Part I – Release to Press

Agenda item

Meeting EXECUTIVE

Portfolio Area RESOURCES/ HOUSING, HEALTH AND OLDER PEOPLE

Date 16 December 2019

HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY (2019/20 - 2023/24) AND HRA BUSINESS PLAN REVIEW 2019

KEY DECISION

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1 PURPOSE

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

1.2 To propose revisions to the HRA 30-Year Business Plan 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 (paragraph 4.5.1 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 2020/21 budget.

2.4 That officers review responsive repairs spend, taking into account the anticipated impact of the planned maintenance programme and the delivery of the 2% repairs efficiency target (paragraphs 4.3.5 and 4.4.7 refer).

2.5 That borrowing to fund capital projects in 2020/21 of £23.8Million be approved and that future years are considered annually in line with anticipated expenditure.

2.6 That the minimum level of balances for the HRA Business Plan, set as a minimum £3Million plus inflation (paragraph 4.4.7 refers), be noted.

2.7 That the creation of a reserve of £5Million, to mitigate against future interest rate volatility and a reserve to accommodate future debt repayment be noted.

2.8 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.

2.9 That the revised HRA MTFS principles are approved.

2.10 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 PURPOSE OF THE HOUSING REVENUE ACCOUNT BUSINESS PLAN AND MEDIUM TERM FINANCIAL STRATEGY (MTFS)

3.1.1 The HRA Business Plan and MTFS 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.

3.1.2 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 for sufficient funding 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.

3.1.3 The HRA Business Plan 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. In delivering against corporate priorities and housing service objectives within the resources available, the HRA Business Plan aims to achieve a balance between:

- Spending on housing management, maintenance and support services that meet the needs of our customers and reflect their priorities, whilst maintaining efficiencies

- Investing in the existing housing stock to ensure the ongoing quality and sustainability of our assets
- Investing in new social and affordable rented homes, to seek to replace those lost through the Government's Right to Buy Scheme and to contribute to meeting local housing demand and the needs of an ageing population
- Setting 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
- Managing the HRA debt effectively, with sufficient reserves being held to mitigate against current and future volatility in the HRA

3.2 HRA BP AND MTFS REVIEW

3.2.1 Since the 2012 self-financing regime was introduced, a number of legislative changes have impacted on HRA finances, the most significant of which has been the Welfare Reform and Work Act 2016. This put in place a 1% annual rent reduction over a four year period, estimated to have reduced SBC's HRA rent income by £225Million over 30 years. In addition, increases in the discount level for RTBs have affected resources available to fund capital and revenue needs.

3.2.2 The HRA BP was comprehensively reviewed in 2016 in response to these pressures and a number of changes were made to mitigate the impact. Subsequently annual reviews have taken place to refresh the BP and MTFS assumptions and the table below summarises the key commitments made as at November 2018.

Area	Commitments in the 2018 HRA BP
Housing Development	• £582m over 30 years • 2,162 new homes over 30 years (1020 net increase) • 50% social/50% affordable • Kenilworth older persons scheme
Housing Asset Management	• £696m over 30 years • Decent Homes, MRC, Asset Review programme, Health & Safety, Sprinklers, Insulation etc. • £7.9m HRA contribution to IT investment • 1.5% procurement efficiency
Housing Service Delivery	• Repairs service improvement programme • Housing transformation programme • Supported housing service review • Service & support charge review • Savings targets – £200k p.a. for 30 years

3.2.3 This report provides an update on the 2018 HRA MTFS and BP (reported to the Executive in November 2018), with a particular focus on options to increase the spending power within the HRA, as a result of the removal of the HRA debt cap. It also sets out the revised financial assumptions that are built into the Business Plan, which include:

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

3.2.4 Originally it was intended that this report would be presented to the November committee cycle. However, due to the unanticipated changes made to Government PWLB (Public Works Loan Board) lending rates in October 2019 (see paragraph 3.3.13 below), the plan had to be reviewed and re-financed to accommodate the higher levels of interest. The increase in the PWLB rate has resulted in a cost to the HRA of £38Million over 30 years. This report contains a costed plan but the impact is to take the HRA much closer to minimum balances through the BP, which will lessen the Council's ability to respond to further policy changes and unforeseen events.

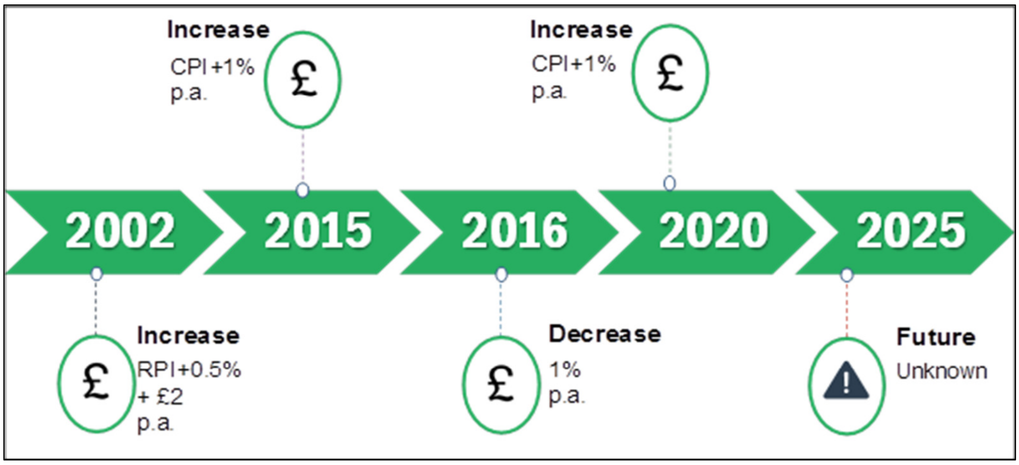
3.3 THE POLICY CONTEXT

3.3.1 This update takes account of the impact of economic factors and government initiatives where they are known and flags as risks those that cannot be quantified at the current time. It should, however, be noted that this report was uploaded during the pre-election period and as such there is uncertainty as to the future policy direction and its potential impact on HRA finances, once a new Government is formed.

