Meeting:	**EXECUTIVE**	**Agenda Item:**	
Portfolio Area:	HOUSING/RESOURCES		
Date:	**18 NOVEMBER 2020**		

HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY UPDATE (2020/21 – 2024/25)

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1. PURPOSE

1.1. To update Members on the Housing Revenue Account (HRA) Medium Term Financial Strategy(MTFS) since the last update of the HRA Business Plan (BP) at the 2019 November Executive and the Final HRA Budget to the January 2020 Council.

1.2. To advise Members on the current and future position of the Council's HRA Budget over the next five years, including the projected impact of COVID on the HRAs financial resources in the current and future years.

1.3. To update Members on the 2nd Quarter monitoring adjustments for the HRA in 2020/21.

1.4. To update Members on the growth included in the HRA BP for 2021/22 totalling £588,650.

1.5. To update Members on revised inflation projections and pressures for the HRA MTFS and compare the HRA MTFS is in line with the business plan approved at the November 2019 Executive.

1.6. To update Financial Security targets for the period 2021/22 – 2023/24.

2. RECOMMENDATIONS

2.1 That Members approve the change to the Medium Term Financial Strategy principles, as outlined in paragraph 4.1.5 to this report.

2.2 That, for modelling purposes, the HRA 2021/22 rents will increase by 1.5% (based on the formula of CPI+1% with September CPI at 0.5%).

2.3 That the updated inflation assumptions used in the Medium Term Financial Strategy (section 4.2 refers) be approved.

2.4 That a HRA Financial Security Target of £878K be approved for the period 2021/22- 2023/24, (paragraph 4.9.8 refers).

2.5 That the approach to Financial Security as set out in section 4.9 be approved.

2.6 That an amount of £100,000 for 2021/22 and 2022/23, be approved for inclusion in the budget setting process as a Transformation Fund, to help deliver the Financial Security Target, (paragraph 4.9.10 refers).

2.7 That the HRA COVID impacts and 2nd Quarter changes to the HRA, as outlined in section 4.3 and 4.4 are approved.

2.8 That Members note the financial impact of COVID in 2020/21 and future years.

2.9 That the Leader's Financial Security Group oversee the development of the 2021/22 – 2023/24 savings package.

2.10 That the MTFS is regularly updated for any material financial pressures so forecasts are updated and is re-presented to the Executive for approval.

2.11 That public consultation be commissioned 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 The HRA Business Plan was last presented to the December 2019 Executive and this included an additional £206M of borrowing as a result of the lifting of the HRA debt cap by the government on 29 October 2018. This meant local authorities were free to borrow to support their HRA capital expenditure, in line with the Prudential Code.

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3.2 The additional borrowing in the 2019 plan included delivery of 2,433 new council homes over 30 years, 271 more homes than in the 2018 BP. This included new borrowing for an additional 249 homes in the first 10 years of the BP.

3.3 The access to additional borrowing also meant Members were able to approve additional works to the Council's existing stock (30 year period) which is summarised below:

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

3.4 The BP also assumed a 2% repairs efficiency target to reduce spend on responsive repairs, incrementally over the life of the Business Plan, as a result of increased investment through planned works. It was proposed to that 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. This report will update Members on the progress of all of these initiatives.

3.5 The 2019 HRA BP took account of the government's increase to Public Works Loan Board(PWLB) borrowing rates by a 1% in October 2019, which increased the cost of borrowing in the 2019 HRA BP by an additional £38Million in interest costs over 30 years. However, this was later reversed for HRA borrowing in the Chancellor's budget speech in March 2020 and the reduced borrowing costs over the MTFS period are included in this update.

3.6 The 2019 HRA BP included a Financial Security savings target of £200k per annum as summarised below. In the current revision, this has been reduced to £100k per annum throughout the life of the plan.

	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%

	2020/21	2021/22	2022/23	2023/24
Service Charge Increase (excl Utils)	2.40%	3.20%	3.20%	3.20%
New Borrowing	£23.8M	£26.6M	£15.6M	£10.5M
HRA Minimum Balance	£2.9M	£3.0M	£3.1M	£3.2M

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

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 four strand approach for achieving this (see also section 4.8). The MTFS identifies the level of financial reduction required and the Financial Security priority helps deliver this reduction. The MTFS is reviewed annually and this report is a refresh of those assumptions.

4.1.5 There are some overarching strategic financial objectives of the MTFS and business plan and the MTFS principles for financial planning purposes. These have been amended to reflect the 2019 HRA BP update which included the lifting of the HRA borrowing cap and the MTFS principles are summarised below with the changes:

MTFS principles – borrowing (2019 Update)
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.
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.
A £5Million reserve has been set up to cover potential interest rate volatility

MTFS principles - HRA
To provide funding to build 1,900 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 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.

MTFS principles - HRA
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.
Maintaining a £100K per annum saving target in the plan to enable greater future flexibility, if more resources are needed to service debt. (New 2019)
To ensure that resources are aligned with the Council's Corporate Plan and FTFC priorities.

4.2 HRA Inflation Pressures

4.2.1 It is difficult to predict future inflationary increases due to the uncertainty around the lasting impact of COVID-19 on the economy. Government hospitality initiatives such as VAT reductions contributed to a reduction in the Consumer Price Index (CPI) which saw the August figure dip to 0.2%, a reduction from the July CPI figure of 0.8%. This is much lower than CPI in April 2019 (2.1%), the September 2020 CPI figure which rents are pegged to was 0.5%.

