors impacts and is planning for the full roll-out of Universal Credit in 2018 and LHA caps	High	Medium

Risk Area	Risk Mitigation	Likelihood	Impact
pay the rent and/or service charges; there could also be an increase in the need for the council's housing services	in 2019. The HRA Business Plan includes bad debt provision of £255K pa. and further modelling will be undertaken		
Rent Income (Negative Risk) - Uncertainty as to whether the national rent policy from 2020/21 will be in line with the BP rent assumptions of CPI +1% from 2020	Rent policy and service charge policy is in place and allows for rents not subject to the 1% reduction to be increased and for rents to be set at formula levels on re-let. Lower than anticipated rent increases would require compensating reductions in planned spending within programmes/services.	High	High
S20 Leaseholder Recharges (Negative Risk) – Failure to recover costs could arise if statutory consultation procedures are not followed; and/or there is a successful legal challenge; or leaseholders cannot afford to pay	Major Works Payments Options Policy agreed; Business plan makes assumptions regarding the % works non-rechargeable % bad debt provision; and delayed recovery in a proportion of cases. S20 consultation procedures in place, along with ongoing retention of expert legal advice	Low	Medium
Supported Housing income (Negative Risk) - Loss of Supporting People grant funding not addressed and /or full recovery of supported housing costs not achieved	To achieve savings for future years, services charges are being reviewed for implementation April 2019. There is regular liaison with the Herts County Council regarding remaining Supporting People grant funding and service provision – further loss of grant would require the Financial Security target to be increased	Medium	Medium
Supported Housing	The new model, core rent and	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
Funding Framework (Negative Risk) – the Government's new funding model for supported housing from 2019/20 could impact on supported housing income (proposals consulted on but not confirmed)	service charges would be funded through Housing Benefit or Universal Credit up to the level of the applicable Local Housing Allowance (LHA) rate. For costs above the LHA rate, the Government would devolve ring-fenced top-up funding for disbursement by local authorities. Officers will review the impact for SBC tenants and will have to model the service accordingly to meet the affordability criteria.		
Stock Investment (Negative Risk) Investment needs exceed planned expenditure due to increased costs and/or unforeseen investment requirements	Revised Housing Asset Management Strategy to be approved in 2017/18. The investment programme is based on sound stock condition information. Viability assessment are undertaken prior to projects commencing and contract management arrangements are in place.	Medium	High
Fire Safety Investment (Negative Risk) Subject to the outcome of the public enquiry into the Grenfell fire, changes in fire safety legislation are anticipated, with associated revenue and capital cost implications that have not yet been factored into the Business Plan	A feasibility study into the installation of sprinkler systems is being undertaken. Once the full extent any changes and Government financial support becomes clear, the capital programme may have to be reviewed and re-prioritised to accommodate the costs and/or borrowing may be required.	High	Medium
Procurement (Negative Risk) - If the 1.5% efficiency target for the HRA Capital Programme is not achieved, this will put pressure on the	The efficiency has been achieved for years 1&2 through existing contract awards. It is anticipated that the Major Repairs Contract will deliver procurement	Low	Medium

Risk Area	Risk Mitigation	Likelihood	Impact
HRA	efficiencies in future years.		
Financial Security Options not achieved (Negative Risk) - Agreed options do not deliver expected level of savings either on a one-off basis or ongoing.	Regular monitoring and reporting takes place, but the size of the net budget reductions increases the risk into the future. Non achievement of options would require other options to be brought forward.	Medium	Medium
Affordable Homes Delivery (Negative Risk) - If affordable homes targets are not met and new build does not replace the loss of stock through RTBs, rental income projections may not be met and 1-4-1 replacement receipts may have to be repaid with interest.	A pipeline of schemes has been agreed and the Executive Housing Development Committee oversees delivery of the programme. A plan is in place to return future unspent RTB 1-4-1 receipts to the Treasury in order to minimise costs to the HRA from interest charges. However, in the first instance unused 1-4-1 receipts are used to support Registered Providers to minimise the level of receipt being returned, whist retaining development activity.	Medium	High
Right to Buy Sales (Negative/Positive Risk) – External factors (economic/ political) mean that RTB sales are either higher or lower than in the business plan, without a corresponding change to stock through acquisition or new build	RTB assumptions are adjusted annually based on trends and legislation. The new build programme is designed to replace loss of stock. Investment requirements are adjusted to reflect RTB sales levels.	Medium	Medium
Legislative Change	There is ongoing tracking and	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
(Negative Risk) – Implications of new legislation/ regulation are not identified and acted on, leading to increasing financial pressure	horizon scanning in relation to emerging policy and legislation and an annual review of implications through the MTFS/Business Plan update.		
Self-Financing Regime (Negative or Positive Risk) The Government could re-open the HRA debt settlement or amend the debt cap	Lobbying directly and through representative bodies, the government has already effectively renegotiated the deal via legislation enacted.	Medium	High
MTFS Risk identification (Negative or Positive Risk) – Financial risks and their timing are not accurately judged leading to either a pressure or benefit to the MTFS.	Council's risk management framework ensures operational and strategic risks are identified as part of the annual service and MTFS planning process	Low	High
'Brexit' (negative risk) – the impact of Brexit leads to economic instability and further financial cuts to the council's budgets and/or increased costs	A reduction in the resources available within the MTFS would require compensating reductions in planned spending within services and/or capital programmes .	Medium	Medium

5.4 Equalities and Diversity Implications

5.4.1 The Council has committed itself to providing high quality services that are relevant to the needs and responsive to the views of all sections of the local community, irrespective of their race, gender, disability, culture, religion, age, sexual orientation or marital status. The General Equality Duty (Section 149 of the Equality Act 2010) requires the Council to have due regard to the need to eliminate discrimination, advance equality of opportunity and foster good relations in the exercise of its functions. The Equality Duty and the impact of decisions on people with protected characteristics must be considered by decision makers before making relevant decisions, including budget savings.

5.4.2 The process used to develop the Council's budget has been designed to ensure appropriate measures are in place to ensure the impact of decisions on the community is considered as part of the decision making process. It is officers' view that undertaking an Equalities Impact Assessment (EqIAs) on the strategy is not appropriate at this stage. EqIAs will be done on individual savings proposals (when relevant) at an early stage in the budget savings process to aid decision makers in their consideration of the Equality Duty. This work is being planned into the budget setting process.

5.4. Policy Implications

5.5.1 The approval of the revised budget framework includes a link for the Council's service planning requirements to ensure service priorities are identified. In addition the budget framework represents a development of a policy led budgeting approach across Council services and the overall Financial Strategy.

5.6 Staffing and Accommodation Implications

5.6.1 It will be evident that there are potentially staffing implications in this report and the matter should be discussed with the Trade Unions at the earliest opportunity.

BACKGROUND DOCUMENTS

BD1 – Housing Revenue Account Business Plan Review – November 2016
http://www.stevenage.gov.uk/content/committees/160923/160931/160995/20161122-Item7.pdf

APPENDICES

Appendix A - Medium Term Financial Strategy