Social Rent Policy

3.3.2 Since 2001, rents for properties let at 'social rent' have been set based on a formula determined by Government. This creates a 'formula rent' for each property, which is calculated based on the relative value of the property, relative local income levels, and the size of the property. Government policy has also limited maximum annual changes in social rent and affordable rent levels. The original aim of this formula-based approach was to ensure that similar rents are charged for similar properties, with rents in social housing converging over time. However, within its publication 'Guidance on rents for social housing' (2015), the Government confirmed an end to the policy of rent convergence.

3.3.3 The original self-financing settlement was based on the assumption, used by the Government in deciding how much debt each council could afford to take on, that rents would rise annually by 0.5% above inflation as measured by the Retail Prices Index, throughout the business plan period of 30 years. However, since then, Government policy on annual rent increase/decreases has altered over time, as illustrated below:



3.3.4 In October 2017, the Government announced its intention to set a medium term rent deal for both local authority landlords and housing associations. This would permit annual rent increases on both social rent and affordable rent properties of up to CPI plus one percentage point from 2020, for a period of at least five years. In February 2019, following a period of consultation, the Government issued its policy statement on rents for social housing, which confirmed the October 2017 announcement.

3.3.5 Registered providers must adhere to this limit on rent increases even if a tenant's rent is below formula rent, or if they have previously applied a lower annual increase. Where this is the case, the provider may only move the rent up to formula rent when the property is re-let following vacancy (subject to a rent cap).

3.3.6 The 4 year period of rent decreases (2016-2020) will continue to impact, with the rental income councils can expect over the business plan period being substantially less than was envisaged when the self-financing settlement was introduced. In addition there remains uncertainty about rent levels beyond 2025.

Welfare Reform

3.3.7 Since 2012, the Government has implemented successive welfare reforms including the under-occupation charge, benefit cap and Universal Credit (UC). Universal Credit continues to be rolled out and as at 17 November 2019, 987 council tenants were in receipt of this benefit in Stevenage.

3.3.8 The move to UC presents challenges to social landlords in terms of rent collection and support to tenants. The most recent survey undertaken by the Association of Retained Council Housing (ARCH) and the National Federation of ALMOs (NFA) on the impact of UC on their members, found that tenants on UC are more likely to be in arrears and have higher arrears than those on Housing Benefit. The survey report comments that member organisations are managing the impact on tenants and their rent accounts but this comes at a cost.

3.3.9 These survey results are consistent with the pattern in Stevenage. Of the 987 tenants in receipt of UC, 772 (78%) are in arrears. The level of debt owed by UC claimants is £431,750. This equates to 62% of the total debt owed (£692,203).

RTB Receipts

3.3.10 In August 2018, the Government consulted 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.

3.3.11 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. The Government has not as yet published the outcome of its consultation.

HRA Debt Cap Removal and PWLB Rates

3.3.12 HRA borrowing caps were introduced as part of the local government self-financing reforms introduced in 2012. However, on 29 October 2018, the Government confirmed that the cap would be abolished with immediate effect. As a result, local authorities with an HRA are free to borrow to support their capital expenditure, in line with the Prudential Code.

3.3.13 The Public Works Loan Board (PWLB) is a statutory body that issues loans to local authorities, operating within a policy framework set by HM Treasury. This borrowing is mainly for capital projects. In October 2019, HM Treasury announced a change to the margin which is applied to PWLB interest rates for new loan advances, by one percentage point on top of usual lending terms.

3.3.14 Officers have modelled the impact of both these policy changes on the HRA Business Plan and the outcomes are set out later in this report.

Building Safety Review and Decent Homes

3.3.15 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. In June 2019, the Government launched a consultation on proposals for reform of the building safety system. Subsequently, in the Queen's Speech on 14 October 2019 the Government announced that it intended to introduce building safety standards legislation that would "put in place new and modernised regulatory regimes for building safety and construction products, ensuring residents have a stronger voice in the system."

3.3.16 The Ministry for Housing, Communities and Local Government (MHCLG) published the social housing green paper in August 2018. This sought views on a wide range of proposals and ideas, based around five themes, one of which was ‘Ensuring homes are safe and decent’, which proposed a review of the decent homes standard and more resident engagement on safety issues. In October 2019 the Housing Secretary confirmed the Government’s commitment to bring forward a social housing white paper.

3.3.17 The financial implications of these measures are currently unknown but resources have been allocated within the revised HRA BP in anticipation of new requirements being introduced.

Climate Change

3.3.18 In June 2019, the Council passed a motion declaring a climate emergency and made a number of pledges, which included a commitment to continue to reduce the Council’s own building and fleet emissions through developing and investing in carbon reduction projects. Officers are currently working on updating the Council’s Climate Change Strategy and Action Plan. As part of this work, consideration will be given to reviewing energy efficiency targets in respect of the Council’s housing stock and exploring opportunities for renewable technologies across HRA buildings.