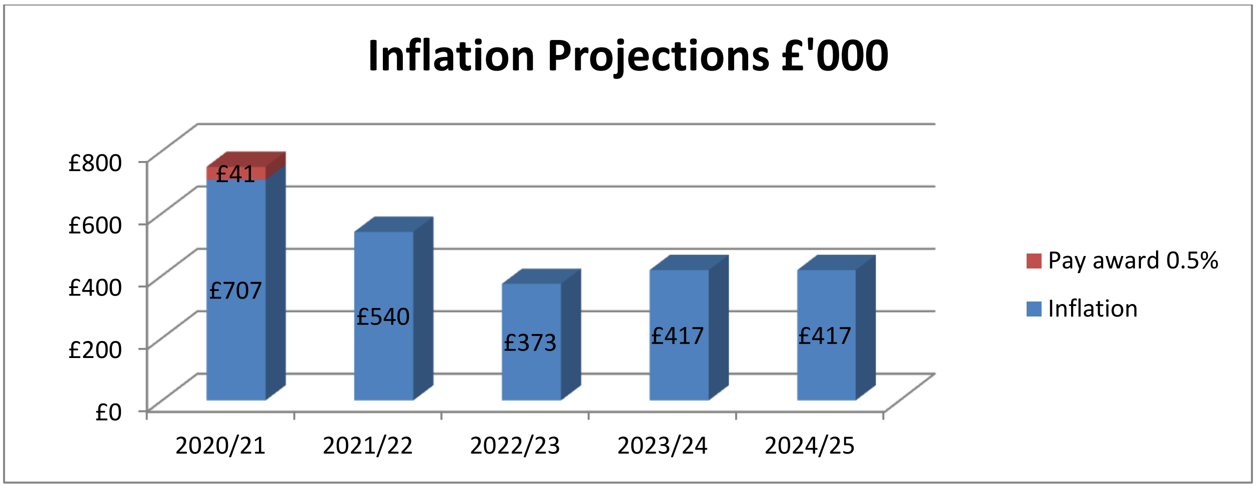
4.2.2 CPI is the tracked measure for inflation used by the government and for increases in council rents using the September CPI. The Bank of England target is a 2% inflation rate. The inflation in the HRA is based on projections as outlined in the General Fund September MTFS projections, updated for the lower CPI figure for September. The rationale for the inflation assumptions in the MTFS are shown below.

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Inflation-Applied to:					
September CPI for Rent Increases	1.70%	0.50%	2.00%	2.25%	2.50%
Salaries - % increase	2.75%	2.25%	2.25%	2.25%	2.25%
Pension Increase	0.00%	0.00%	0.00%	1.00%	0.00%
CPI indices increases	1.70%	1.40%	2.00%	2.25%	2.50%
RPI indices increases	2.40%	2.40%	3.00%	3.25%	3.50%
BCIS	4.40%	5.00%	5.00%	5.00%	5.00%
Fuel Increases	4.64%	2.00%	3.00%	4.00%	4.00%
Gas (unit charge only)	7.38%	7.38%	7.38%	7.38%	7.38%

	2020/21	2021/22	2022/23	2023/24	2024/25
Electricity (unit charge only)	11.56%	11.56%	11.56%	11.56%	11.56%

Rationale for inflation assumption	
Salaries - % increase	Salary inflation is estimated at 2.25% in the MTFS. The 2020/21 pay award was 2.75%, however the Chancellor has said there will be a need for wage restraint in future years. As pay is one of the largest inflationary pressure for the MTFS it has been modelled on 2.25% for the MTFS term which is above CPI but lower than RPI forecast for the same term. A lower pay offer in line with CPI would increase balances, but a prudent level of cost has been assumed in light of the current draw on balances and other calls on resources.
Pension Increase	An assumption has been made that as a result of the impact of COVID and BREXIT the next actuaries projection will mean an increase in the employers contribution of 1%. This would be for 2023/24 at the next revaluation date.
Consumer Price Index (CPI) indices increases	Current projections from the Bank of England show an increase up to 2% by 2025. However, due to the current uncertainty around inflation 2.5% has been modelled in the Strategy.
Retail Price Index (RPI) indices increases	This is based on a 1% differential between the CPI forecast.
Fuel Increases	Fuel prices have been low and have been modelled on 2% increase in 2021/22, rising to a 4% increase by 2025.
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

4.2.3 The amount of inflation projected in the MTFS (including recharges from the General Fund is shown in the table below). This includes an estimated £41K additional pay inflation from the final pay award which was 0.5% higher than estimated.



