Part I – Release to Press

Agenda item: 4

Meeting EXECUTIVE

Portfolio Area RESOURCES/ HOUSING, HEALTH AND OLDER PEOPLE

Date 21 November 2018

HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY (2018/19-2022/23) AND BUSINESS PLAN UPDATE

KEY DECISION

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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 update Members on any funding gap in the 30 year HRA Business Plan.

1.4 To advise Members on the action plan for the HRA following the government’s relaxation of the borrowing cap.

2 RECOMMENDATIONS

2.1 That, for modelling purposes, fees and charges increases are in line with inflation.

2.2 That, for modelling purposes, the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.5 refers) be approved.

2.3 That the Capital Programme assumptions contained within the report are approved for the existing programme and new build properties and incorporated into the 2019/20 budget, (subject to subsequent approved changes from the action plan in Appendix A).

2.4 That the assumptions contained within **scenario 2b** are approved, including the ability to build for private sale to provide additional income to the HRA (paragraph 4.11.8-4.11.12 refers) and subject to subsequent approved changes from the action plan in Appendix A.

2.5 That the Action Plan is approved to consider options to increase the spending power within the HRA, as a result of the removal of the HRA debt cap, (Appendix A).

2.6 That the two new additional funding requirements identified in paragraph 14.13.8 are approved.

2.7 That the current £4.9Million capital funding shortfall over the 30 year business plan, (paragraph 4.11.9 refers) be noted.

2.8 That the minimum level of balances for the HRA Business Plan, set as a minimum £2Million plus inflation (paragraph 4.16.3 refers), be noted.

2.9 That if material changes to forecasts are required following further Government announcements or recommendations as a result of the Action Plan, the Assistant Director (Finance and Estates) be requested to revise the Medium Term Financial Strategy and re-present it to the Executive for approval.

2.10 That the HRA MTFS principles are reviewed and reapproved following the work contained within the Action Plan at Appendix A.

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

2.12 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 assumptions in the 2017 HRA MTFS reported to the Executive in September 2017. These include inflation, income and borrowing projections, which will determine whether the capital and revenue programmes are still affordable within 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 and the outcome of the Social Housing Green Paper consultation.

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

3.4 Assistant Directors are in the process of completing their Business Unit Reviews and any cost base changes will have due regard to the financial envelope the HRA Fund operates within. In terms of delivery of housing services, this falls across four Assistant Director Areas: Housing and Investment, Communities and Neighbourhoods, Housing Development and Stevenage Direct Services.

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 housing priorities for Stevenage as set out in the Future Town Future Council agenda “Excellent Council Homes” and “Housing Development” and in the Housing Asset Management Strategy. The Council continues to work co-operatively with housing customers to help shape these priorities and associated delivery programmes. Performance against these programmes in 2017/18 was reported to the Executive in July 2018 within the Annual Report and 4th Quarter Capital reports. See also Appendix B, (reported to HMAB July 2018).

4.1.4 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 maintaining adequate funding for the services the Council provides, while retaining a prudent level of reserves. The Council's 'Financial Security' methodology has been revised to be a six strand approach for achieving this (see also section 4.3). The MTFS identifies the level of financial reduction required and the Financial Security priority helps deliver this reduction.

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
To 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.
To 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 or extend borrowing where this is affordable and helps meet the Council's investment priorities.
To 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.

MTFS principles
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 and to keep this under regular review.
To ensure that resources are aligned with the Council's Corporate Plan and FTFC priorities.

4.1.6 The MTFS principles will need to be reviewed following the actions contained within this report.

4.2 The Economic and Policy Context

The Economy

4.2.1 In the quarterly inflation report that accompanied the 0.25% base rate increase on the 2 August 2018, the Bank of England kept its forecast for growth this year unchanged at 1.4%, but increased the outlook for 2019 to 1.8% from the 1.7% previously predicted. The Bank continued to pencil in growth of 1.7% for 2020.

4.2.2 The quarterly inflation report showed its predictions are based on financial market expectations for rates to rise to 1.1% by mid-2021, which would suggest two more quarter-point rises. The Consumer Price Index (CPI) measure of inflation rose unexpectedly from 2.5% to 2.7% in August, but has reduced to 2.4% for September and the bank of England expects this to fall back to the 2% inflation target over the next two years given a scenario of minimal increases in Bank Rate.

4.2.3 In the last Strategy in 2017 there was considerable uncertainty around BREXIT and the impact that this will have on the economy and this still remains. Potential impacts of a 'No Deal' BREXIT on housing services could include for example: workforce shortages in the building and social care sectors associated with EU nationals leaving the UK; exchange rate changes affecting contracts priced in Euros/Dollars; increased financial hardship for residents in the event of an economic downturn. While the Chancellor's 2018 budget statement increased tax free allowances and higher tax rate thresholds, welfare benefits have by contrast been frozen for a number of years.

4.3 The Policy Context

4.3.1 Since the 2012 self-financing legislation was enacted, government policy initiatives have impacted adversely on HRA finances, with the most significant being the impact of the Welfare Reform and Work Act 2016. This put in place a 1% annual rent reduction over a four year period, estimated to cost the HRA £225Million over 30 years. This has been compounded by increases in the discount level for RTBs to further erode resources to fund capital and revenue needs.

4.3.2 During the past year, the Government has issued a number of further policy announcements and consultations (outlined below), so the HRA Business Plan continues to operate in a state of flux.

The Social Housing Green Paper – '*A new deal for social housing'*

4.3.3 The Ministry for Housing, Communities and Local Government (MHCLG) published the social housing green paper on 14th August 2018. The paper includes two policy announcements which are:

- that the Government will not bring the Higher Value Void (HVV) Assets provisions of the Housing and Planning Act 2016 into effect;
- that the Government will not implement 'at this time' provisions in the Housing and Planning Act to restrict the use of lifetime tenancies.

The paper seeks views on a wide range of proposals and ideas, based around five themes:

- Ensuring homes are safe and decent (including a review of the decent homes standard and more resident engagement on safety issues);
- Effective resolution of complaints;
- Empowering residents and strengthening the role of the social housing regulator;
- Tackling stigma & celebrating thriving communities;
- Expanding housing supply and supporting home ownership.

4.3.4 Withdrawal of the HVV policy has a positive impact on the council's HRA Business Plan with an estimated £30Million additional resources in the 2018 HRA BP update. However, the paper is silent on financial support to councils to invest in any enhancement to the decent homes standard, which could have significant capital implications. A number of the other proposals could, if implemented, have revenue implications in terms of increased administrative burdens and the need to resource enhanced services.

The Additional HRA Borrowing Programme and the Shared Ownership and Affordable Homes Programme (SOAHP) 2016-2021

4.3.5 In June 2018, the Government announced that it would raise the HRA borrowing cap by a total of up to £1 billion in areas of high affordability pressure to enable local authorities to build new homes. Eligible local authorities were invited to bid for increases in their caps from 2019/20 to 2021/22 and the Council made a bid submission. However, in the 2018 Budget statement, the Chancellor confirmed that the Housing Revenue Account borrowing cap had been abolished completely with immediate effect. This update of the BP includes a bid submitted for additional borrowing before the announcement to abolish the borrowing cap immediately.

4.3.6 In October 2017, the Government announced an additional £2billion to deliver affordable homes across the country through Homes England's Shared Ownership and Affordable Homes Programme (SOAHP). Bids have been invited against the available funding for a range of tenures, including for the first time Social Rent. The Green Paper does not announce any additional funding beyond the above.

Use of RTB Receipts

4.3.7 The Government has also consulted this year on the use of RTB receipts, the most significant proposals for the Council being:

- to allow local authorities to hold receipts they currently retain for up to 5 years; future receipts would still have to be used within 3 years;
- to increase the cap on the use of receipts from 30% to 50% of build costs for homes for social rent where certain criteria are met;
- to allow local authorities to “top-up” RTB receipts with grant funding;
- to allow authorities to gift General Fund land to the HRA at zero cost.

Officers responded to the consultation and welcomed the increased flexibilities but concluded that decisions about the use of these receipts should be made at a local level. Increasing the usability of 1.4.1 receipts does reduce any funding deficit and minimises the return of any receipts. The updated BP has not reflected any of the increased flexibilities but an increase in use of 1.4.1 from 30% to 50% reduced the need to borrow in the BP by £36Million, (paragraph 4.17.3 refers).

Future National Rent Policy Post 2020

4.3.8 Mandatory rent reductions of 1% per annum apply to the 4-year period 2016-2020. The Government has announced that from 2020 social housing providers will be able to increase rents by up to CPI +1% per annum for 5 years and is currently consulting on the implementation of this policy. A CPI+1% rental assumption has been included in the updated business plan post 2019/20.

4.3.9 Last year the Government published a consultation paper on proposed changes to funding models for supported housing. However, it has since confirmed it will not pursue its proposals and that it will maintain Housing Benefit for all supported housing. Nevertheless, it does intend to develop a new oversight regime, incorporating a review of housing related support. The impact of this has not yet been reflected in the updated BP.

Welfare Reform

4.3.10 Changes to welfare payments in terms of Universal Credit (UC) have continued to be introduced a slow pace, although from September 2018, all new claimants, and those claimants whose circumstances change, will now migrate to UC. In the budget statements 2017 and 2018, the Chancellor made a number of concessions on UC and committed further funding to help claimants transfer to the new consolidated benefit. In addition, in March 2018, the Government announced it would amend regulations so that all 18 to 21-year-olds will be entitled to claim support for the housing cost element.

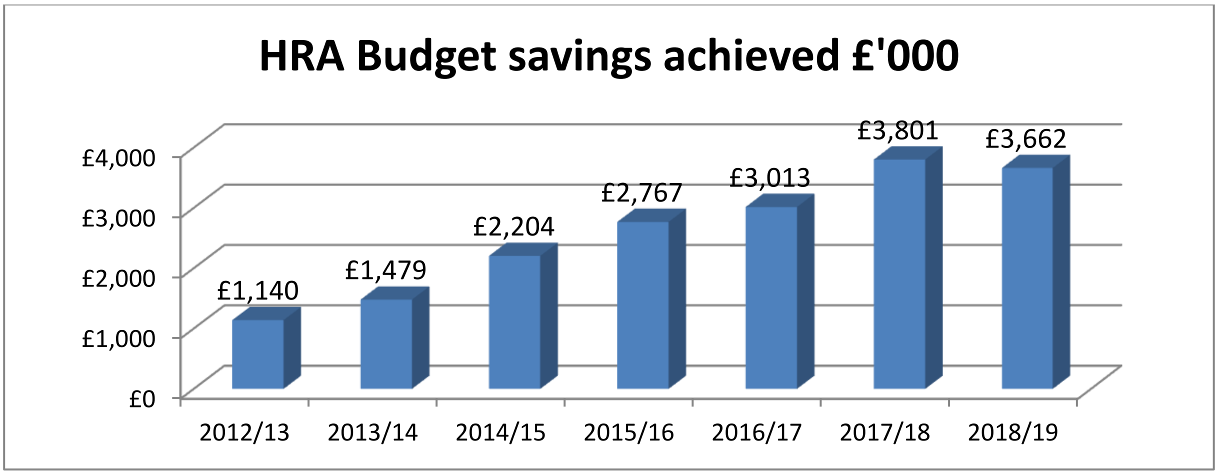
Independent Review of Building Regulations & Fire Safety

4.3.11 The Independent Review of Building Regulations & Fire Safety was commissioned by the Government following the Grenfell Tower fire. The review’s final report was published in May 2018. It concluded that the regulatory system covering high-rise and complex buildings was not fit for purpose and made over 50 recommendations for a different approach. The report acknowledges that to embed the systematic changes recommended will require legislative change; will take time to fully implement; and will require additional actions by those building and owning high rise buildings, with associated costs. This is likely to impact on the Council's housing investment costs in due course. The Council approved the retrofitting of sprinklers in high rise flats at a cost of £2Million at the Full Council meeting in July 2018.

4.4 The HRA Update

4.4.1 The changes made to housing finance in recent years have meant the HRA has had to review its delivery plan and significantly reduce capital expenditure, whilst at the same time finding annual savings to meet the cost of maintaining its housing stock and its management.

4.4.2 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.



4.4.3 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 six strands which are summarised in the chart below. The HRA Business Plan assumes an annual £200K financial security target per year beyond the three year time horizon in order to fund the programme. An update on the progress of Financial Security Options is included in the Financial Security report to this Executive.

4.4.4 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, however the revised projections show HRA revenue reserves at minimum or close to balances in the first 15 years on the business plan.