4 REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

4.1 At the time that the HRA MTFS and BP were last approved (November 2018), the Government had only recently announced the removal of the debt cap. The Executive acknowledged that a number of steps were required in order to redirect the BP in light of the change in borrowing rules. Officers were therefore tasked with undertaking the following actions:

- Review new build schemes that could be brought forward/identified and the resources required to deliver them.
- Review the Asset Management Plan for new identified refurbishments versus redevelopment (under new build programme) and the resources required to deliver them.
- Review Management and Maintenance needs within the HRA to deliver new/different service options.
- Review the borrowing strategy to unlock funding provision for the HRA (to include the use of borrowing versus revenue contributions to capital, length of borrowing, targets for interest rates for the HRA).
- Review the priorities and recommend schemes for approval and a new borrowing strategy.

4.2 These actions have been completed and revised proposals for new build, asset investment, housing delivery and borrowing are set out in sections 4.3 and 4.4 below. Alongside this, the standard annual review of the full range of financial assumptions has been undertaken, to inform the current BP revision, as set out in section 4.5. Final revisions have been made and associated risks have been re-assessed in light of the recent increase in PWLB rates.

4.3 HRA BUSINESS PLAN REVISION - PROPOSALS

Additional New Build Delivery

4.3.1 The Council continues to deliver an ambitious new council housing development programme that is diverse in the types of homes being built and rich in quality. To date over 190 homes have been delivered by the Council's in house development team. In the next 30 years a total of 2,433 new council homes will be built; this is 271 more homes than in previous year's BP projections. Taking advantage of additional borrowing the objective of the plan is to deliver an additional 249 homes in the first 10 years of this Business Plan than was originally projected.

4.3.2 As a result of the increase in the PWLB rate, across the life of the Business Plan there is an additional £38Million in interest costs. Had that money been available to invest in additional homes, it could have helped to build a further 228 homes based on the current cost to build.

Additional Asset Management Proposals

4.3.3 The HRA Asset Management Strategy approved by Executive in March 2019 highlighted a number of challenges anticipated during the life of the strategy; these included:

- An anticipated revised decent homes standard, likely to include higher targets regarding energy efficiency and building safety
- Implementing recommendations following the Hackitt review of building safety
- Changes to regulations regarding electrical safety and the likely recommendation of a 5 year inspection regime
- The need to put in place a robust planned maintenance programme to prevent deterioration of the stock and help control responsive repairs costs
- Reductions in previously approved funding through the 2016 review of the BP, specifically the budget associated with the asset review, which aims to tackle poorly performing assets
- The requirement for investment in the Council's High Rise flat blocks following the completion of viability assessments detailed in the Asset Management Strategy

4.3.4 The opportunity for additional borrowing will allow provision to be made in the BP in response to the challenges highlighted above. In this regard, it is proposed that additional funding (at current prices) over 30 years is included in the BP as follows:

- Implement building safety legislation once confirmed - £11.7m
- Introduce changes to the decent homes standard once confirmed - £11m
- Implement a 5 year cyclical electrical testing programme - £9m
- Deliver a cyclical programme of planned maintenance - £11.2m
- Increase the asset review budget - £6.75m
- Redevelop or remodel the high rise flat blocks - £7m

4.3.5 With the increased investment through planned works it is also proposed to introduce a 2% repairs efficiency target to reduce spend on responsive repairs incrementally over the life of the Business Plan. Officers will undertake a review of responsive repairs spend, taking into consideration the impact of the planned maintenance programme and the need to deliver this target.

Housing Service Delivery Proposals

4.3.6 The Housing All Under One Roof transformation programme is expected to run until March 2021, when the funding committed will have been spent. Through the programme funding is already committed for the following work:

- The Housing Older Persons Strategy
- The service charge review
- Developing and delivering the Co-operative Neighbourhood Model
- Customer online account
- Assisted Bidding for Independent Living schemes
- Developing RAPID (an IT solution) to support field work and continue to develop our use of IT to automate transactional activity to improve outcomes for our customers. This also seeks to remove duplication of effort and ensure accountability of staff. An agile workforce delivered through the Co-operative Neighbourhood Working Model will enable staff to offer a consistent service whilst out on site, working in the communities they serve

4.3.7 With regard to homelessness services, the Government announced £54Million funding available for homelessness nationally as part of the 2020/21 Finance Settlement for Councils and latterly that the award would be in line with 2019/20 levels. At the time of writing this report the provisional settlement had not been announced. In the meantime, services continue to be delivered using grant funding already received.

4.3.8 Consideration will need to be given to how the Council continues to deliver these services if this funding ceases. With a rise in the use of temporary accommodation, it is also anticipated that the Council will consider providing additional accommodation for those who are homeless, whether this be by a purpose built scheme, re-modelling of existing homes or including temporary accommodation units in new build schemes. Whilst the majority of these costs relate to the General Fund the HRA will need to supply the correct type and quantity of housing to support this need.

4.3.9 The 2018 Business Plan included a savings target of £200k per annum. In the current revision, this has been reduced to £100k per annum throughout the life of the plan.