**2020/21 higher due to increase in recharges to HRA based on time allocations including CSC*

4.3 COVID Budget Pressures

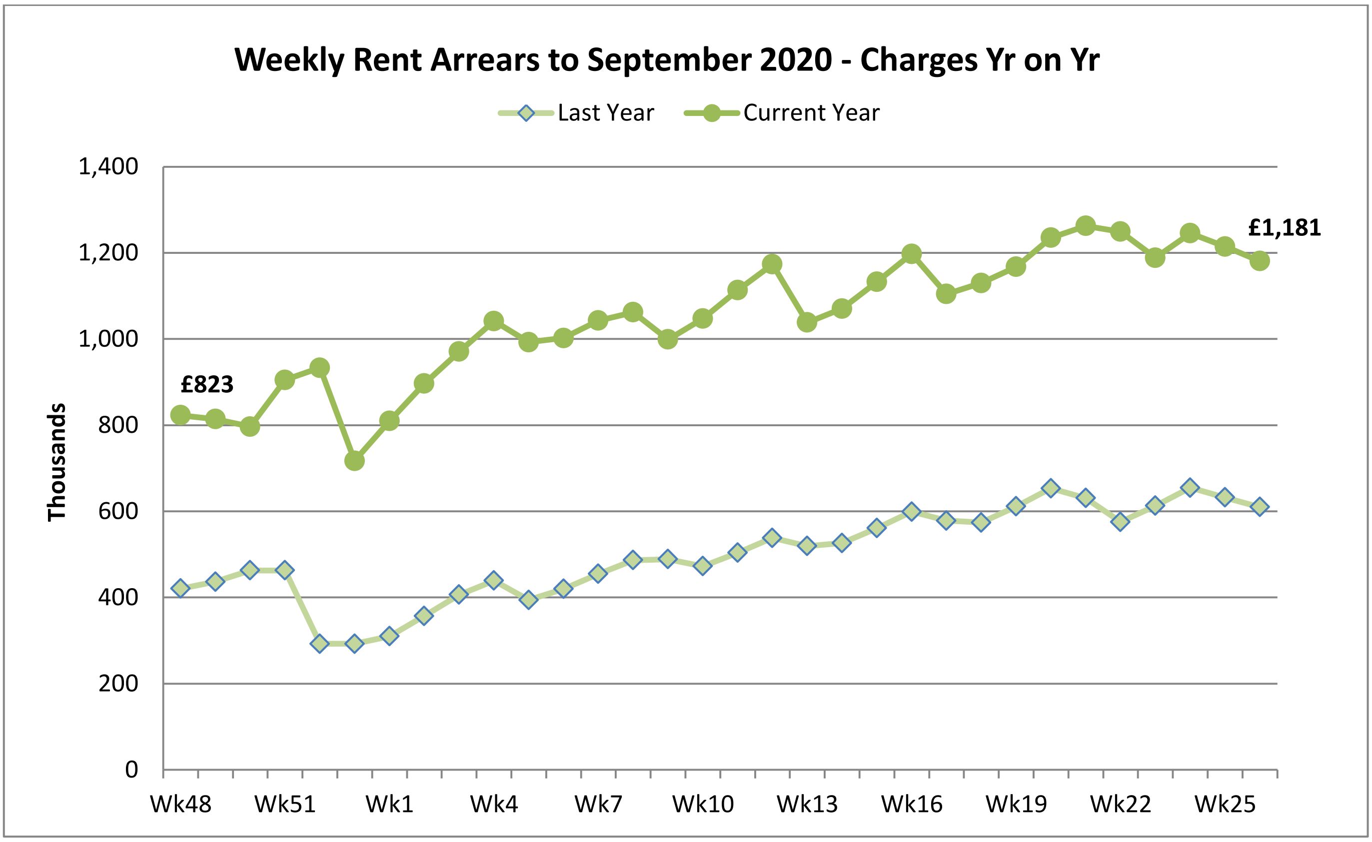
4.3.1 The MTFS contains some funding pressures arising from increased demand for services and the need to keep services resilient. This is estimated to be a cost of **£327K** and was approved in September as an urgent decision by the Portfolio holder for Resources with the Chair of Scrutiny and Overview waiving call in. The costs related to:

- Two additional Temporary Accommodation Officers, fixed term for 18 months to manage the increase in the number of clients in council owned temporary and emergency accommodation. The total number of applicants accommodated within Emergency/ Temporary Accommodation stood at 144 on 17 September, (31 of these cases being placed in B+B). Since the start of March 2020 the Council has experienced a 48% increase in B+B use and a steady increase in the number of households accommodated in the Council's own Emergency/ Temporary Accommodation due to the Covid-19 pandemic.

- Three additional posts in the Income team, fixed term for 18 months to support council tenants and aid the recovery of arrears that have accrued due to the impact of COVID 19. Rent arrears have doubled from £620K at the end of August 2019 to £1.2Million at the end of August 2020. There has been an increase in the number of cases claiming Universal Credit and the value of arrears attributed to these cases has increased to £821K.

- Three additional Specialist Support workers, fixed term for six months in the Independent Living Team to support the delivery of services to vulnerable customers who rely on the interaction with their support workers

4.3.2 As stated above COVID has impacted on rental arrears which saw arrears double by the end of August compared to the previous year, hence the need for additional posts. The chart below illustrates the impact on rents, which is compounded by the Council's inability to take any enforcement action on those tenants who won't pay rent. This is due to government legislation that has deferred any evictions until after the end of March 2021 and has introduced notice periods of 6 months in most cases. At this time these are debts outstanding on the system not actual losses, but it is likely that the current situation will lead to a higher level of bad debt in the future, as some of this rent will not be collectable.