4.5 Inflation

4.5.1 Details 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	2022/23
Inflation-Applied to:					
Salaries - % increase	2.00%	2.00%	2.00%	2.00%	2.00%
Pension Increase			0.70%		
CPI indices increases	2.70%	2.30%	2.20%	2.10%	2.10%
RPI indices increases	3.70%	3.30%	3.20%	3.10%	3.00%
BCIS	2.80%	3.80%	4.40%	4.60%	4.60%
Fuel Increases	4.00%	4.39%	4.64%	4.99%	4.99%
Gas (unit charge only)	10.53%	14.53%	14.53%	14.53%	14.53%
Electricity (unit charge only)	10.16%	11.11%	11.11%	11.11%	11.11%

**at the time the modelling was completed the September CPI figure was not released (2.4% compared to 2.3% included in the modelling)*

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

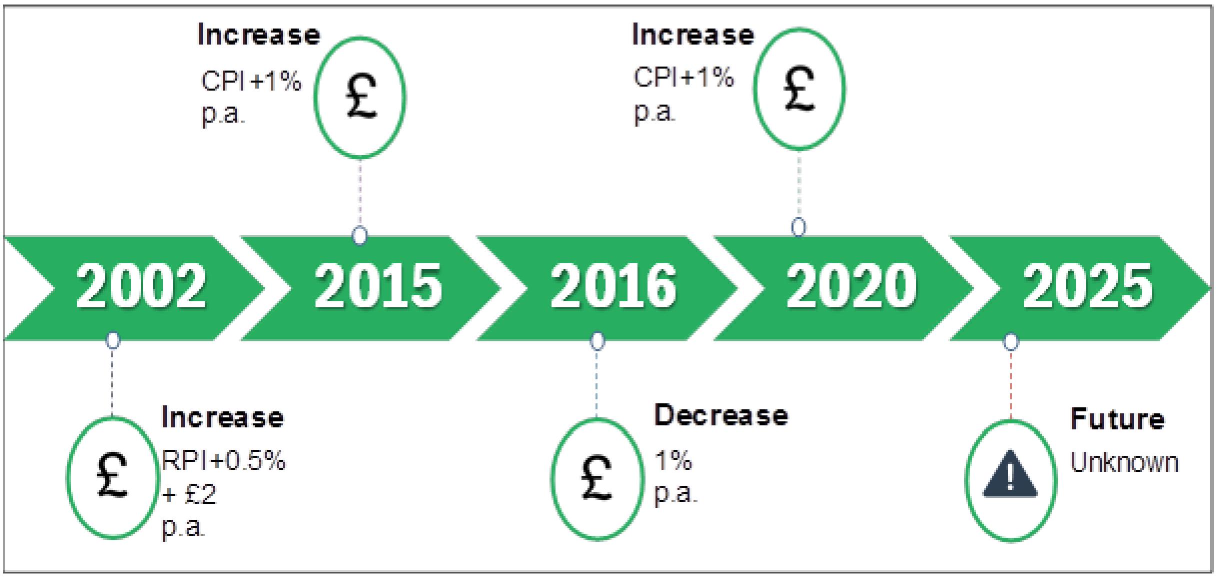
	Rationale for inflation assumption
Salaries - % increase	Salary inflation has been shown as 2% in the MTFS based on the two year deal for 2018/19-2019/20. With inflation projected to be 2% on-going it seems unlikely that pay offers will be lower as for example 1%.
Pension Increase	The increase for 2017/18 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%.

	Rationale for inflation assumption
Consumer Price Index (CPI) indices increases	Current projections from the Bank of England and other independent commentators are broadly in line with the 2017/18 MTFS assumptions and therefore remain unchanged.
Retail Price Index (RPI) indices increases	This is based on a 0.9%- 1% differential between the CPI forecast.
BCIS	This is 2.8% in 2018/19 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

4.6 Rent Policy

4.6.1 The Council's Rent and Service Charge Setting Policy identifies how the Council will set rents and service charges for residential properties, balancing financial viability for both tenants and the HRA Business Plan. Most council homes are at social rents and only 50% of new build homes are let at affordable rents (currently there are 18 affordable rented homes). Policy on annual rent increase/decreases has altered over time, as illustrated below:

Changes in Government policy on rent increases/decreases since 2002



4.6.2 The HRA uses rental income or RTB sales to fund its capital programme. Recent policy changes have had a detrimental impact on the capital programme as illustrated by the impact of the 1% rent reduction, which is estimated to be £5.5m rent loss over four years and £225m over the 30 year life of the Business Plan.

4.6.3 The Council's rent and service charge policy was revised in January 2016 and January 2017, both to bring it into line with the Welfare Reform and Work Act 2016 and to incorporate policy decisions made in response to the loss of income to the HRA Business Plan. Key principles for charging are:

- HRA rents will be subject to a 1% per annum reduction from 2016/17 to 2019/20, where this is a statutory requirement;
- Properties exempt from the 1% rent reduction will have rents set in line with CPI+1%;
- The Council will continue to re-let properties at formula rent, with the exemption of mutual exchanges and also transfers where the under-occupation charge is a factor;
- The proportion of new build properties let at affordable rents will be aligned with the HRA Business Plan, which currently assumes a ratio of 50:50 social to affordable, subject to implementation being kept under review by the Housing Development Executive Committee;
- Any service charges will be set annually to recover the full costs incurred in providing the services.

4.6.4 The Government's announcement of its intention to allow local authorities to increase rents by up to CPI +1% per annum for 5 years from 2020 is included in the Council's Business Plan assumptions (and for the remaining 25 years) .

4.6.5 There are some flexibilities in setting rent levels (5% for general needs and 10% for sheltered). Officers are exploring the possibility of whether a proportion of the supported housing charge could be reclassified as rent and therefore eligible for housing benefit and use the rent flexibility to account for the cost.

4.7 Service Charges

4.7.1 The MTFS assumes for modelling purposes an 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 2018. In line with the Rent and Service Charge Policy, the Council will consult with tenants and leaseholders regarding the setting of service charges, including what services are provided and why charges are incurred.

4.7.2 Officers are reviewing service charges to be in place for April 2020. The review of service charges will include the provision of a revised "estate management" offer including caretaking, grounds maintenance and anti-social behaviour. This forms part of the AD Business Unit reviews referred to earlier in the report.

4.8 Supported Housing Charges and Other Fees and Charges

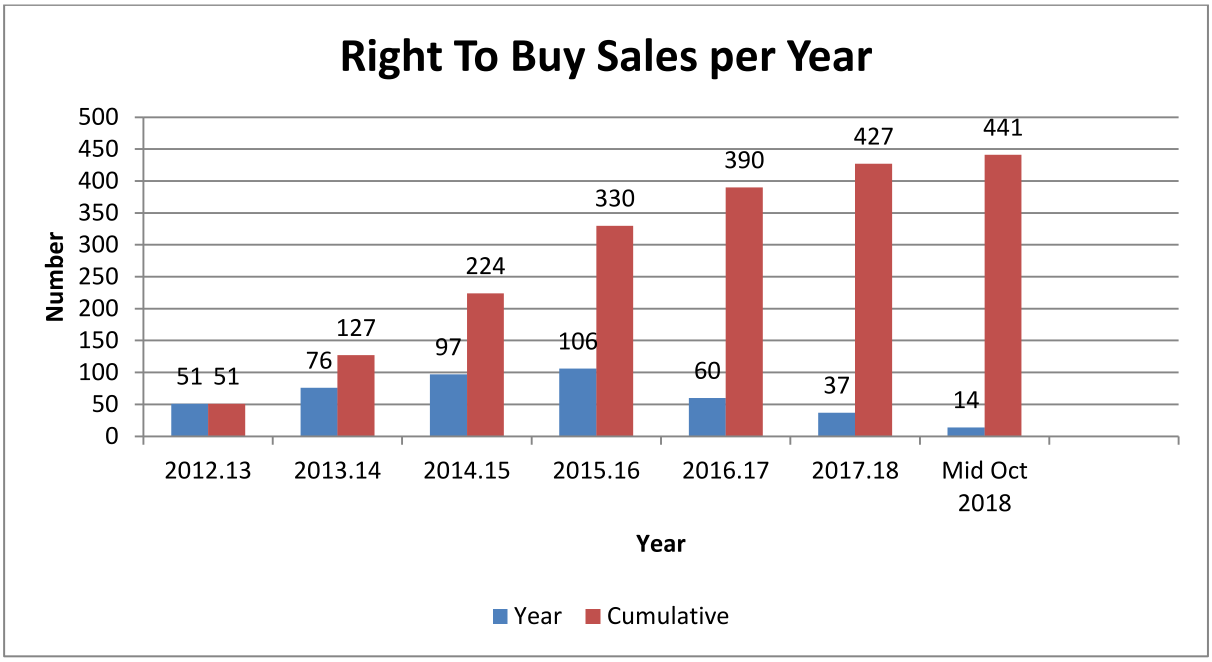
4.8.1 **Supported Housing** has been funded through significant supporting people grant (from HCC), which over time has been eroded. The grant for 2013/14 was £519,000 for 2014/15 this was reduced to £385,909 and then cut completely for supported housing from April 2015 (there is a small amount of grant remaining for temporary housing). The HRA has not been charging the full cost of the supported housing service with the HRA subsidising the cost to those living in sheltered accommodation, with some tenants not paying anything. Members have agreed a phased £2.00 incremental increase in charges until costs are recovered. However the impact on those on benefit is being reviewed as per paragraph 4.6.5. As the HRA builds more supported housing units officers will need to ensure that the charging regime for associated services is financially sustainable for the HRA.

4.8.2 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.

4.8.3 **Mortgage income** assumptions from S20 charges are included in the BP and relate in the main to the Major Refurbishment Contract (MRC). More detail regarding assumptions is summarised in para 4.17.2.

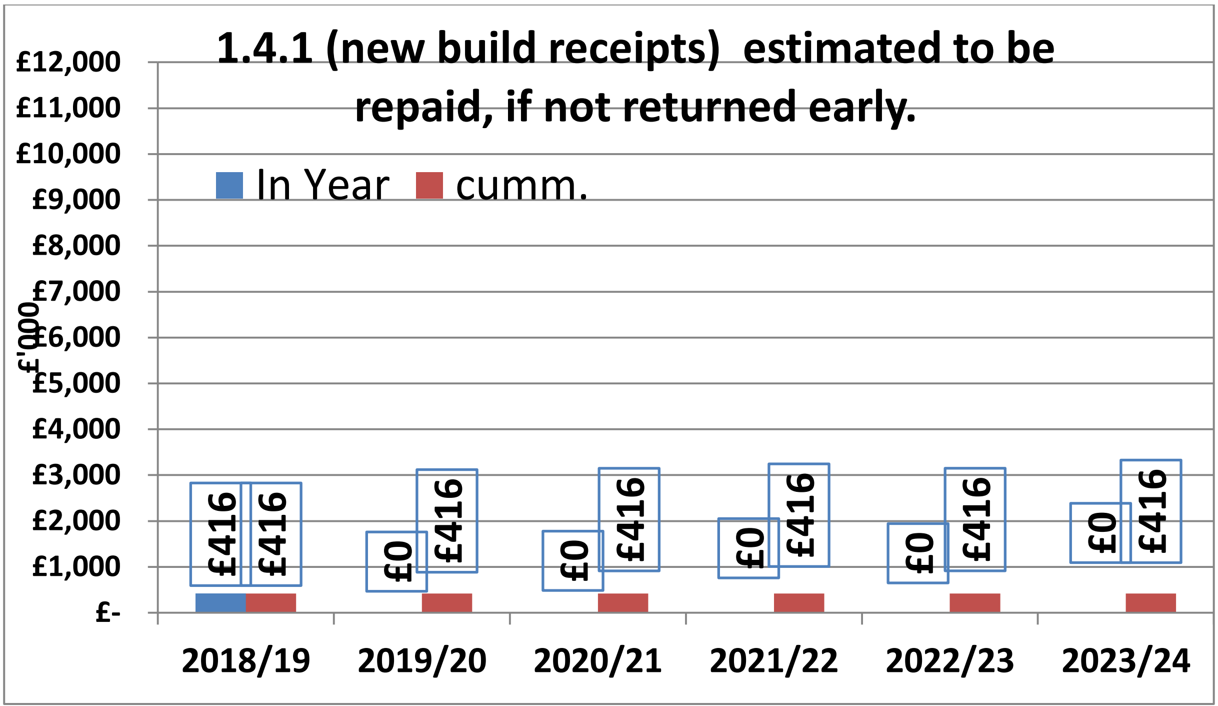
4.9 Right to Buys (RTBs)

4.9.1 The original 2012 HRA business plan was based on sales of 10-12 RTBs per year but sales have been higher as a result of the increase in the discount offered, from £34,000 to £80,900 (2018/19), which is now indexed annually to CPI. The sales per year are shown in the chart below.