4.4 BORROWING PRINCIPLES AND ASSUMPTIONS & SENSITIVITY ANALYSIS

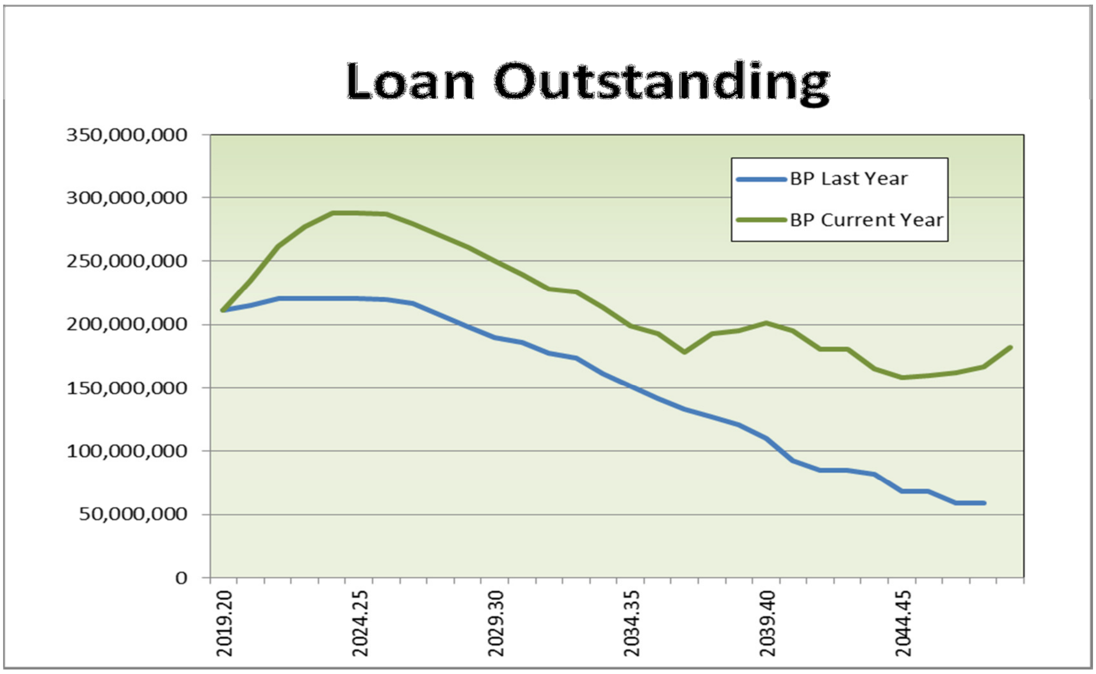
4.4.1 Before the Government's decision to remove the HRA debt cap the Council's Business Plan was based on servicing the self-financing debt and paying back the principal when it became due. The Council had made use of the headroom in the debt cap with some borrowing for capital expenditure and had refinanced in the mid part of the plan to help meet debt repayments, while ensuring the capital programme was funded.

4.4.2 The removal of the borrowing cap has offered the Council greater flexibility to increase debt levels and balance the use of borrowing within the 30 year Business Plan. However, Stevenage Borough Council is starting this process with a significant level of debt (over £200Million from the self-financing agreement) and it is important that any additional borrowing is sustainable.

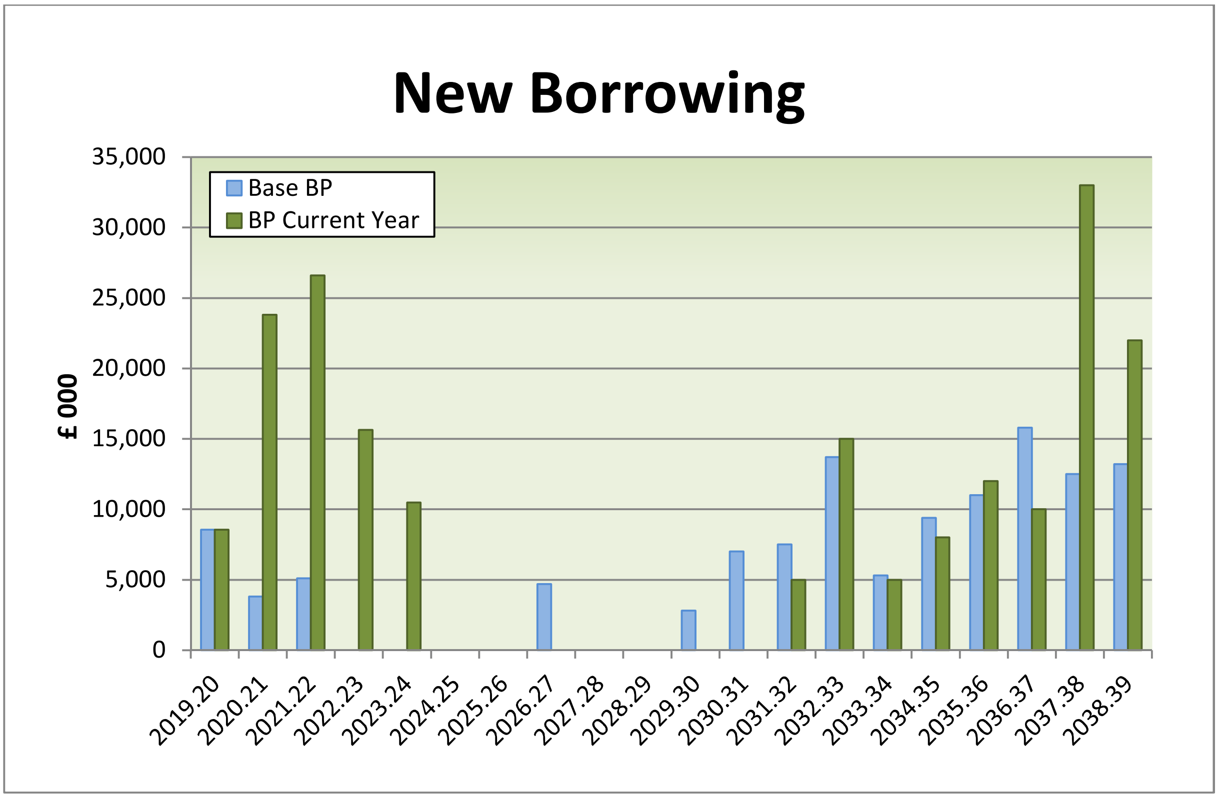
4.4.3 For this reason the following principles were used when constructing the proposed plan.