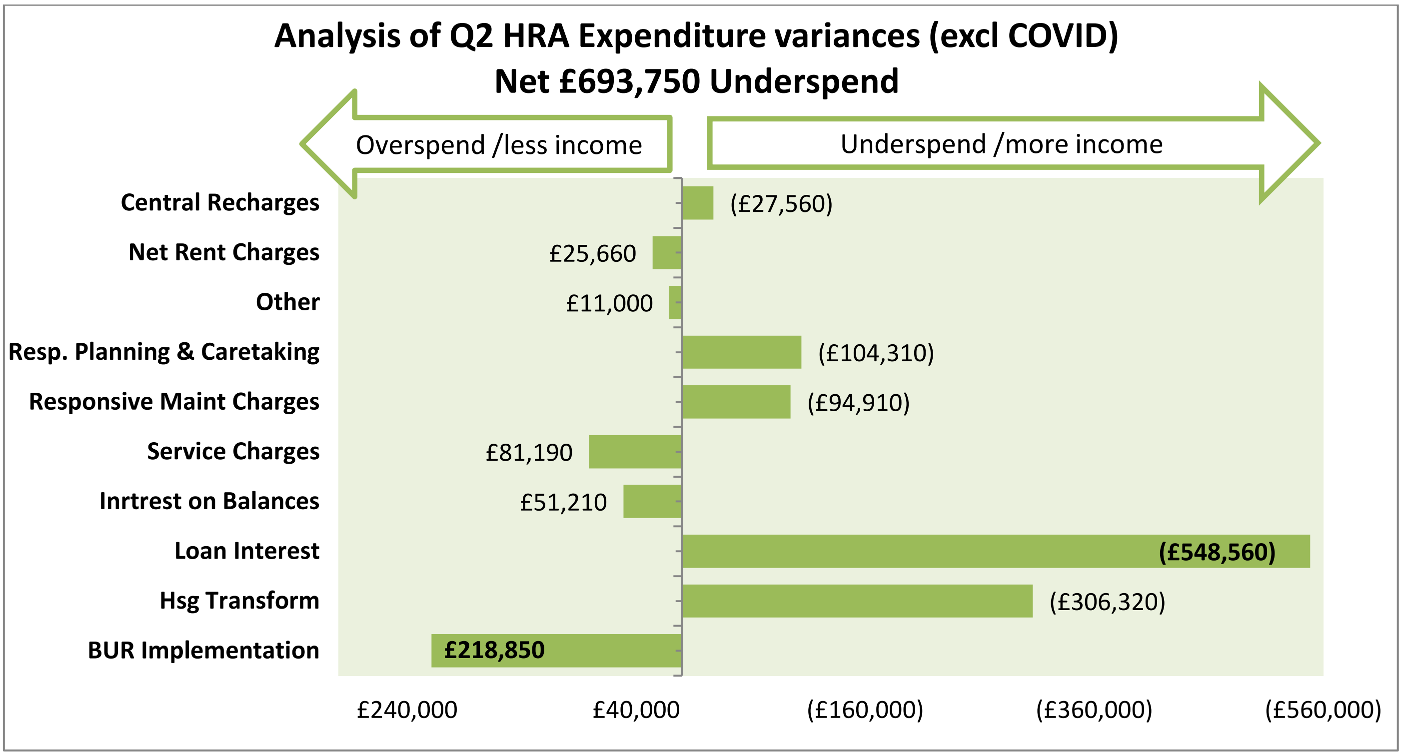
4.3.3 The impact of the COVID related pressures on the 2020/21 budget are summarised in the table below. The first year impact of the COVID posts detailed above is expected to be £119k. Additional overtime of £40k has been included in the Independent Living Service, to be able to apply the required safety measures for the schemes. There is a net projected overspend of £62K, across several accounts, which mainly relates to additional personal protective equipment (PPE) costs. Bad debt provision has also been increased by £105K in response to the increase in rent arrears over this time.

2020/21 COVID Pressures	**£**
COVID related Posts	119,040
Overtime in Independent Living linked to COVID work	39,600
Net Other COVID impacts (incl. PPE costs)	61,820
Increase in Bad Debt Provision	105,350
Total	**325,810**

4.3.4 The Governments funding of COVID pressures for Councils does not include any HRA related pressures and this means any costs have had to be borne 100% by the HRA.

4.4 Non COVID Pressures 2nd Quarter Monitoring

4.4.1 The Graph below summarises the projected variances on the HRA for the first half of 2020/2, excluding the COVID pressures highlighted in section 4.3 above. This projects an under spend of £694k, predominately as a result of lower borrowing costs in year. An explanation for the main variances is given below.



4.4.2 **Loan Interest -** The largest variance expected on the HRA is on loan interest. As detailed later in the report, interest rates are currently much lower than initially anticipated, and applying these rates to the projected loans for this year and interest payments on current loans, there is a £549K saving. These interest calculations have been projected forward as part of the MTFS model.

4.4.3 **Interest on Balances –** Where the Council has gained by having a lower interest rate for loan repayments there is also some loss of income on the interest on balances for the HRA. This is currently estimated to be £51K less than originally budgeted.

4.4.4 **Housing Transformation Fund -** The Q2 working budget has been corrected for an error in the roll forward amounts from last year. The final balance of the £1.5Million transformation fund should be £324K, but it was rolled forward in Q3 and Q4 of 2019/20, doubling the budget needed. This has been removed at Q2 giving a net £306K budget reduction in 2020/21.

4.4.5 **Business Unit Review (BUR) –** The Housing and Investment staffing and agency costs have increased by **£218.8K** in 2020/21. However this is partly due to more staff joining the pension scheme, evaluation of new jobs on a higher grade and shift costs of £48K being omitted from the budget. Since the budget was set the structure has undergone a staff consultation process and the posts have also been re-evaluated in line with the Council's policies. There a number of transitional fixed term posts which fall out in the next two years and the COVID related posts are also currently time limited.

4.4.6 **Net Rent Charges –** Overall, rent charges are currently projected at £26K below the original estimate. Currently, rent from the general needs stock is down, but this is mainly due to a higher level of stock being held for temporary accommodation, where income is higher. These figures only represent the charges made to customers and do not take account of the large rise in rent arrears experienced by the Council since last year.