4.9.2 The 2017 BP projection was 50 RTBs per year, however there has been a downward trend in sales which may be partly explained by increases in average sale prices. The total number of RTB sales assumed in the Business Plan is now 35 per year or 1050 over 30 years, compared to 50 per year or 1500 in the previous plan. The projection for 2018/19 has since been revised down to 25 for the current year and included in the Financial Security report to this Executive.

4.9.3 Due to the historically higher RTB numbers in previous years there are still projected RTB 1.4.1 receipts that will need to be returned to the Treasury. The chart below shows £415K receipts not projected to be utilised within the three year period to 2023/24 and a potential £11Million over the 30 year business plan. This may be mitigated however if the Government goes ahead with proposals to extend the use of existing RTB receipts from three to five years (see paragraph 4.3.7). The use of receipts is also clearly linked to the number and value of RTBs, the reducing number of RTBs has alleviated the pressure to return larger amounts of receipts, but also puts pressure on funding.



4.10 CAPITAL PROGRAMME-SCENARIO PLANNING

4.10.1 In last year's MTFS and Business Plan update, the capital programme was not fully funded, with a £26m capital funding shortfall over the 30 year period. In the 2018 BP update, officers have modelled a number of scenarios to examine the impact on the capital shortfall, the minimum balances and the ability to borrow to further fund the capital programme. The tables that follow describe the scenarios and set out the assumptions that are built into the modelling. The different scenarios show the relative impacts of changes to the business plan, resulting in a final scenario 2b option which apart from a de-minimus £4.9Million over 30 years has a fully funded capital programme.

Scenario	Description
Base Scenario	This is based on the 2017/18 BP, adding a new year 30 . It includes: • Current approved capital programme • Adds assumptions around a redevelopment scheme, which means replacing 16% of units which are not eligible for use of 1.4.1 receipts. • Some re-profiling of new build properties per year to smooth out peaks and

Scenario	Description
	troughs • Removes MRC costs relating to GF commercial properties • RTB assumptions reduced from 50 to 35 per annum • S106 monies available
Scenario 1	Base scenario plus: • Increase the debt cap to allow the development of two sites set out in the borrowing bid to government • Requires an appropriation of £1.1Million from the General Fund for debt cap borrowing schemes • Requires additional borrowing of £9.5Million for the schemes and provides 36 new units.
Scenario 1B	Scenario 1 plus: • Increase the number of RTB's from 35 per year to 50 per year
Scenario 2	Scenario 1 plus • Include private sales 2021/22-2028/29 of average 5 per year to raise income for the HRA (31% return on capital employed)
Scenario 2B	Scenario 2 plus • Borrowing of £33.3Million to fund capital shortfall • Review of interest rates of 2017 new loans (future years) from 5% to average 3.5%

4.10.2 Also summarised below is a comparison between the 2017 BP and the Scenario 2B property assumptions.

Property stats: (numbers)	2017 per year	Total No	2018 Per Year	Total No
Estimated RTB sales	50	-1,500	35	-1,050
Estimated new properties (average)	66	1,986	70	2,096
Estimated new properties in debt cap bid		0		36
Estimated replacement properties		-68		-107
Net increase in properties 30 years		**418**		**941**
Total stock 1st April year 30 of BP		8,441		8,843
Estimated private sales 21/22-28/29		0		39
Estimated Return on investment on sales		0		31%
Affordable % of new properties		50%		50%
Build time to ready to rent	12 mths		18 mths	
Rents post 1% rent reduction	CPI+1%		CPI+1%	

4.10.3 The comparisons between the 2017 BP capital expenditure and the updated business plan scenario 2b is summarised below. This shows that there has been an increase of £99Million in total capital expenditure, however some of this is the inflationary difference between 2017/18 and 2047/48 and the smoothing of the new build programme unit numbers, (see also para 4.14.3) and changes in stock information.

SUMMARY- 30 years	£Million	£Million	£Millions
	2017 BP	2018 BP (Scenario 2b)	Variance
Capital Expenditure:			
Works to existing properties & Equipment	£701.08	£702.20	£1.12
New Build Programme	£453.87	£581.55	£127.68
Higher Value Voids Levy	£29.84	£0.00	-£29.84
Total Capital spend	**£1,184.79**	**£1,283.75**	**£98.96**

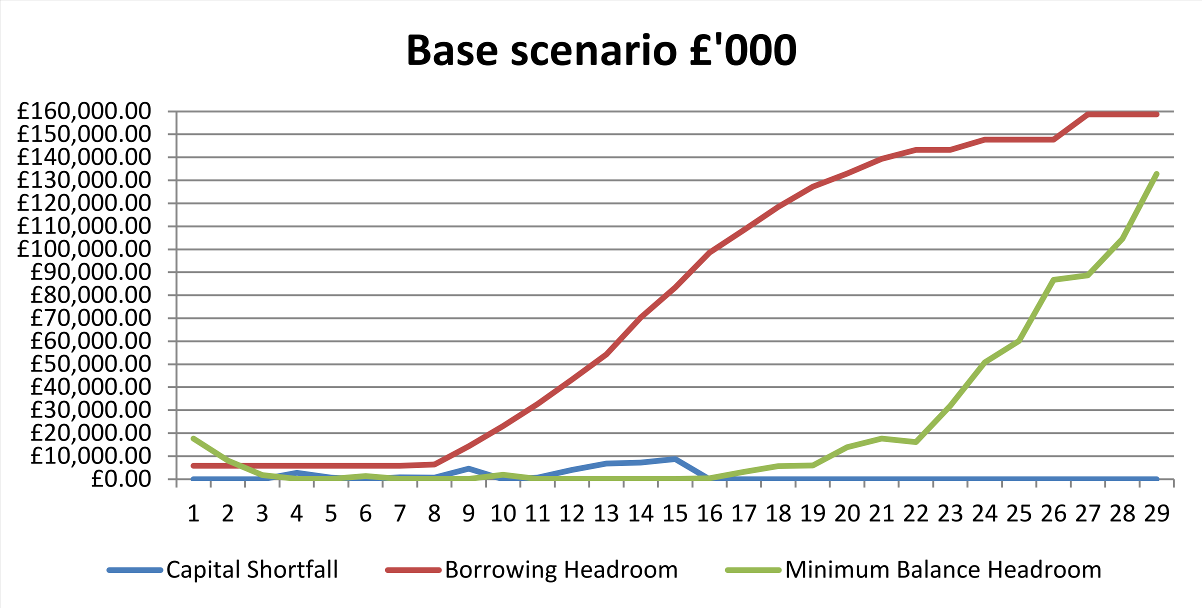
4.10.4 The comparisons between the 2017 BP borrowing costs and the updated business plan scenario 2b is summarised in the table below. There is an increase in debt costs of £50Million over the 30 year period. This is because the 2017 plan had a deficit which was not funded and therefore debt repayments and interest costs were not included as well as an increase in the capital spend.

SUMMARY- 30 years	£Million	£Million	£Millions
	2017 BP	2018 BP (scenario 2b)	Variance
Borrowing costs:			
average interest rate (weighted range during 30 year period)	3.35%-4.86%	3.32%-3.41%	0.03%-1.45%
average rate of new loans		3.33%	3.33%
Borrowing Interest Costs	£159.27	£166.82	£7.55
Borrowing repaid	£225.32	£268.07	£42.75
Total Debt Costs	**£384.59**	**£434.89**	**£50.33**

4.11 Scenario Outcomes

4.11.1 The following section graphically shows the impact of each scenario, however the scenario outcomes are outlined below:

Base Scenario: 2017/18 BP, (add 2047/48, less 2017/18), current approved capital programme, assumptions around one neighbourhood redevelopment, removes Major Repairs Contract (MRC) GF costs for works to shops below flats, RTB (35 PA from 50), Use of current S106 monies and removal of Higher Value Voids levy (HVV).

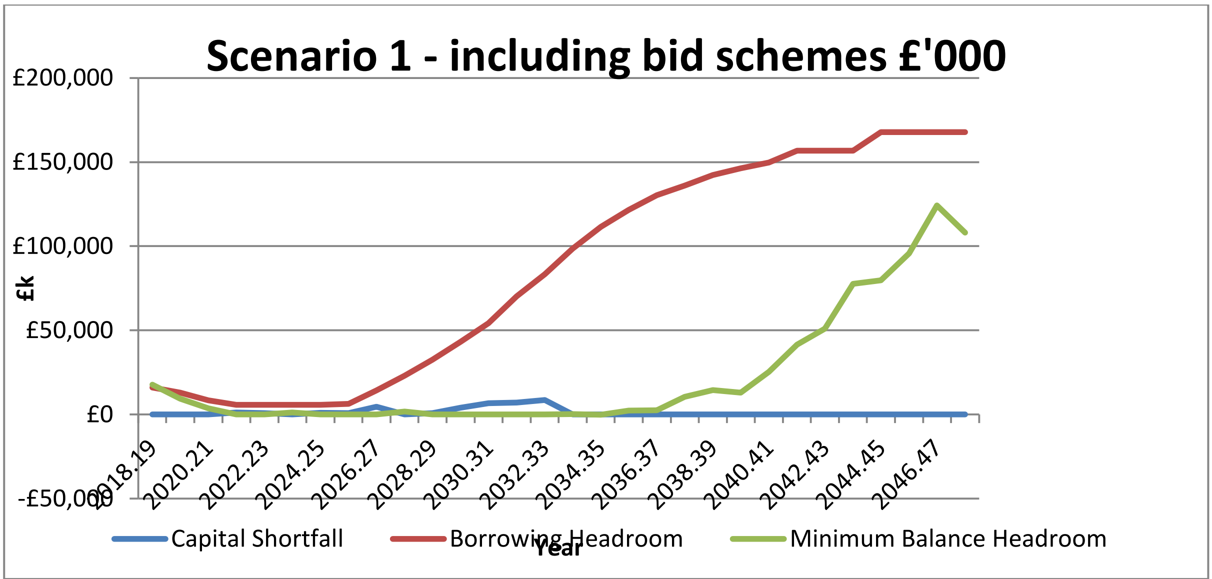


4.11.2 In this scenario, there is a capital shortfall of **£37.1Millon** over the 30 year business plan (2017 Business Plan was £26Million), but minimum balances are not breached. The first five year capital shortfall is **£3.44Million** (£2.8m in 2021.22 and £631k in 2022.23) and the 10 year shortfall is **£9.57Million.**

4.11.3 The increase in the shortfall in the early years of the business plan is because of the reduction in RTBs which reduces available capital funding in the first years of the BP. However, within the 30 year period higher rental income outweighs the reduction in RTB receipts.

4.11.4 At the time of modelling scenarios for the business plan, the removal of the debt cap was not known, but the AD Housing Development had submitted a bid to increase the debt cap based on two schemes. **Scenario one** identifies the impact of the additional borrowing on the base scenario above.

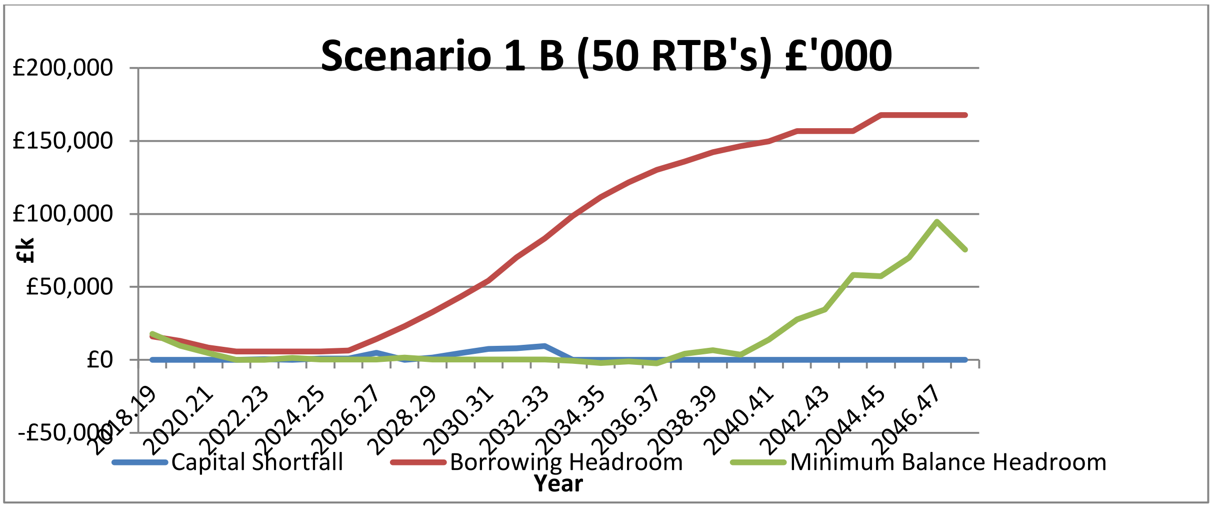
Scenario 1 – including the government debt cap bid schemes



4.11.5 The impact of the additional borrowing means there is a reduction in the capital deficit from £37.1Million to **£36.1Million** with below minimum revenue balances in one year (2034/35, but only by £143K). In the first five years the capital shortfall is **£2.07Million,** (£3.44Million in the base case) and for the first 10 years **£8.5Million,** (compared to £9.57Million in the base case). The additional borrowing bid has an overall positive impact on the BP.