- Debt repayments are spread evenly over the life of the plan to avoid peaks in repayments.
- The cost of servicing debt has been kept proportionate to income. (In the revised plan the maximum percentage of debt payments to income is 39%, with an average across the plan of 26%).
- Loan periods have been optimised to minimise interest payments and allow capacity for future borrowing to support the service.
- A £5Million reserve has been set up to cover potential interest rate volatility.
- Higher HRA balances are required in the early years of the plan to enable debt servicing to be affordable in the middle to later part.

4.4.4 The following graph shows the loan outstanding over the life of the plan. This shows that taking additional debt early in the life of the plan will lead to higher levels of loans over the 30 years. However, this will enable significantly needed investment in the existing stock and the ability to build and purchase new housing within the next 10 years. The maximum debt in the plan is now £288Million (£220Million last year) and the debt at year 30 is £182Million (£59Million last year).



4.4.5 The following graph shows when the new borrowing is required for the first 20 years of the plan, compared to the base from last year's proposals. This illustrates that large borrowing is taken out in the first five years to fund investment in new housing stock, but that it is necessary to hold funds in the HRA (see principles in paragraph 4.4.3 above), to service existing loans over the following years. The loans taken out in the latter half of the graph allow for the repayment of the existing self-financing debt, while continuing to invest in new and existing properties for the HRA.



4.4.6 The lifting of the debt cap in the HRA is an opportunity for the Council to invest in the stock that was precluded with the debt cap, and increase and manage its stock more effectively, but increased borrowing does bring additional risks to the 30 year plan. Some key risks to consider are:

- Rent policy changes leading to lower income levels and an inability to service debt (there have been four changes to government rent policy since 2012/13).
- Build and maintenance costs increase higher than projected in the plan, reducing the amount of resources available to repay debt.
- Interest rate increases higher than the rates assumed in the plan, reducing the capacity to service loans and for future borrowing.
- The roll out of Universal Credit leads to increased levels of uncollected rent and the benefit is paid directly to the tenant and reduces the ability to service debts.
- Changes to the Right to Buy legislation, or the positive impact of regeneration in Stevenage makes RTB more attractive. This would reduce rental income used to pay for loans.

- Failure to collect large leaseholder major works costs from customers (section 20 monies), currently estimated at over £22Million, increasing the need to borrow more to fund the shortfall in the capital programme funding.

4.4.7 In order to mitigate these risks the proposed Business Plan includes the following measures.

- The creation of a £5Million reserve in the HRA to cover potential interest rate fluctuations
- Increasing the minimum balances held in the account by £1Million to recognise the higher level of risk in holding more debt.
- Setting a Treasury Management borrowing rate target for future loans to ensure that the Business Plan assumptions are either matched, or bettered when future loans are taken out.
- Maintaining a £100K per annum saving target in the plan to enable greater future flexibility, if more resources are needed to service debt.
- Annually reviewing the plan to ensure that current liabilities can be met and that any future spending plans are affordable.
- As outlined in paragraph 4.3.5, an efficiency target of 2% has been built into the Business Plan from year three to reflect the impact of increased preventative maintenance and capital works. Officers will be reviewing the level and types of responsive repairs to measure the improvements that potentially are given from a planned maintenance programme and enhanced capital programme.

4.4.8 While these mitigations help to reduce risks, the viability of the HRA Business Plan is reliant on the assumptions used in the model. To demonstrate the impact of real world changes to those assumptions several scenarios have been modelled, showing the key impacts on the 30 year plan.

Scenario	30 Year Impact on Rent (Gain)/Loss £Million	Capital Financing Shortfall £Million	Balances below Minimum by Year
Scenario 1 -Rent increase at CPI for 3 years from 2020/21	47	50	13
Scenario 2-Only recover 50% of Section 20 recharges	0	12	14
Scenario 3-Less 1/2% on CPI for 3 years	20	20	13
Scenario 4-1% increase on Planned Maintenance and Build Costs	0	154	13
Scenario 5-1/2% increase in the long term loan rate from 4.55% to 5.05%	0	10	18
Scenario 6-1% Increase in inflation	(397)	0	N/A
Scenario 7-1% decrease in Inflation	330	235	13

4.4.9 Rental income is the key driver for HRA activity and the table above illustrates how sensitive the model is to changes that impact this area.

- **Scenario 1 -** rent increase for three years at CPI only (not CPI plus 1% as assumed in the model), there would be a £47Million loss of rent and a capital financing shortfall of £50Million. The balances would also go below minimum levels by year 13 of the plan.
- **Scenario 7-** 1% decrease in inflation across the life of the plan would decrease costs, but lead to a loss of rent of £330Million and a capital shortfall of £235Million. Again the plan would be below minimum balances by year 13.
- **Scenario 6 -** Conversely a 1% increase in inflation would lead to increased rental income of £397Million and a large balance in the ring fenced account.

4.4.10 This level of volatility from fairly small changes to the assumptions used in the plan clearly indicate that it is necessary to be prudent in using the new borrowing freedoms with the removal of the cap. Decisions made at the start of the 30 year time span can have a dramatic impact on the ability of the HRA to sustain services in later years. Therefore a prudent approach has been proposed that seeks to maximise the opportunity to provide more housing in the first 10 years, while allowing the Council to keep its plans under annual review and respond to changes in the operating environment when necessary.