4.4.7 **Service Charges –** An adjustment to Leaseholder's service charges, based on last year's actuals, has led to a reduction in income charged of £81K. As this is based on last year's actual costs the HRA balances would have reflected less expenditure on these chargeable items and this will be neutral on the account over the two years.

4.4.8 **Responsive Maintenance Charges –** The net position for the HRA on responsive work carried out by the Repairs and Voids team is a saving against the budget of £95K. However, this is made up of a number of large variances. The level of work carried out by the team has reduced by £498K, during the current crisis. This lower turnover has increased the size of the trading deficit by £403K and this has led to the projected net saving to the HRA.

4.4.9 **Responsive Planning and Caretaking –** Both of these areas are projected to have a saving on the budget for the current year, with caretaking £5K less and responsive planning £100K less than estimated. The main reason for the saving is vacant posts and the unit is currently undertaking a business unit review, which could lead to more permanent changes in future periods.

4.4.10 **Central Recharges and Other variances –** Central recharge savings have been identified as part of the Q2 monitoring process, reducing charges by £28K, and the details of these variances have been covered in the 2nd quarter General Fund monitoring report. This saving has been offset by other overspends on a number of budgets in the HRA that have a projected net overspend of £11K for 2020/21.

4.5 2nd Quarter HRA Capital monitoring

4.5.1 The latest HRA capital position has been summarised in the table below. The table shows the main capital programme elements and the current funding plan for the forecast expenditure. Overall there are no significant changes from the position outlined in the first quarter. The IT related budgets are currently being reviewed and this may lead to some slippage to be reported at Q3.

4.5.2 The housing development budgets may also need to be revised to reflect any further timing impact on schemes during the COVID pandemic and these will be included in Q3 and Q4 reports. At this time no variances have been reported for the housing major works programmes.

Q2 HRA Capital Monitoring	2020/2021 £000	2021/2022 £000	2022/2023 £000	2023/2024 £000	2024/2025 £000
Expenditure					
Capital Programme Excluding New Build	22,921	18,633	17,655	16,238	19,216
Special Projects & Equipment	149	0	0	0	0
New Build (Housing Development)	9,916	30,518	35,373	18,533	12,577
IT Including Digital Agenda	1,071	135	51	51	51
TOTAL HRA CAPITAL PROGRAMME	**34,057**	**49,286**	**53,079**	**34,822**	**31,844**
Funding					
Borrowing	23,803	26,602	15,640	10,480	4,871
MRR (Self Financing Depreciation)	3,698	8,494	21,637	19,391	18,424
Revenue Contribution to Capital	0	0	0	0	3,447
Section 20 Contributions	3,173	1,364	1,382	73	76
New Build Receipts	1,844	8,945	7,127	3,902	3,968
Other Receipts	1,540	3,881	7,293	976	1,058
TOTAL FUNDING	**34,057**	**49,286**	**53,079**	**34,822**	**31,844**

4.6 Update on HRA Business Plan Growth

4.6.1 The HRA BP recommended new growth of £16.2Million over the MTFS period relating to impending changes in legislation and improving our existing homes. An update on the activities to date are summarised in the table below. Part of the programme has been impacted by COVID which has delayed the commencement of a number of the programmes.

Growth Bids in HRA BP November 2019	Funding in the MTFS	Update on programme

Growth Bids in HRA BP November 2019	Funding in the MTFS	Update on programme
Implement building safety legislation once confirmed	£500K 2020/21-2024/25 per year	The draft bill for building safety is published (20/7/20) and provides further detail on requirements. Budget in year 1 is funding the recruitment of a Building Safety Manager, fire stopping surveys/remedial works to flat blocks and fire door inspections/audits. The works have been slower to progress than anticipated as a result of COVID and the delayed release of the government response to consultation.
New decent homes standard	£200K 2021/22-2024/25 per year	The housing white paper is due to be released later in 20/21 and will provide greater details on the requirements. Spend is anticipated to start from year 2021/22.
cyclical electrical testing programme	£200K 2020/21-2024/25 per year	The budget supports the move to a five year testing programme for electrical installations. This programme was already underway and although put on hold due to COVID the work has recommenced on site.
cyclical programme of planned maintenance	£250K 2020/21-2024/25 per year	The budget for year one is supporting cyclical works carried out in-house by repairs and through existing contracts. A review and potential procurement will take place in year two to establish the long term arrangements for the delivery of cyclical maintenance.
Increase the asset review budget	£250K 2022/23-2024/25 each year	The additional budget will support the continued delivery of the asset review programme and improvement works.
Redevelop or remodel the high rise flat blocks	£1.75Million 2022/23-2024/25 each year	The nature of this work will be determined by the options work and surveys being carried out in 2020/21.
Redevelop or remodel sheltered	£2Million 2023/24-2024/25 each year	The nature of this work will be determined by the options work and surveys being carried out in 2020/21.
Damp and Mould increase in spend	£100K 2020/21-2024/25 per year	Delivery of this work will be in line with the recently approved policy. The greater spend in this area is required to support the policy and meet reactive demand for the service

4.6.2 Additional 2021/22 growth of circa £124K has been modelled in the HRA MTFS for posts that the AD Housing and Investment will be putting forward in the Financial Security Report to the December Executive and Draft HRA budget for consideration. These include the following posts

- Aids and Adaptation officer- to support the Aids and Adaptation policy
- Older Persons Strategy Delivery Post to implement the Strategy when it comes forward for Members in December.
- Systems Support officer to help implement more functionality for the housing system

4.7 Update on Housing Development delivery

4.7.1 The Council's plans to deliver greater levels of affordable housing have continued over the past year and a pipeline of schemes has been developed. In addition in 2019/20 for the first time the number of homes delivered has exceeded the numbers lost through right to buy. With 54 homes delivered in 2019/20 (versus 42 RTB's) and 305 homes are on site or about to commence on site during 2020.