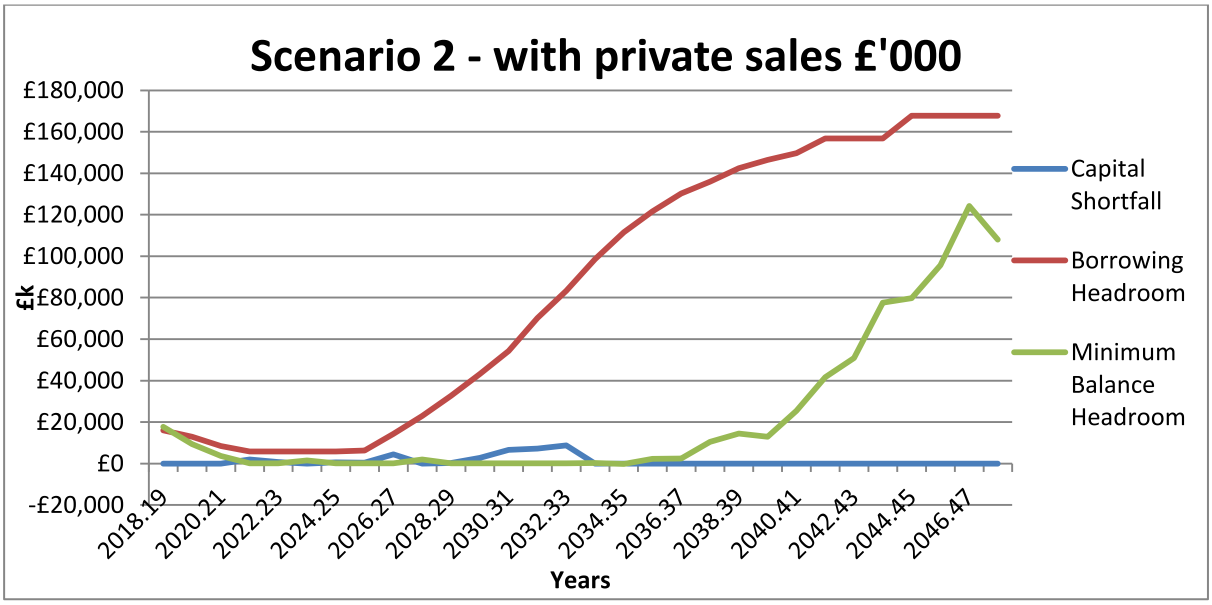
4.11.6 RTB sale numbers impact on the BP. Increasing RTBs from 35 p.a. to 50 per year as in scenario 1b reduces early deficits from £2.07Million to only **£0.5Million** and the 10 year deficit from £8.5Million **to £7.3Million.** However, it increased the overall capital deficit from £36.1Million to **£38.4Million** as shown below and revenue balances are below minimum levels in 2035/36-2037/38. Increasing RTBs per year has a negative impact on the BP

Scenario 1B – an increase from 35 to 50 RTBs per annum



4.11.7 The impact of building for private sale based on a modest programme of private sales 2021/22-2028/29 of an average of five per year. This was modelled using scenario 1,(35 RTB per year) and adding private sales.

Scenario 2 - with private sales (and 35 RTB's):

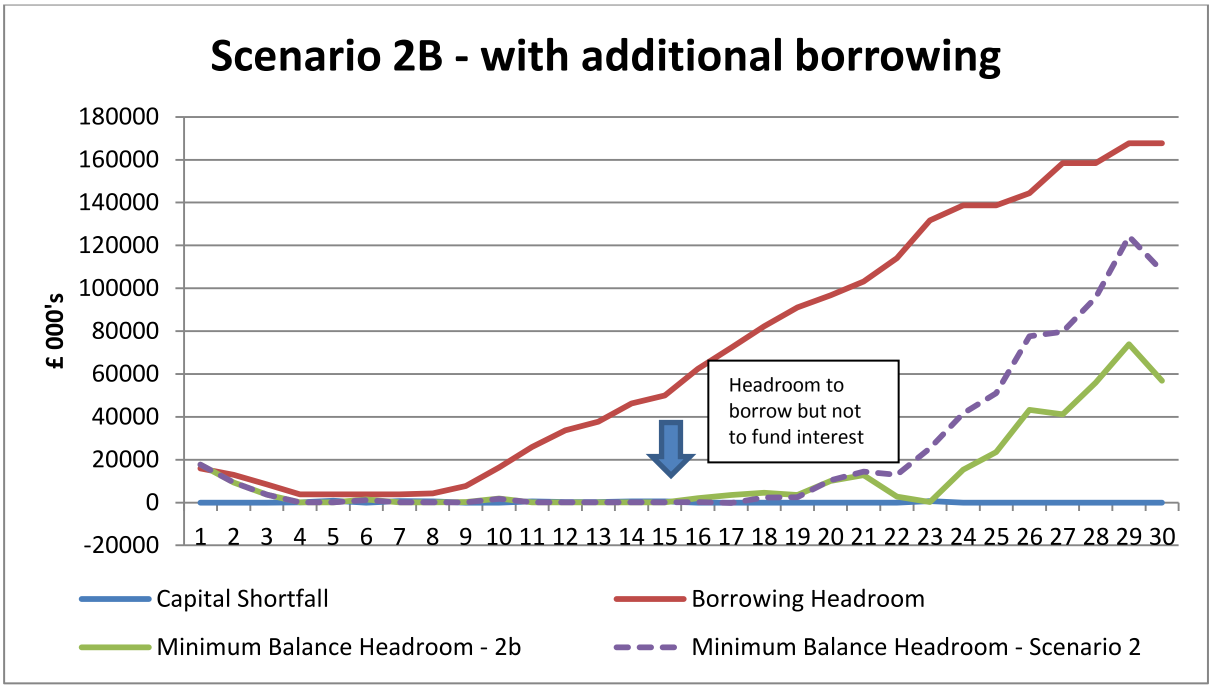


4.11.8 In **scenario 2**, there is a **£33.68Million** shortfall in the business plan, which is a reduction of £2.42Million, (profit on sale £2.36Million). Minimum balances are breached 2034/35 but only by £143K. In the first five years the capital shortfall is **£2.75Million** and for the first 10 years, **£8.2Million**. This does not improve the BP (compared to scenario one) deficit in the first 10 years as the profit on sale is reduced by the following years construction costs until after the 10 year period, (with only an improvement in balances of £300K by year 10).

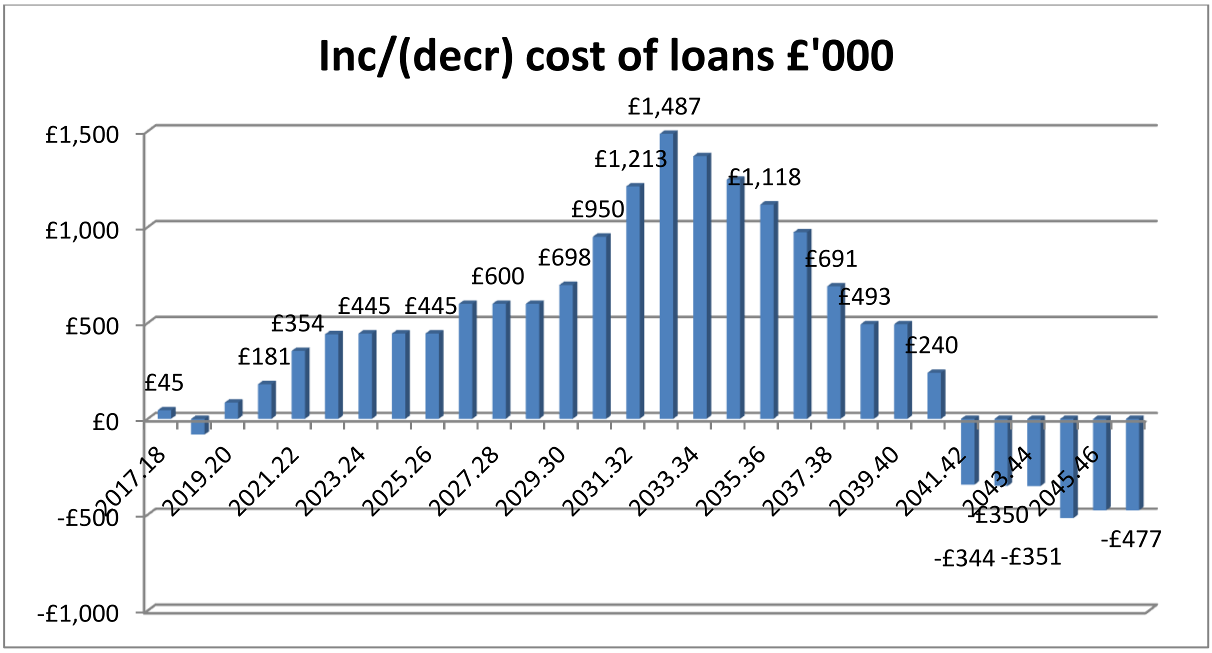
4.11.9 In the final scenario modelled **(scenario 2b**), additional loans were taken and a there was a review of loan rates for existing scheduled loans, leaving a **£4.9Million** deficit over 30 years, with **£800K** deficit in the first five years and **£2Million** in the first 10 years. This could be eradicated by underspends or slippage and is not considered material on a £1Billion capital spend. It is likely that this could be funded from revenue underspends and slippage in the capital programme.

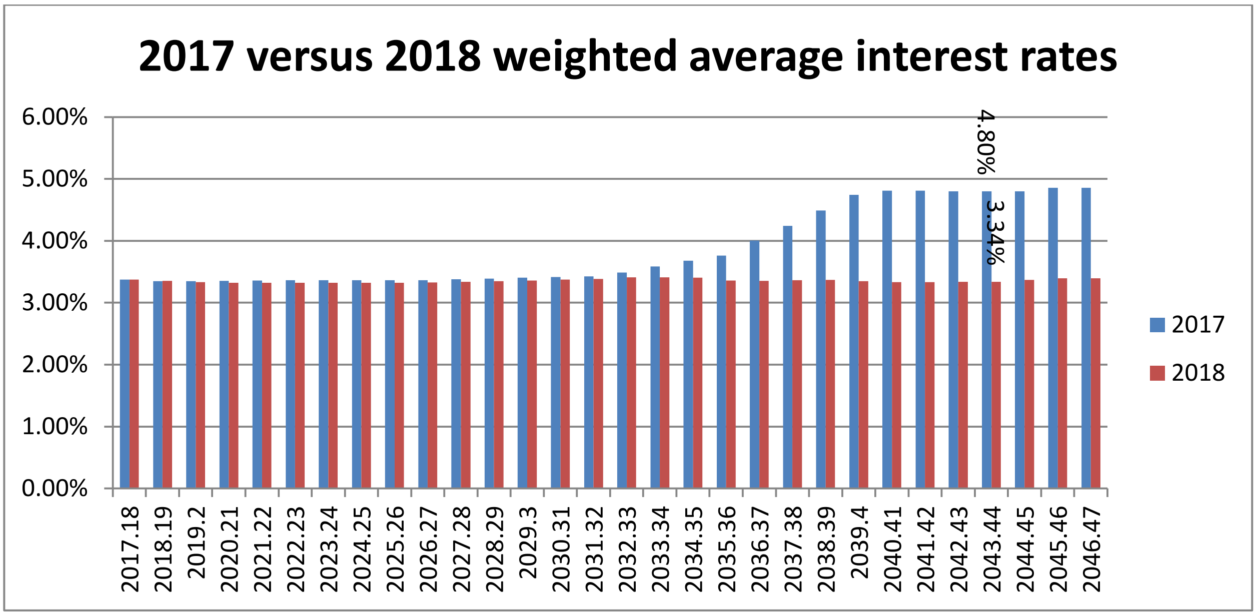
4.11.10 With the recently announced removal of the debt cap the issue for the revised BP is there are insufficient funds to meet interest payments for further borrowing in the early years until after year 15 of the BP.