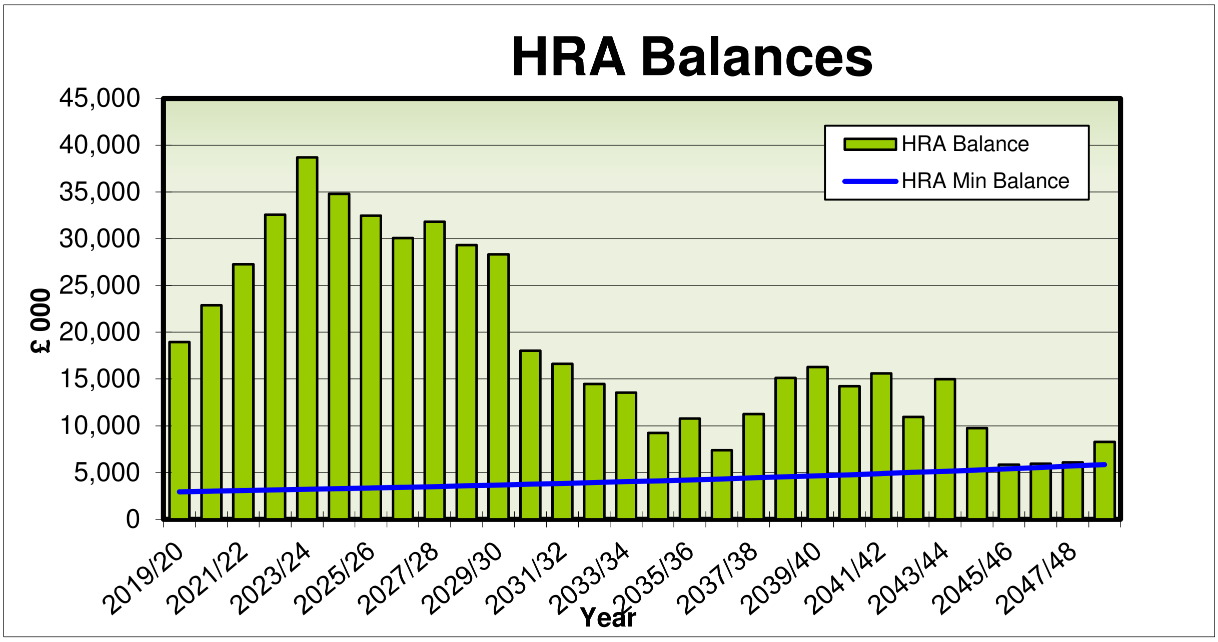
4.5 OTHER FINANCIAL ASSUMPTIONS

4.5.1 The table below is a summary of the main assumptions used to complete the model.

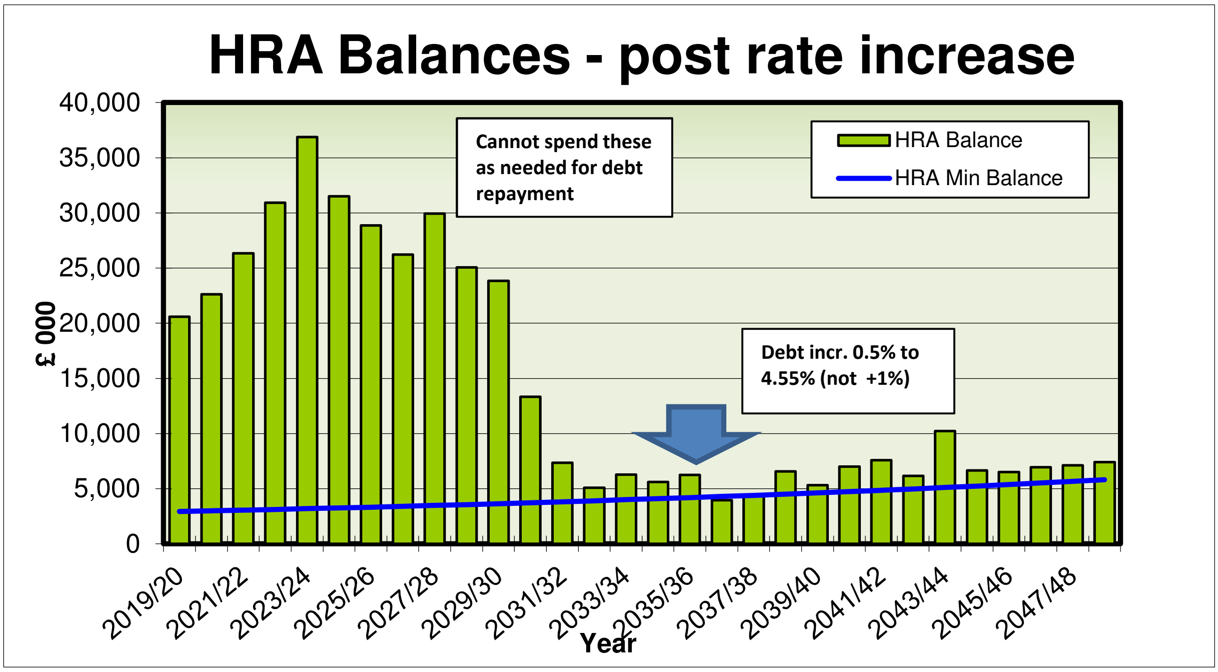
	2020/21	2021/22	2022/23	2023/24
Inflation-Applied to:				
Salaries - % increase	2.25%	2.25%	2.25%	2.25%
CPI indices increases	1.70%	2.20%	2.20%	2.20%
RPI indices increases	2.40%	3.20%	3.20%	3.20%
BCIS	4.40%	4.60%	4.60%	4.60%
Utilities	10.83%	10.81%	9.76%	8.89%
Other Assumptions:				
RTB Sales	35	35	35	35
Void Rates	0.69%	0.69%	0.69%	0.69%
Bad Debts	0.52%	0.54%	0.54%	0.54%
Interest Earned on Balances	1.16%	1.41%	1.66%	1.91%
Service Charge Increase (excl Utils)	2.40%	3.20%	3.20%	3.20%
New Borrowing	£23.8M	£26.6M	£15.6M	£10.5M
Preliminaries on major works	7.50%	7.50%	7.50%	7.50%
HRA Minimum Balance	£2.9M	£3.0M	£3.1M	£3.2M