4.7.2 However the pace of change in society and the construction industry as a result of COVID 19 is unprecedented and has led to the re-profiling of the schemes planned. The RICS professional body reports that construction projects have, understandably, been much affected with 69% project delays reported, 47% of construction sites being closed and 29% of projects being cancelled*. Whilst no projects have been cancelled in Stevenage, the team will need to consider what projects are prioritised over the coming five year period to take into account the changing residential and commercial development landscape.* RICS 2020, Impact of Covod-19 on UK property & Construction Market Survey. A survey conducted to cover the period 12 March to its publication in 27th May 2020.

4.7.3 The COVID-19 pandemic and resultant economic crisis is likely to impact on the housing sector. The impact of the end of government intervention measures e.g. the mortgage holiday and the ban on repossessions as well as reduced stamp duty charges in the owner occupied and rental sectors during 2020/21. This with the ending of the furlough scheme for employees could lead to significant readjustment in the housing market as incomes are likely to be squeezed, if unemployment rises and consumer confidence begins to decline.

4.7.4 As a result of this the Council's Housing Development team will need to adjust its planned future scheme profiling, in particular schemes that required significant levels of private sale to generate cross subsidy and neighbourhood retail to underpin the commercial offer. It is not a case that such schemes will be ended, but instead, profiled in line with market demand and professional advice. It may also be possible to identify smaller phased opportunities linked to these larger schemes that are more viable and deliverable in the immediate future that complement the wider scheme.

4.7.5 Despite the uncertainty it is expected that there will be further opportunity to expand the housing delivery programme through government capital subsidies, not least because these will promote economic recovery but also because we expect an increase in the demand for affordable and social housing.

4.7.6 Updates on **New Developments** are summarised below for Members:

- Postponement of neighbourhood regeneration schemes such as the Oval and Mary Mead neighbourhood centres, and their substitution with smaller infill schemes that will deliver more housing outputs at a quicker pace.

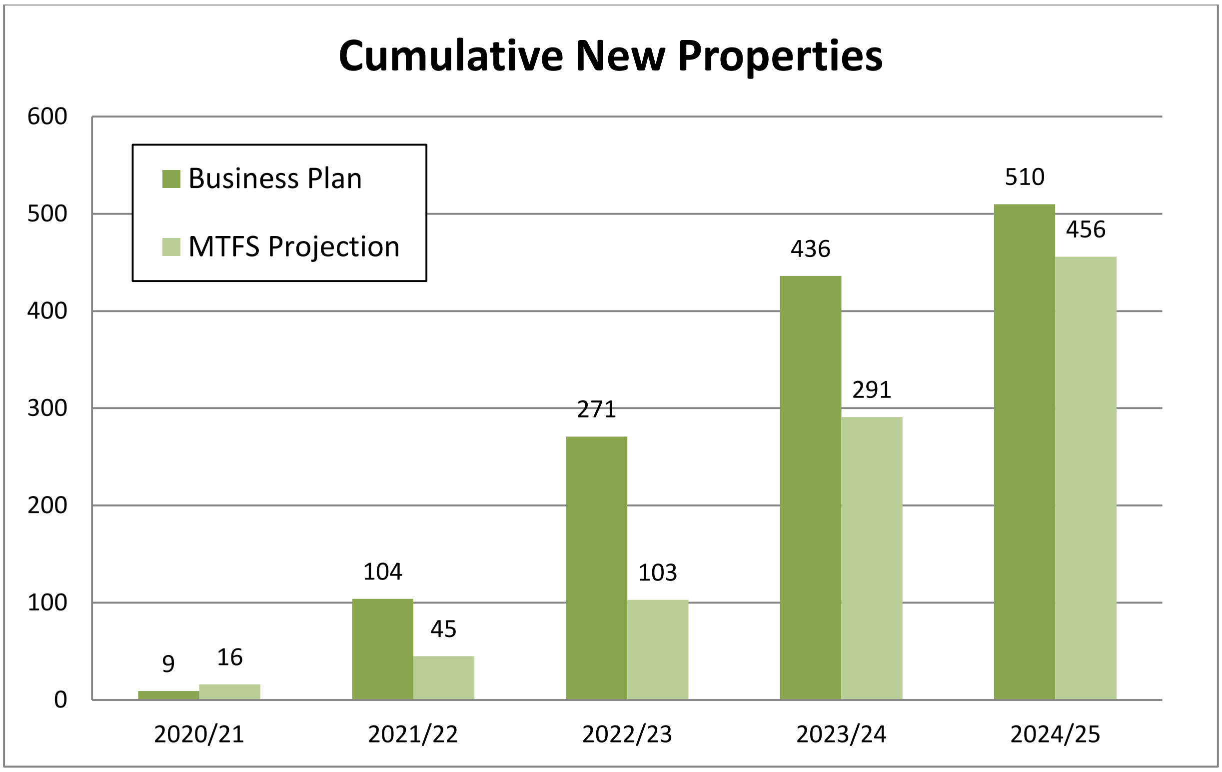
- Other windfall opportunities are also expected to arise from the Council's locality reviews.