Scenario 2B – with borrowing towards funding the capital shortfall



4.11.11 Any headroom in the BP has been reduced by additional interest costs. Comparing the 2017 plan to the 2018 plan (and adjusting for the same time period years 2017/18 -2046/47). There has been a significant increase in interest costs in the middle years of the plan removing the revenue headroom to borrow further. It is only in the latter years that the impact of the reduction in 2017 BP re-borrowing average interest costs (5% to 3.5%) reduces costs. The variance between the two plans per year is shown below.





4.11.12 A summary of the scenarios modelled to determine the impacts of spend over 30 years is shown in the table below.

SUMMARY- 2018 30 years	Base Scenario	Scenario one	Scenario one (B)	Scenario two	Scenario two (B)
Capital shortfall years 1-5	£3.44M	£2.07M	£0.5M	£2.75M	£0.83M
Capital shortfall years 1-10	£9.57M	£8.57M	£7.30M	£8.20M	£2.10M
Capital shortfall over 30 years	£37.1M	£36.1M	£38.49M	£33.68M	£4.90M
Additional debt cap borrowing	No	Yes	Yes	Yes	Yes
Value of debt cap loans	£0.00	£9.06M	£9.06M	£9.06M	£9.06M
New Loans above debt cap bid	No	No	No	No	Yes

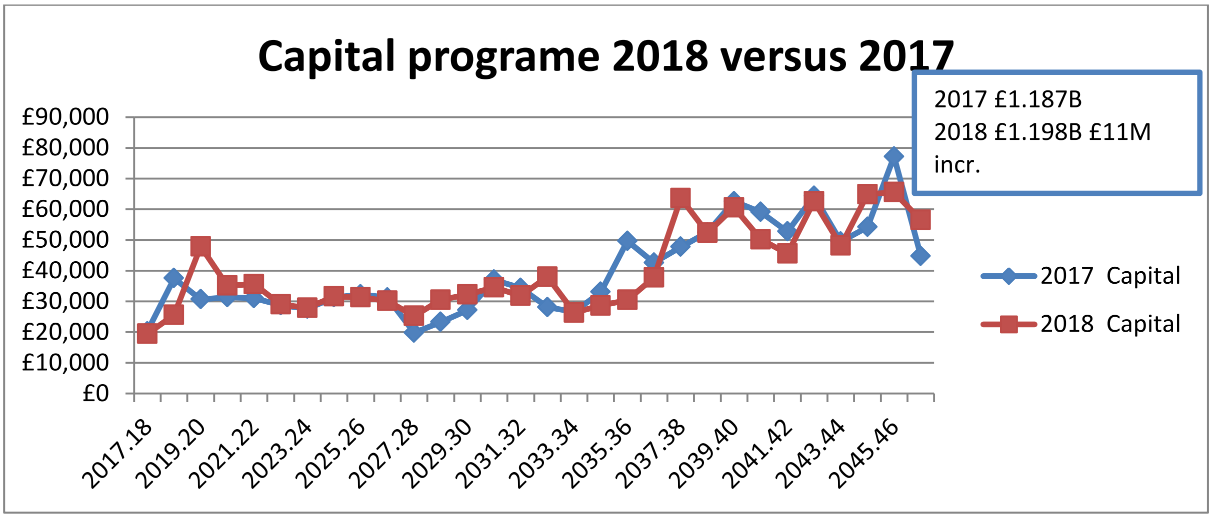
SUMMARY- 2018 30 years	Base Scenario	Scenario one	Scenario one (B)	Scenario two	Scenario two (B)
Value of new loans	£0.00	£0.00	£0.00	£0.00	£33.3M
interest rate of existing loans reviewed	No	No	No	No	yes
RTB per year	35	35	50	35	35
Private sales	No	No	No	Yes	Yes
Minimum balances breached	No	Yes*	No	Yes*	No
Higher value voids levy	No	No	No	No	No
*Only in 1 year, breach of £143K					

4.11.13The scenario 2b modelling does fund in the main the capital programme but leaves the HRA unable to fund additional costs. Further consideration to address this is outlined in in paragraph 4.17.3 and Appendix A which sets out a plan to be considered over the next six months once the Asset Management Strategy for the HRA has been completed (January 2019 Executive).

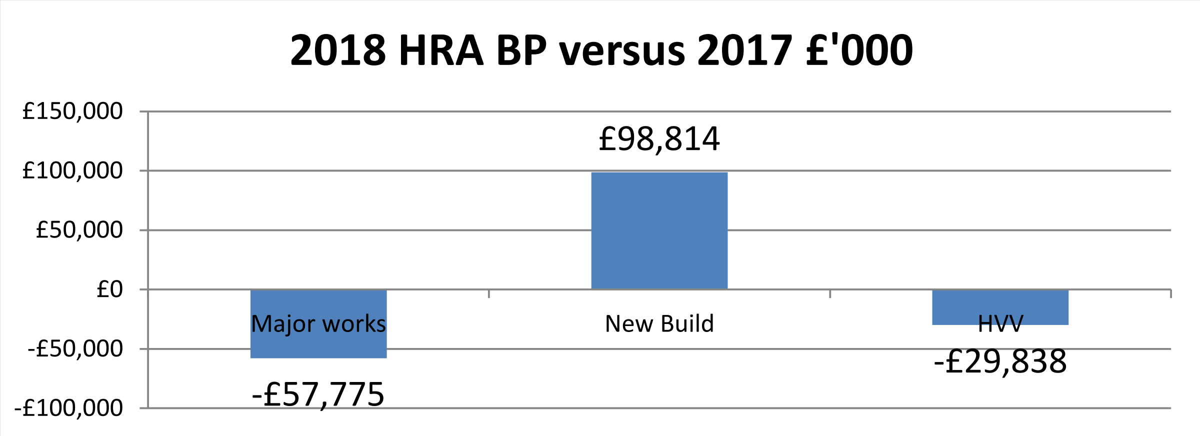
4.12 CAPITAL PROGRAMME DELIVERY AND COSTS

4.12.1 Some analysis has been completed to understand why costs have changed between the 2017 BP and the 2018 BP. In order to do this the same period needs to be analysed. Therefore all of the following charts use the 2017 data and compare to the 2018 business plan data, adjusted to include actuals for 2017/18 and excluding the last year of the 2018 plan.

4.12.2 For the period outlined above (2017/18 + years 1-29), capital programme costs have increased by £11Million overall, but there are variances between the different capital programmes as shown below.



4.12.3 Major works costs have reduced over the period 2017/18-2046/47 by £57Million and the new build programme increased by £98.8Million, with the HVV levy removed, the latter saving the HRA £29.8Million in costs.

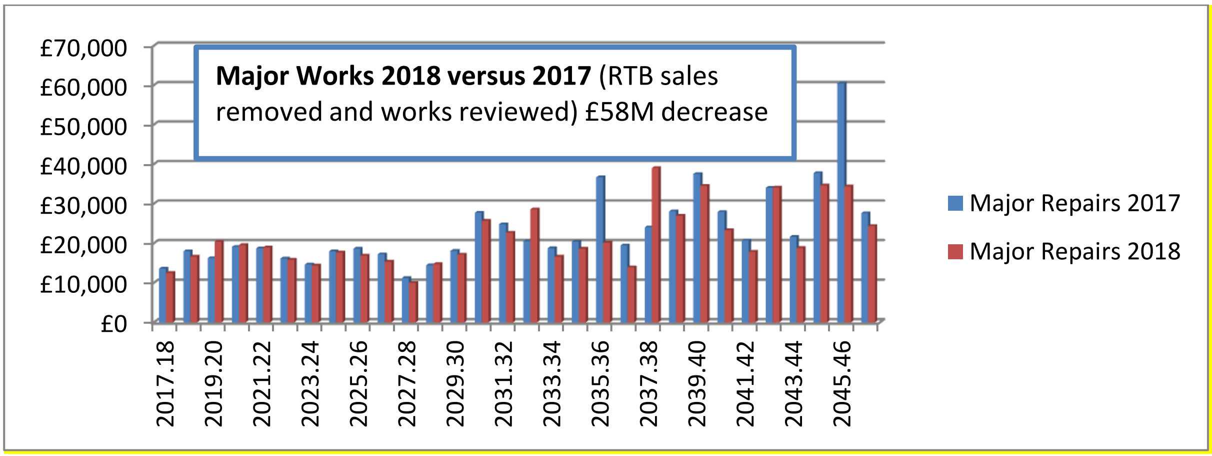


4.12.4 Further information about the existing stock and new build programmes and the associated capital costs is given in the sections below.

4.13 Capital works to existing properties

4.13.1 The Asset Management Strategy (AMS) is due to be refreshed at the January Executive. The existing HRA AMS details the plan for the maintaining and improving properties. The strategy sets out the underlying principles which sit behind excellent asset management for the Council and the key strategic projects and programmes which will ensure that the Council derives maximum value from its assets.

4.13.2 The major works capital programme is summarised in the chart below and totals **£643.08Million** over the 30 years 2017/18-2046/47 (including major works, ICT and vehicles), compared to **£701.8Million** in the 2017 plan over the same period. (The total costs within the 2018 Business Plan for the period 2018/19-2047/48 are **£702Million**).



4.13.3 The spend profile required for work to existing properties has altered slightly reflecting contracts planned to start in the next five years. There have also been changes reflecting any future replacement dates for some elements, where these have altered as a result of these elements being replaced or survey condition information being updated. Most elements when completed would create a new replacement cost which falls in the 30 year period of the business plan (e.g. kitchens – 20 years, bathrooms 30 years etc.). However, the Council has carried out a significant level of roofing replacements in recent years and the life of a roof means the next replacement cost would not fall in the 30 year period

4.13.4 The overall investment need over the 30 year period has reduced **by £58Million or 8%.** This is as a result of information being amended as stated above. In addition the level of capital staff inflation has been revised over the 30 year programme, a reduction of £30Million.

4.13.5 Progress against the existing stock capital programme is monitored through a procurement officer group and the Assets and Capital Board. A significant proportion of the five year programme relates to delivery of the Major Refurbishment Contract (MRC), which commences during 2018. The costs of works to leasehold flats will be recoverable through the Section 20 consultation process.

4.13.6 The overall 30 year capital programme for existing stock has reduced over the last two reiterations of the BP, as a result of financial pressures on the HRA. 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.

4.13.7 It is proposed that once the Asset Management Strategy has been revised and the outcomes of the social housing Green Paper are known (e.g. in respect of the decent homes standard, safety and energy efficiency measures), additional works are identified for recommendation to Members in conjunction with the Action Plan as summarised in 4.17.3 and detailed in Appendix A. Example works may be:

- Asset Review Programme – this would allow further work to continue improving our challenging assets and the long term viability of these. This work would include further enhancements to the retained sheltered housing stock to ensure this remains fit for purpose.
- Improvement Works - including parking, energy efficiency works and estate improvements which were all stripped back previously

4.13.8 There are two schemes not in the BP but that are recommended for approval and inclusion in the 2019/20 Capital Strategy. These are listed below and due to the financial low impact on the BP **are recommended for inclusion**.

- Viability assessment, surveys and options appraisal for the High Rise blocks - £190,000 in 2019/2020
- Conversion of one wing of Asquith Court, which is situated on the proposed Kenilworth redevelopment site and is vacant pending demolition in 2021 for use as temporary accommodation - £100,000 upfront costs in 2018/19. This will be cost neutral at the 2020/21 year point as rent can be charged and the cost of council tax on void properties to the HRA will be avoided.