4.5.2 These inflation assumptions are in line with those used for the approved General Fund MTFS. The level of RTB sales is the level currently assumed in the HRA; the level of RTB's has fluctuated in recent years but has reduced from the peak in 2015/16 of 106 sales. The current number of RTB's in 2019/20 as at 20 November 2019 is 23 sales which would give pro-rata an annual sale number of 35 per year.

4.5.3 Minimum HRA balances have been increased by £1Million to recognise the possible increased risks posed by higher borrowing levels. This is particularly important in relation to the recent increase in PWLB interest rates. The graph below shows the position of the Business Plan before the increase.



4.5.4 This shows high levels of balances being built at the start of the plan in order to service the existing self-financing loans that start to become due in the middle of the 30 year plan. After this time there is still some capacity in the reserves for the majority of the planning period, where balances remain above the minimum level. The following graph shows the position after the changes to the PWLB loan rates.



4.5.5 This graph shows the impact of the interest rate increase of 1% on loans taken at the start of the 30 year projection. Balances fall to the minimum level from the mid part of the plan and remain much lower over the following years. While the proposed plan is still clearly viable, the increased cost of debt has reduced capacity to meet other challenges, or increase investment in new homes in future years.

4.6 CONSULTATION

Portfolio Holder Advisory Group Feedback

4.6.1 A Portfolio Holder Advisory Group meeting was held on 26 November 2019, at which proposed revisions to the HRA Business Plan were presented to Members.

4.6.2 In relation to the Council's housing delivery programmes, Members were pleased to note that the intention was to deliver 271 more homes compared to last year's plan, with accelerated delivery over the next ten years.

4.6.3 Members noted the known asset management pressures which the additional borrowing would enable the Council to address, including redevelopment/remodelling of the high rise blocks, tackling poorly performing assets and reviewing the SAP ratings linked to Climate Change.

4.6.4 In response to a question regarding decent homes and replacement boilers, Members were informed that in terms of the new technology coming on board, the Council would be led by Central Government policy.

4.6.5 Members asked about the potential risks relating to the collection of Section 20 monies from leaseholders. Officers advised that the Council had made provision for different ways to pay the bills for the Major Refurbishment Contract works to flat blocks, and that each leaseholder would be dealt with on a case by case basis.

Housing Management Advisory Board (HMAB) Feedback

4.6.6 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 two tenant representatives in addition to Member and officer representation. The Board receives regular reports on progress in delivering HRA Business Plan commitments.

4.6.7 On 21 November 2019, HMAB received a presentation on the HRA Business Plan and MTFS update. It was recognised that actions relating to the next 5-10 years would be crucial, whilst also acknowledging that medium term business planning projections are subject to ongoing revision due to the changing context within which the HRA BP operates. The unknown impact on the housing stock of Climate Change requirements was given as an example. The Board resolved that the presentation on the Housing Revenue Account Business Plan Review be noted.

Resident Survey

4.6.8 Resident support for investment in housing in Stevenage was reflected in the top five priorities identified through the last town-wide Resident Survey (2017), which included '*good standard affordable rented housing' and* '*provision of a range of housing options including affordable housing to buy or rent'.*

STAR Satisfaction Survey & Other Housing Consultations

4.6.9 The Council periodically seeks the views and satisfaction levels of a sample of council tenants and leaseholders through a survey known as 'STAR'. The last survey was undertaken in 2018.

4.6.10 Respondents were asked to say what aspects of the housing service were most important to them. The results demonstrated that repairs and the quality of the home were key priorities, which supports a continued focus on stock investment and the maintenance of council homes.

4.6.11 Officers have drawn up an action plan 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.

4.6.12 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.

4.6.13 In addition, targeted consultation continues to be carried out in relation to specific elements of the housing 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.

4.7 SUMMARY OF REVISED HRA BP & MTFS PRINCIPLES

4.7.1 The table below provides a summary of the overall commitments included in the revised HRA Business Plan, based on the proposals and assumptions above. The Executive is recommended to approve these commitments.

Borrowing and RCCO	Housing Development	Housing Asset Management	Housing Service Delivery
£322m total borrowing (30 yrs) **Includes £66.7m additional borrowing over next 10 yrs** **Revenue contribution to capital reduced from £51m to £0 in years 1-5** ***(Note: Yr 1 = 2019/20)***	**£646m housing development funding (30 yrs)** **Includes £64m additional development funding (30 yrs)** **For 271 additional new homes (30 yrs)**	**£835m stock investment funding (30 yrs)** **Includes £56.7m additional stock investment funding (30yrs)** **For building safety, new decent homes standard, cyclical works, high rises, asset review**	**£979m housing management & repairs funding (30 yrs)** **Savings target reduced to £100K per annum (over 30yrs)** **Responsive repairs efficiency of 2% per annum (over 30 yrs)**

4.7.2 The key principles that underpin the MTFS and business for financial planning purposes have been reviewed accordingly and are summarised as follows. The Executive are recommended to approve these revised principles.

MTFS PRINCIPLES
To provide funding to build 2433 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.

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

5. IMPLICATIONS

5.1 Financial Implications

5.1.1 It is the Chief Financial Officer'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 mitigation actions identified in paragraph 4.4.7 are implemented so that there is sufficient revenue headroom in the BP to allow for unforeseen events to be funded or debt to be financed. The BP is funded, but the increase in PWLB borrowing rates has reduced the amount of funding in the plan by £38Million, which has meant that during the Business Plan the level of balances are much closer to minimum levels, increasing the risk to the Business Plan and reducing the ability to deal with future unforeseen events of policy changes. There is still an on-going need to make Financial Security savings under the existing plan.

5.1.2 There is 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 £70Million.

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 as set out in the government's consultation paper. However this demonstrates how vulnerable HRA finances are to government policy changes.

5.1.4 At the time of writing this report the draft budget and rent setting were being finalised and as a result final adjustments to the MTFS may be required.

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 The risks and mitigations regarding increased borrowing that have been considered in the proposed Business Plan are included in paragraphs 4.4.6 to 4.4.7 in the body of the report.

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) – From 2020 rent increases 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, requiring additional resources to be put into those services	The Council has a welfare reform group which monitors impacts and is planning for the full roll-out of UC. The DWP, East Herts shared Revenues and Benefits service and Citizens Advice are represented on the group. The HRA Business Plan includes bad debt provision. UC claimants have continued to rise with up to 90 new claimants a month. This trend is expected to continue and this will have an adverse effect on the level of arrears	High	Medium
Rent and service charge income (Negative Risk) - The future Government could change its commitment to a 5-year national rent policy from 2020/21 of CPI + 1% rent	Rent and service charge policy is in place and allows 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

Risk Area	Risk Mitigation	Likelihood	Impact
increases, which is currently in line with the Council's BP rent assumptions. Service charges may not be fully recovered.			
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 are in place, along with ongoing retention of expert legal advice. As we enter into Phase 2 of the MRC and leaseholders are receiving their estimated costs we recognise that we need to improve how we communicate with our leaseholders ensuring that the correct representatives are able to respond to the queries raised. An additional post has been secured.	Medium	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, 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 above that assumed in the plan)	Revised Housing Asset Management Strategy was approved in 2019. 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. Increased cost assumptions for an enhanced decent homes standard have been built into the revised plan, but these are currently estimates as the Government's decision on a new standard is not yet known.	Medium	High
Fire Safety Investment (Negative Risk) Following the recommendations of the Hackitt report and the reference to building safety in the Queen's speech in October 2019, changes in fire safety legislation are anticipated, with associated revenue and capital cost implications.	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 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 and/or borrowing may be required to accommodate any costs over and above those assumed within the revised BP.	High	Medium

Risk Area	Risk Mitigation	Likelihood	Impact
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 to 3 through existing contract awards. It is anticipated that efficiencies will continue to be delivered through 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	Low
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. In order to mitigate the impact of interest costs to the HRA, any potential unused 1-4-1 receipts will be 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 **(**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.	Low	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

Risk Area	Risk Mitigation	Likelihood	Impact
Interest Rate Increases (negative risk) – the impact on the capital programme of eventual increases in interest rates from their current historic low position	Medium to long term loans have been priced at a higher average, not current rates. A reserve has been created to mitigate increases above the plan.	Medium	Medium
'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. The Council has developed a specific Brexit risk register and these risks and associated mitigations are monitored by the Brexit Working Group.	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 Environmental Implications

5.5.1 The anticipated revised decent homes standard and the targets set within the Asset Management Strategy will continue to improve the environmental performance of our existing stock. The Housing and Investment Service is committed to review its approach to reducing the impact of the housing stock on the environment through actions set out in the HRA Asset Management Strategy and this will in turn contribute to the development of the Council's Climate Change Strategy and Action Plan.

5.5.2 Future housing developments will consider the environmental performance of the designs and features, and look to introduce technologies and materials that help to improve the environmental performance of the buildings.

5.6 Equalities and Diversity Implications

5.6.1 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.

5.6.2 The HRA BP supports the delivery of a range of housing services, programmes and projects. These are subject to Equality Impact Assessments (EqIAs) as appropriate to determine any impacts on particular protected characteristic groups and to mitigate negative impacts where identified.

5.6.3 The proposed increase in the delivery of new affordable homes will benefit residents who are in housing need and these homes will be let in accordance with the Council's Allocation Scheme and Rent and Service Charge Policy, both of which have had EqIAs undertaken. In addition, equality implications will be considered for specific housing schemes as they come forward.

5.6.4 With regard to the proposed enhancements to asset management programmes, in general terms these programmes will apply across the housing stock, based on condition assessments, and as such are not anticipated to impact disproportionately on any particular protected characteristic group. However, once new decent homes and building safety legislation requirements are known, the implications will be assessed. Similarly, as decisions are made on the options in high rise flat blocks and on individual asset review programme projects, these will be subject to EqIAs in line with the Council's standard approach.

5.6.5 The process used to develop the Council's budget has been designed to incorporate appropriate measures to ensure the impact of decisions on the community is considered as part of the decision making process. EqIAs will be done on individual savings proposals (when relevant) to aid decision makers in their consideration of the Equality Duty.

6. BACKGROUND DOCUMENTS

BD1 HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY (2018/19-2022/23), Executive 21 November 2018

7. APPENDICES

NONE