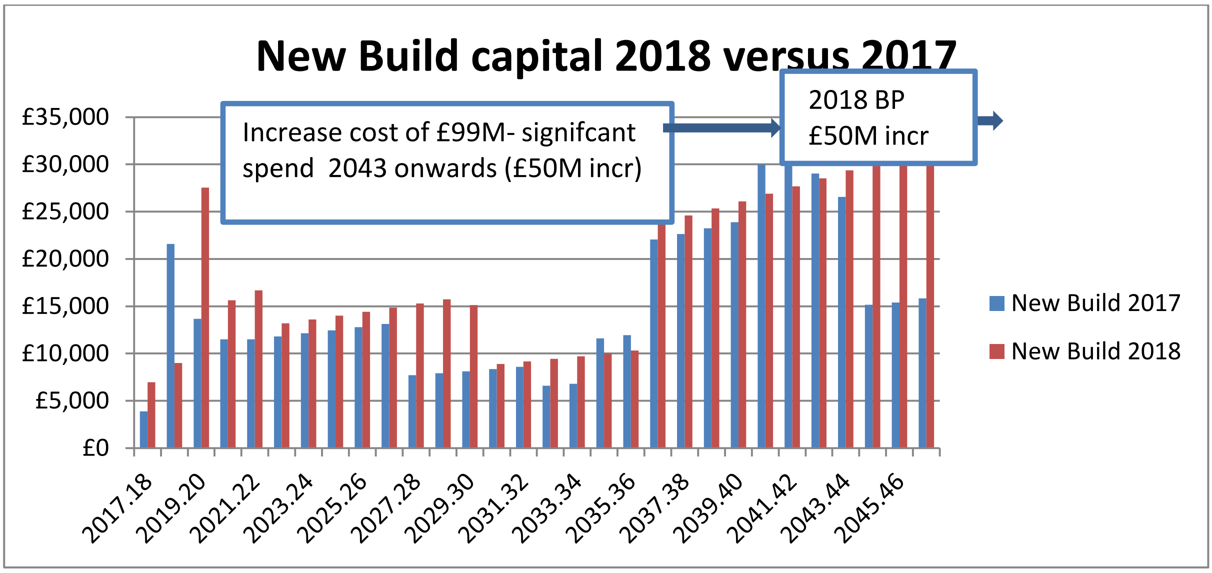
4.14 New Build Programme

4.14.1 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.

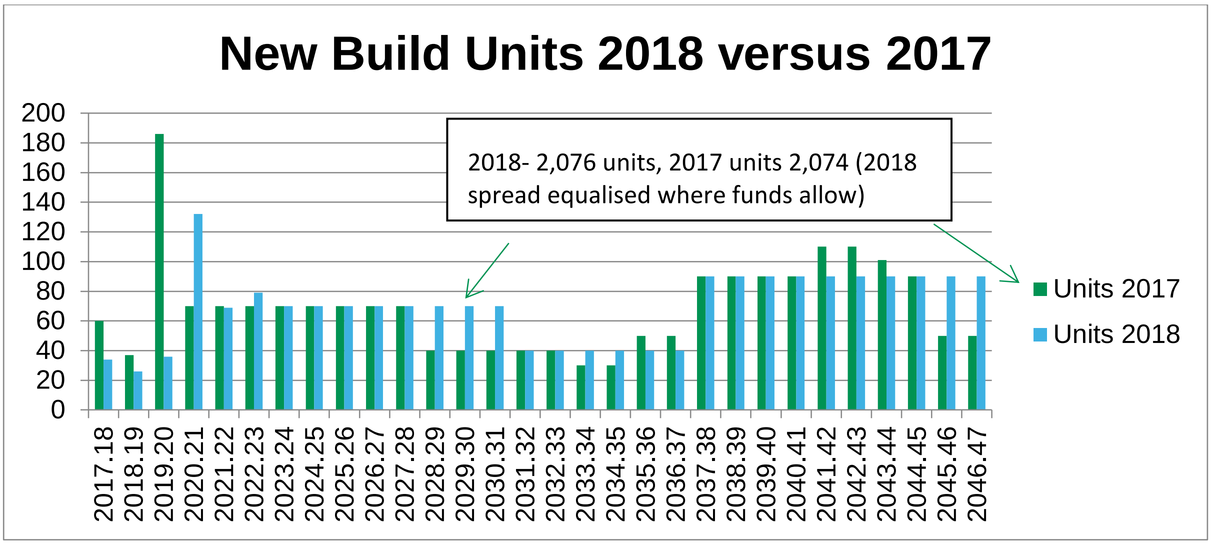
4.14.2 A key objective of the first BP was to build 1900 homes over the 30 year BP period. Since 2013/2014, 143 new council homes have been added to the Council's existing housing stock. This is shown in the chart below.

Total Unit Breakdown by scheme

4.14.3 The New Build programme costs over the 30 year period have increased by £99Million, this is largely to do with the reassessment of unit cost inflation and the addition of the 2018/19 borrowing headroom bid. Members should note that £49Million of the extra cost relates to the period 2043/44-2046/47. The 2018 BP has also tried to smooth the profile of units coming on stream to give a more constant and realistic number of new build properties throughout the plan, where current financing allows.



4.14.4 The new homes included within the HRA Business Plan are summarised in the chart below and compare the 2017 BP numbers to the 2018 BP, over the same period i.e. 2017/18-2046/17. The 2017 BP had 2,074 new properties and the 2018 plan has 2,076 (including the additional borrowing). **The 2018 BP for the period 2018/19-2047/48 projects 2,132 new homes.**



4.14.5 The level of new homes the Council could potentially build using sale receipts is constrained by the restricted use of RTB 1.4.1 receipts. These receipts can currently 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 schemes at Archer Road or Kenilworth.

4.14.6 The focus of Stevenage Borough Council's housing development programme is now on the new build programme, with acquisitions now primarily focussing on properties with strategic value or capital opportunities created as a result of unavoidable delays to new build schemes. 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 HRA. Schemes currently on site are as below.

Schemes Currently on Site with Unit Numbers

4.14.7 It is expected that in 2019 Symonds Green, Shephall Way and Kenilworth developments should commence on site, ensuring the Council has a continuous programme over the next five years and the team will also develop design proposals for alternative schemes to ensure the Council has a healthy development pipeline.

Expected Future Schemes with Unit Numbers

4.14.8 Despite the new build programme activity the Council does expect to have excess one for one receipts that it will always seek to allocate to Registered Providers to deliver greater volumes of affordable housing in the borough to support the Council's own direct interventions.

4.14.9 However with the removal borrowing cap announcement there may be opportunities to identify new schemes or bring more schemes on streams earlier, subject to any changes made to the BP as outlined in the Action Plan in Appendix A.

4.15 FUNDING THE CAPITAL PROGRAMME

4.15.1 The 2017 BP had a capital deficit of £26Million over 30 years, the 2018 BP has an increased shortfall of £38.3Million in scenario two, (i.e. before the additional borrowing was taken in scenario 2b). The reason for the increase in the deficit before funding is partly attributable to:

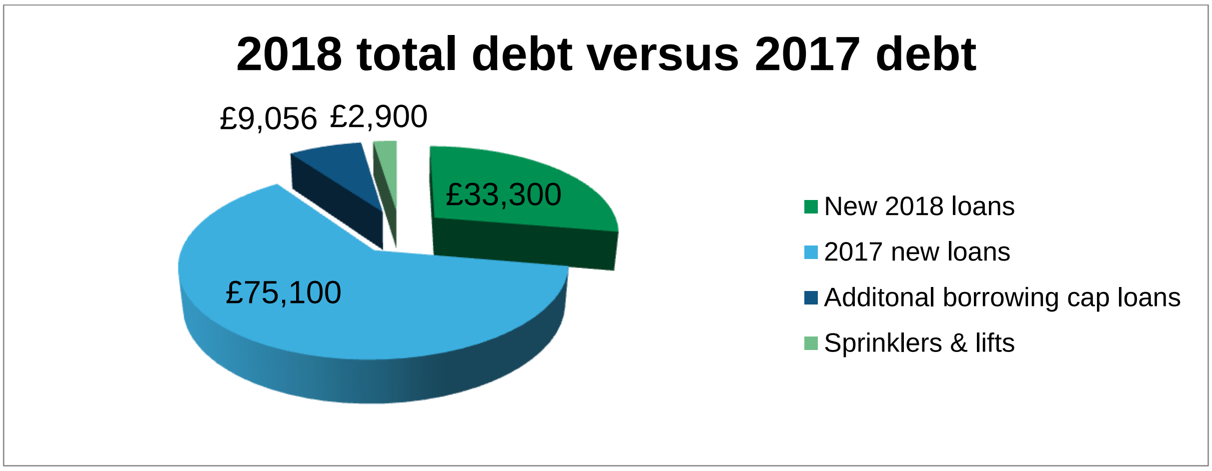
- Less RTBs reduces receipts in the earlier years (overall increased income)
- The ineligible costs of development schemes (for replacement homes) would have been funded from 1.4.1 receipts are now funded from other resources totalling an additional £3.04Million (pressure)
- For years 1-29 of the HRA BP capital costs have increased by £11Million (pressure)

4.15.2 To help explain this change a summary of the difference in capital funding for the period 2017/18-2046/47 (2017 BP versus 2018 years 1-29 plus actual 2018/19) is shown below:

	2017 £'000	2018 £'000	Variance ()=reduction in use £'000	Comments
Use of 1.4.1 receipts	£127,674	£159,313	£31,639	New Build programme has increased (see borrowing note below)
RTB Receipts	£42,830	£40,042	£(2,788)	Fewer RTB receipts
Borrowing	£75,100	£120,356	£45,256	More borrowing required due to removing 2017 funding gap and assumption of replacement

	2017 £'000	2018 £'000	Variance ()=reduction in use £'000	Comments
				properties not eligible for 1.4.1 receipts £10Million (replacement homes)
Depreciation	£574,544	£579,559	£5,016	see below
Revenue contributions	£287,091	£262,337	£(24,754)	Increased revenue and capital costs (borrowing partly offset by higher depreciation charge of £5M)
Other	£54,074	£32,241	£(21,833)	2017 model assumed £17Million of RTB return receipt interest avoided, 2018 model excludes this in case payable
Funding gap	£26,245	£4,912	£(21,333)	see borrowing above
	£1,187,557	**£1,198,759**	**£11,202**	

4.15.3 The amount of debt has increased as the 2017 BP did not show the profile of new loans. The movement in overall debt between the two business plans is summarised in the chart below.



4.16 REVENUE COST CHANGES (2017/18-2046/47)

4.16.1 In comparing the changes in the 2017 and 2018 BP, it is necessary to look at the changes in revenue costs. A summary of the difference in revenue spend and income for the period 2017/18-2046/47 (2017 BP versus 2018 years 1-29 plus actual 2017/18) is shown below.

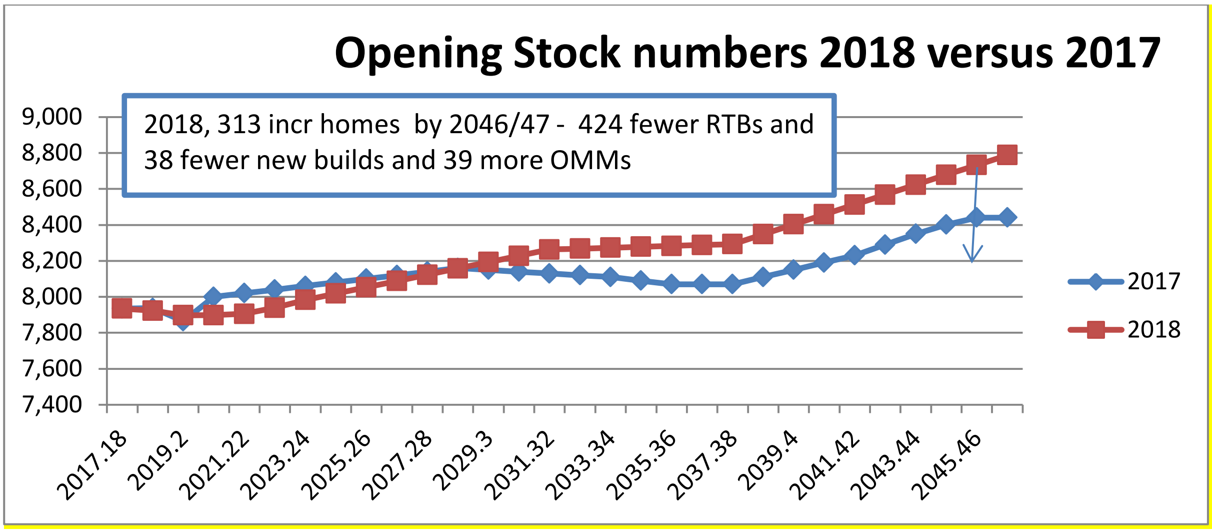
4.16.2 Expenditure and income fluctuates over the 30 year period and that is why in some years revenue resources are not available to fund capital. It should be noted that the inflation indices have not changed significantly. However if spend happens in later years the inflation added will be higher.

	2017 £'000	2018 £'000	Variance	Comments
Rent	(£1,954,528)	(£2,003,274)	(£48,745)	More rental income over 30 years, but there are fewer properties in the first years of the business plan reducing £ available to fund capital funding.
Other income	(£206,609)	(£204,431)	£2,178	Includes less income for RTB admin £260K
Interest earned	(£10,360)	(£10,975)	(£615)	
Total income	**(£2,171,498)**	**(£2,218,680)**	**(£47,182)**	
Management Costs	£625,708	£612,518	(£13,190)	Includes savings targets required for the HRA
Repairs	£258,694	£267,261	£8,567	There are more properties in the HRA overall
Depreciation	£570,036	£574,975	£4,939	
Revenue contributions	£287,091	£262,337	(£24,754)	Less money available to fund capital as balances reduced by lower rents in early years and higher interest costs
Interest payments	£159,270	£171,890	£12,619	2017 model assumed £17Million of RTB return receipt interest avoided. 2018 model excludes this in case payable
Borrowing repaid	£225,315	£270,571	£45,256	
Total Expenditure	**£2,126,114**	**£2,159,551**	**£33,437**	**see borrowing above**
Net increase 2017/18-2046/47	**(£45,384)**	**(£59,129)**	**(£13,745)**	

()=more income or reduced expenditure

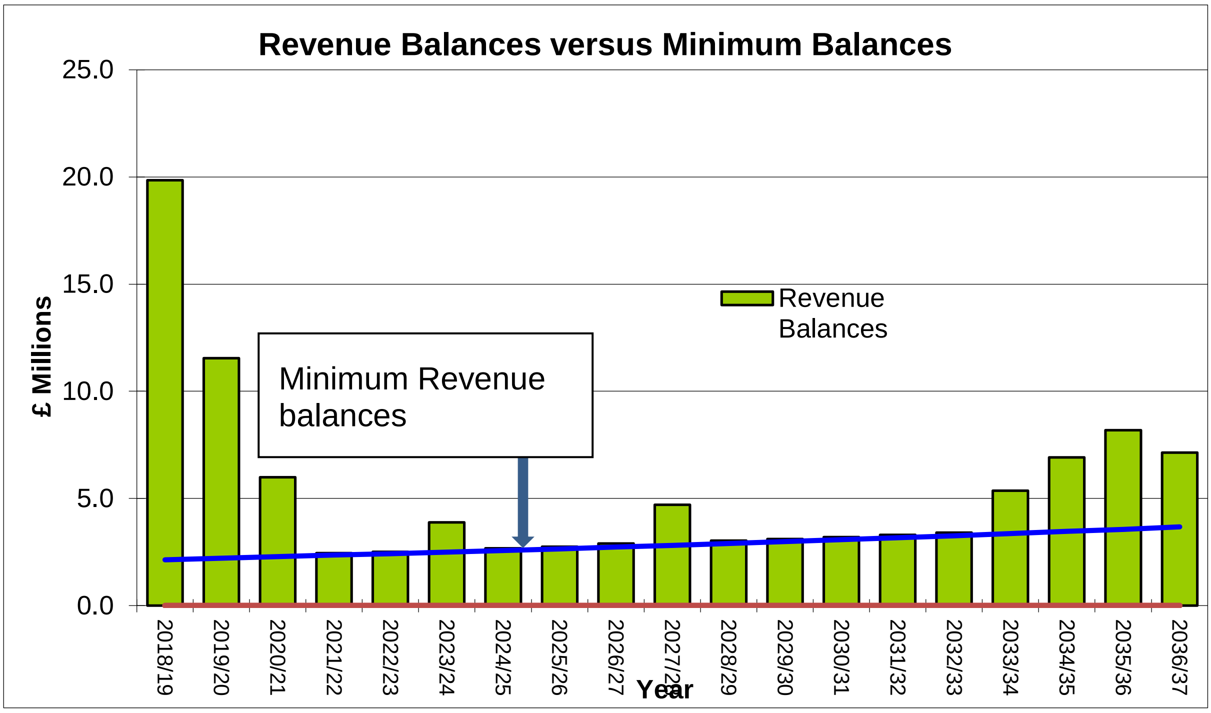
4.16.3 Comparing revenue balances between the two Business Plans, there are fluctuations in surpluses because of less rental income in the earlier years and there are additional borrowing costs added. The HRA BP assumes a minimum level of balances of £2Million, (the risk assessment for 2018/19 was £2.144Million). The minimum level of balances will be risk assessed as part of the budget setting process but are likely to be in the region of £2Million.

4.16.4 The profile of property units in the HRA is lower in the 2018 plan compared to the 2017 plan. There was slippage in the 2017/18 programme and the 2017 plan assumed that the Kenilworth scheme would be a year earlier. In addition the early years of the BP are now based on schemes rather than target unit numbers, as the new build programme has moved from acquisition to development of new homes. This elongates the time period between spend and the rent coming on stream, but gives the HRA and residents a better quality product than buying existing stock.

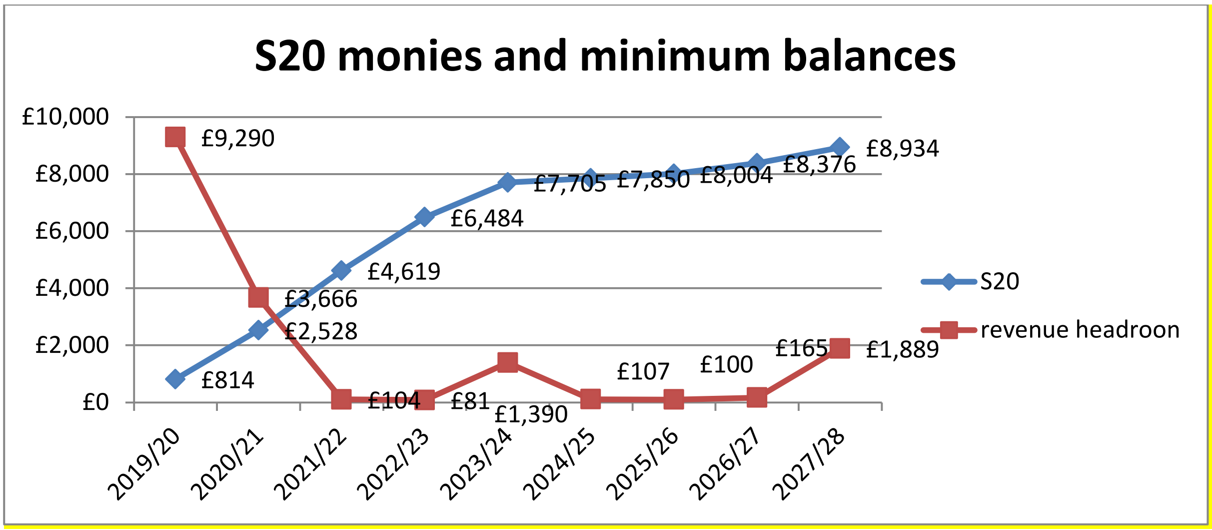


4.17 SUMMARY AND REVISING THE BUISNESS PLAN FOR THE REMOVAL OF THE BORROWING CAP

4.17.1 The 2018 BP borrowing has addressed the capital programme deficit (with the exception of £4.9Million). However the 2018 BP does not allow the HRA to take advantage of the removal of the debt cap, (which was announced during completion of the 2018 BP). There is a lack of funds within the revised BP, (revenue headroom) to fund additional interest costs without reducing spend on the current profile, as illustrated below.



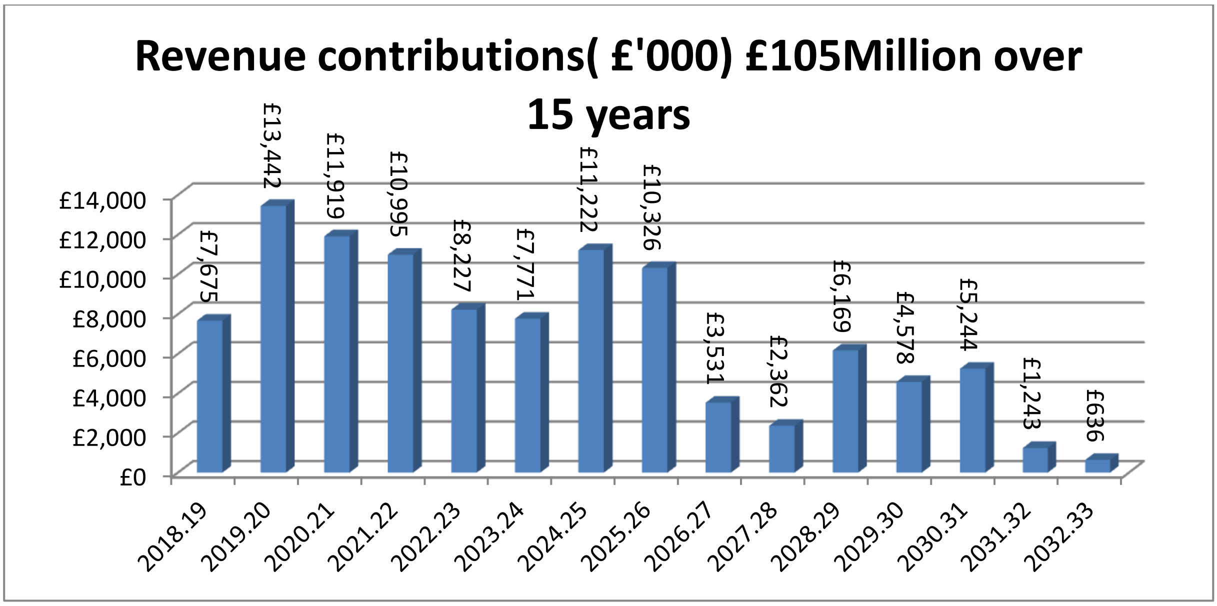
4.17.2 This is the equivalent of being at the debt cap with no headroom with no ability to fund more borrowing. Added to this is the assumption around repayments of S20 monies for the MRC contract. The table below shows the cumulative increase in S20 assumed received compared to the level of HRA minimum balances.



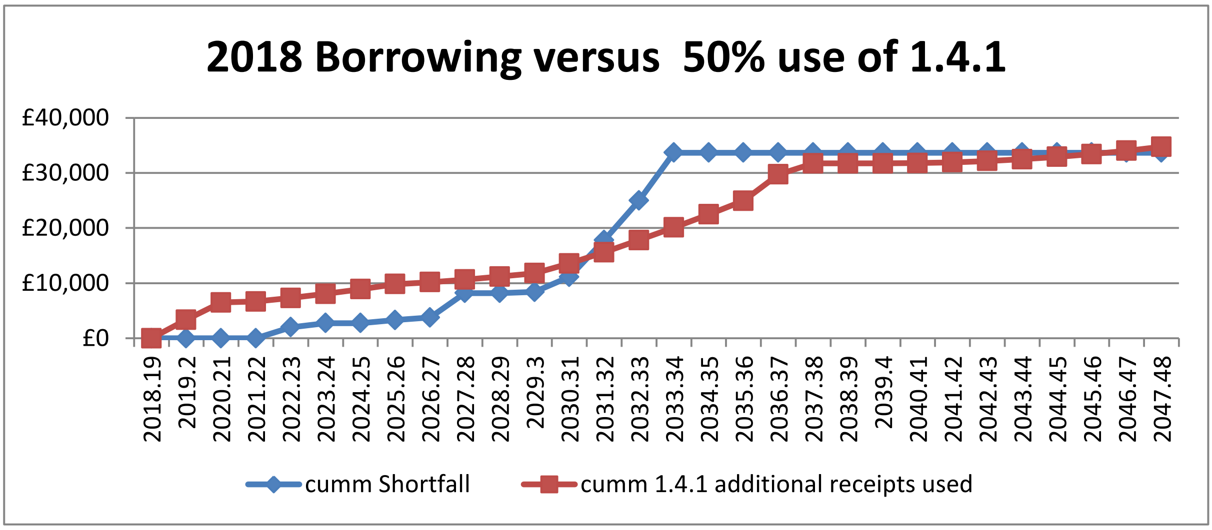
4.17.3 There are a number of actions that are required in order to refocus the BP to reflect the changes in borrowing rules, announced in the budget speech on the 29 October,(see also Appendix A). In summary:

1. **Review new build schemes that could be brought forward/identified and the resources required to deliver them.**
2. **Review the Asset Management Plan for new identified refurbishments versus redevelopment (under new build programme) and the resources required to deliver them.**
3. **Review Management and Maintenance needs within the HRA to deliver new/different service options**
4. **Review the borrowing strategy to unlock funding provision for the HRA as outlined above.** This will include use of borrowing versus revenue contributions to capital, length of borrowing, targets for interest rates for the HRA.
5. **Review the priorities and recommend schemes for approval and a new borrowing strategy.** Even with the review set out in Appendix A, the HRA will not be able to fund all the works identified.

4.17.4 The review of the borrowing strategy to increase spending power, (now the borrowing cap has been lifted), can be illustrated by a £1Million of funding borrowed at an average interest rate of say 3.35% costing £33,500 per year or a £1Million of resources can be used to fund the same value of works. There is a viability point on the maximum amount of debt that should be taken, which needs to be explored and set. The value of revenue contributions to capital in the 2018 BP is summarised in the chart below. Reviewing this method of funding capital could unlock significant additional spending power.



4.17.5 Further ability to unlock more spending power is dependent on the impact of government policy. Changes in the rules around 1.4.1 receipts could dramatically change the need to borrow. If the rules were changed in line with the RTB consultation, an increased use per scheme from 30% to 50%, an additional £36Million of resources would be available over the 30 year business plan.



4.17.6 This illustrates the impact government policy has on the HRA BP as demonstrated by the 1% rent reduction which reduced HRA resources by an estimated £225Million over a 30 year period. Any revised borrowing strategy must have due regard to the potential impact of government policy on it.

4.18 Approach to Consultation and Housing Management Advisory Board (HMAB).

4.18.1 The Council remains committed 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.

The Business Unit review in Communities and Neighbourhoods will seek to further develop the offer of engagement to the wider community.

4.18.2 The Housing Management Advisory Board (HMAB) 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. HMAB currently includes one leaseholder and five tenant representatives in addition to Member and officer representation. The Board receives quarterly reports on progress in delivering HRA Business Plan commitments. Feedback from resident and STAR surveys (see below) is also considered by HMAB to give a broader context.

4.18.3 Last year, HMAB asked that consideration be given to re-borrowing to resource the business plan principles, predominately in the last 15 years of the plan when sufficient headroom arose. Officers have taken this on board in this year's update, by proposing £33.3m borrowing to fund the capital shortfall.

4.18.4 On 16th August and 25th October 2018, HMAB received presentations on the HRA Business Plan and MTFS update. HMAB considered the various scenarios and were advised that scenario 2b was the recommended option. A query was raised as to why the revised Business Plan continued to include an overall capital deficit. Members were reassured that the Business Plan would produce a surplus over 30 years. In addition, as referred to in paragraph 4.11.9, officers anticipate that the £4.9Million deficit will be funded through revenue underspends and capital slippage in individual years.

4.18.5 HMAB raised a question as to whether the plan would be at risk if interest rates were to increase and were advised that this risk was mitigated because the Council borrowed at fixed term rates, but if rates were to change before borrowings had been taken out, then the business plan would be reviewed for affordability before proceeding.

4.18.6 The presentation considered potential government policy changes regarding 1-4-1receipts and the removal of the debt cap. Members sought clarification on whether the removal of the debt cap (subject to affordability) would improve the reinvestment potential for the Council. As explained within this Executive report, there is a lack of resource or revenue headroom to fund additional interest costs without reducing spend. The action plan outlined in paragraph 4.17.3 will review how this position can be mitigated.

4.18.7 Following the discussion outlined above, HMAB resolved to note the presentation.

4.18.8 The 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 and to identify customer priorities. The most recent STAR survey was undertaken in early 2018 and for the first time included leaseholders and sheltered housing tenants in addition to general needs tenants.

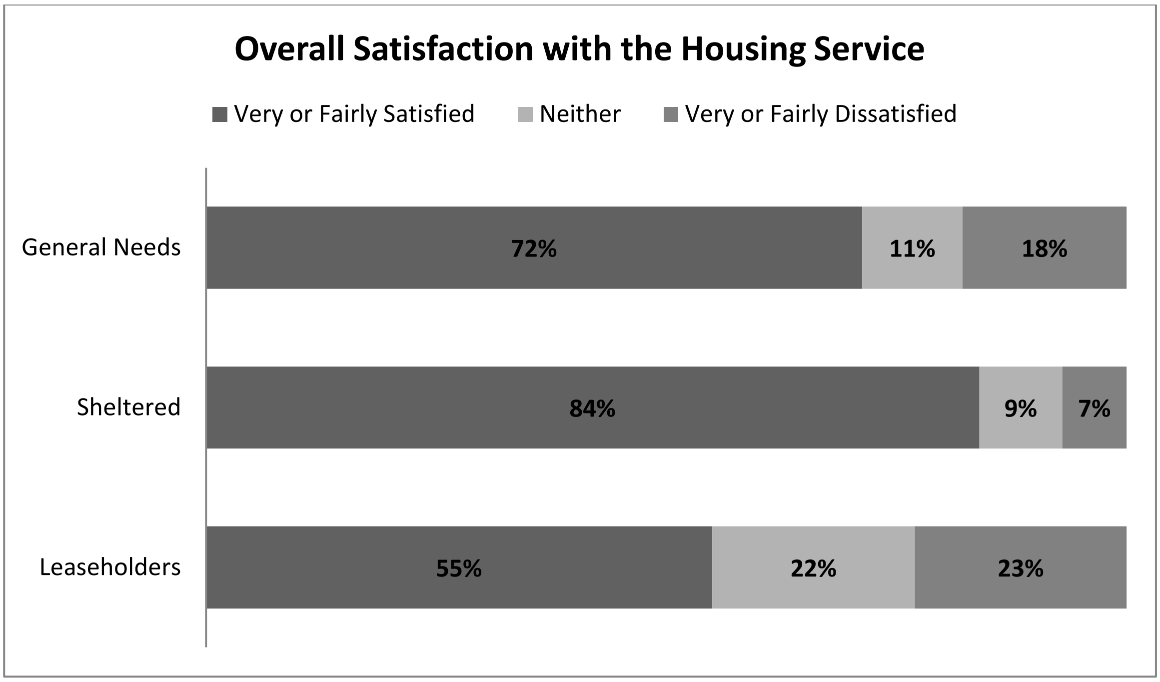
4.18.9 Respondents were asked to say what was most important to them from a list of options. The top 5 priorities for each group of customers are shown in the table below:

STAR Survey respondents' top five priorities

Priority*	General Needs Tenants	Sheltered Tenants	Leaseholders
1	Repairs & maintenance (87%)	Repairs & maintenance (60%)	Repairs & maintenance (74%)
2	Overall quality of your home (61%)	Emergency call system (50%)	Value for money for service charges (64%)
3	Value for money for rent and charges (35%)	Supported housing manager (34%)	Overall quality of your block of flats (58%)
4	Neighbourhood as a place to live (26%)	Overall quality of your home (33%)	Dealing with ASB (39%)
5	Keeping residents informed (25%)	Keeping residents informed (33%)	Keeping residents informed (23%)

* 1= most important

4.18.10 Overall satisfaction with the housing service is summarised in the following chart and the survey also drilled down into satisfaction with specific areas of the service.



4.18.11 Satisfaction levels with value for money for rent, service charges and support charges were as follows:

- 68% of general needs tenants and 83% of sheltered tenants were satisfied that their rent provides value for money
- 55% of general needs tenants, 72% of sheltered tenants and 33% of leaseholders were satisfied that their service charges provide value for money
- 76% of sheltered tenants were satisfied that their support charges provide value for money

4.18.12 Officers have drawn up action plans in response to the survey outcomes, much of which is closely aligned to the investment and improvement plans associated with the HRA Business Plan and MTFS.

4.18.13 During November 2017, a further initiative was carried out as part of the 'Knowing Your Customer' strand of the Housing Transformation Programme. This involved visiting a sample of housing customers across the town, to gain an understanding of their perception of the housing service and their views on how services can be improved. This feedback has fed into the delivery programme for Housing and Investment. A further exercise will be carried out to assess customer views on the caretaking service.

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

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 conducive to long term planning, because of the number of legislative changes planned and/or implemented. It is critical that the actions identified **in paragraph 4.17.3 are reviewed** so that there is sufficient revenue headroom in the BP to allow for unforeseen events to be funded. The BP is in the main funded but there is an on-going need to make Financial Security savings under the existing plan.

5.1.2 There is very little capacity in the current Business Plan to borrow further to fund additional capital expenditure. Rescheduling the current loans is not a financially viable option, as this would cost the HRA in the order of £50Million. However the action plan as outlined in Appendix A should refocus the BP and with a revised borrowing strategy deliver more outcomes as outlined in the Appendix.

5.1.3 The impact of government rules on 1.4.1 receipts could significantly change the capacity to fund more expenditure in the HRA if more flexibility is given. However this just demonstrates how vulnerable HRA finances are to government policy changes. There is no guarantee that rent rules will not changes again as seen over the last three to four years.

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 As referred to in paras 4.17.1 – 4.17.4 above (see Summary), even with the debt cap removed there is little opportunity to fund additional interest costs without reducing spend further because revenue balances remain close to the minimum for much of the life of the 2018 BP. This presents the HRA with risks as this is the equivalent of being at the debt cap with no ability to fund more borrowing. The review of the BP as outlined in Appendix A should allow the HRA to unlock more spending power (subject to availability and viability of schemes).

5.3.2 A review of the full range of risks facing the HRA budgets has been listed in the table below although not all the impacts are known at the present time. The current MTFS projections are based on prudent assumptions, and include the Assistant Director's (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. A number of the risks below are also monitored through the Council's Strategic Risk Register.

Risk Area	Risk Mitigation	Likelihood	Impact
Inflation (Negative Risk) – Rent changes are not currently linked to inflation and from 2020 will be linked to CPI, 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 pay the rent and/or service charges; there could also be an increase in the need for the council's housing services	The council has a welfare reform group which monitors impacts and is planning for the full roll-out of Universal Credit in 2018. The DWP and East Herts shared Revenues and Benefits service are represented on the group. The HRA Business Plan includes bad debt provision of £255K pa. and further modelling will be undertaken	High	Medium
Rent and service charge income (Negative Risk) - The Government could renege on its commitment to a national rent policy from 2020/21 of CPI + 1% rent increases, which is currently in line with the Council's BP rent assumptions. Service charges may not be fully recovered	Rent 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.	Low	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	Major Works Payments Options Policy agreed; Business plan makes assumptions regarding the % works non-rechargeable; % bad debt provision; and delayed recovery in a proportion	Low	Medium

Risk Area	Risk Mitigation	Likelihood	Impact
legal challenge; or leaseholders cannot afford to pay	of cases. S20 consultation procedures are in place, along with ongoing retention of expert legal advice.		
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, charges are being reviewed for implementation April 2020. There is regular liaison with 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
Stock Investment (Negative Risk) Investment needs exceed planned expenditure due to increased costs and/or unforeseen investment requirements (including potential enhancement of the decent homes standard as per the Green Paper)	Revised Housing Asset Management Strategy to be approved in 2018. The investment programme is based on sound stock condition information. Viability assessments are undertaken prior to projects commencing and contract management arrangements are in place.	Medium	High
Fire Safety Investment (Negative Risk) Following the recommendations of the Hackitt report and 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	At the July Council meeting Members agreed to fund the retro fitting of sprinklers to the 7 high rise blocks of flats. The cost of this is to be met from these reserves. Once the full extent of any legislative changes and associated 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 HRA	The efficiency has been achieved for years 1&2 through existing contract awards. It is anticipated that the Major Repairs Contract will deliver procurement efficiencies in future years.	Low	Medium
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

Risk Area	Risk Mitigation	Likelihood	Impact
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, whilst 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 (Negative Risk) – Implications of new legislation/ regulation are not identified and acted on, leading to increasing financial pressure	There is ongoing tracking and horizon scanning in relation to emerging policy and legislation and an annual review of implications through the MTFS/Business Plan update.	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 Policy Implications

5.4.1 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.

5.5 Equalities and Diversity Implications

5.5.1 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.

5.5.2 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.

6. BACKGROUND DOCUMENTS

BD1 HRA Business Plan 2017

7. APPENDICES

A: ACTION PLAN: NEXT STEPS FOR CHANGES TO BORROWING RULES

B: HMAB HRA BUSINESS PLAN UPDATE, QUARTER 4, 2017/18