- Proposals for the Kenilworth regeneration scheme will progress as the scheme is in an advanced stage.

- In line with a rise in the demand expected on the Council's homelessness service there will be a need to increase the resources focused towards delivering appropriate supported housing schemes for this client group as well as additional general stock of "fit for purpose" temporary accommodation

4.7.7 The proposed cash flows have been changed to reflect the above and are contained within the revised business plan. A budget of £2Million is being reviewed for new strategic open market acquisitions and infill schemes. This will be detailed in coming months through the Council's Quarterly Capital monitoring process, one certainty is also provided on the success of potential government capital funding bids that have been submitted.

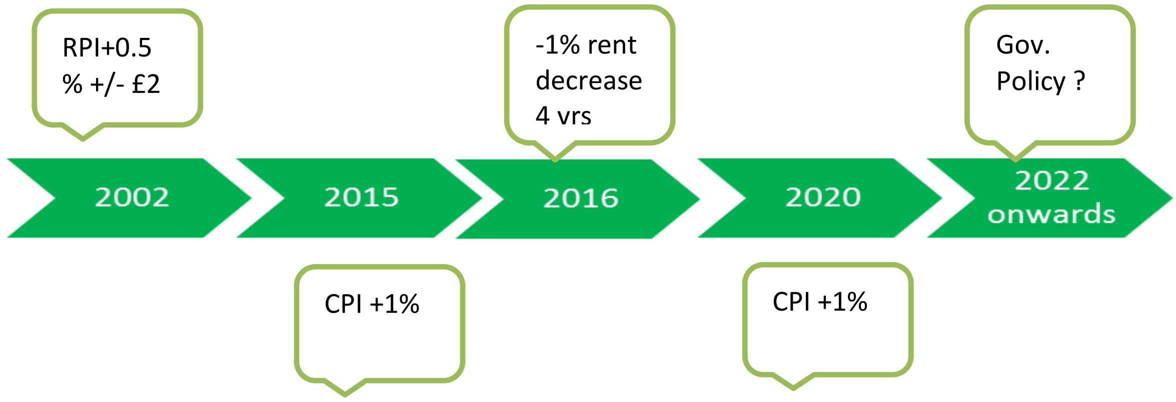
4.7.8 The graph below compares the current projected property numbers, over the next five years, to the business plan from last year. This clearly shows the expected impact of the pandemic on the timing of projects. However, this is projected to be mainly recovered over the reporting period, with total cumulative new property numbers down by 54 units in 2024/25. It is still planned for these 54 units to be delivered later in the development programme, as planned projects are completed.



4.8 Rent Projection and 2021/22 Rents

4.8.1 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.

4.8.2 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. There was also a +/-£2.00 adjustment to rents based on whether they had reached the formula rent set out in the paragraph 4.9.1 However, since then, Government policy on annual rent increase/decreases has altered over time, as illustrated below:

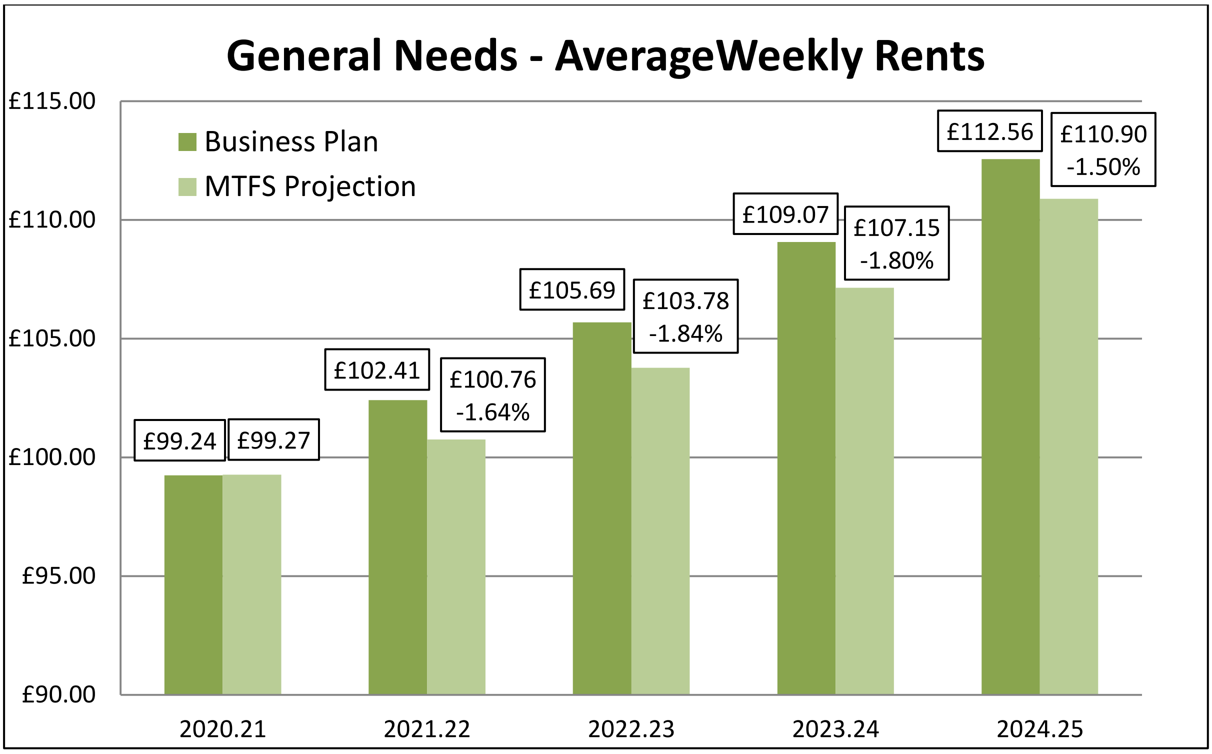


4.8.3 The changes in government policy have had a significant adverse impact on the HRA finances, the 1% rent decrease between 2016/17 and 2019/20 was estimated to cost the HRA £225Million over the 30 year business plan. This subsequently restricted the amount of investment in new houses which was much needed, to stem the losses from right to buy properties and meet the need of those on the housing waiting list. In addition Investment in existing properties was also affected.

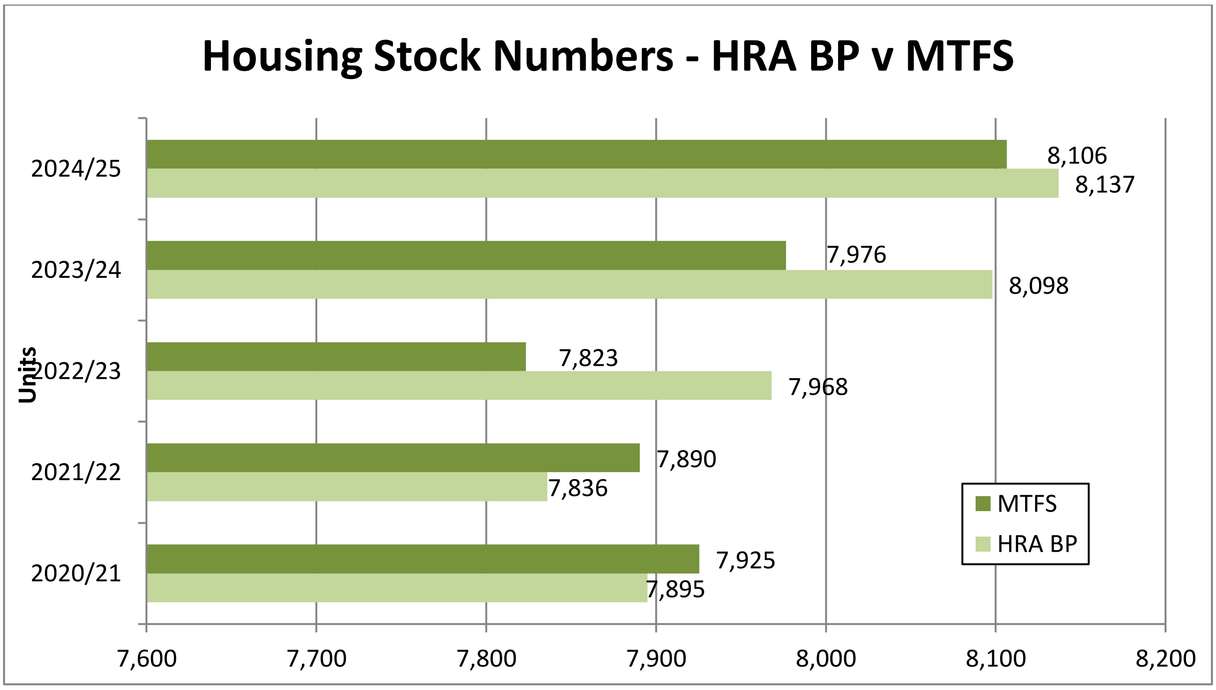
4.8.4 Constant changes in government policy make investing over the business plan period very difficult, particularly when borrowing decisions are made over a 25-30 year fixed period predicated on a level of rents to be received. All these impacts have meant the HRA has required an annual review of the HRA BP in terms of future investment that is affordable and a Financial Security target as set out in section 4.8. The current Government rent policy should be in force for five years until March 2025.

4.8.5 The 2019 HRA BP update assumed a CPI+1% rent increase of CPI 2.20%+1% (3.2%) from 2021/22 onwards, compared to the CPI of 0.5% for September. Inflation has been supressed partly due to measures taken by the Chancellor to support the hospitality sector through the COVID 19 Pandemic and this means the 2021/22 rental increase will be 1.5%, this is much lower than that assumed in the 2019 BP. If all things in the BP remained the same e.g. stock numbers a 1.5% rent increase versus a 3.2% increase for 2021/22 reduces rental income in the BP by £20Million over the 30 year period.

4.8.6 The graph below shows the impact of the expected lower inflation rate on 2021/22 rents and then projects this forward on the latest inflation estimates for the following years. This shows that average general needs rents are projected to be lower than the BP, however, they do recover slightly by 2024/25, due to higher projected inflation in future years. On current forecasts rents would be 97p lower per week than the BP, for the average rent.



4.8.7 To update the rent projections the likely housing stock levels have also been revised for the MTFS and are shown in the graph below. As explained earlier in the report, the pandemic has led to expected delays in development and this can be seen in the number of properties in the MTFS compared to the BP. While new development is expected to produce 54 less homes than initially anticipated over the five years, this has been offset slightly by more units being delivered last year and lower RTB numbers in the current year. By 2024/25 this shows a net lower position of 31 units.



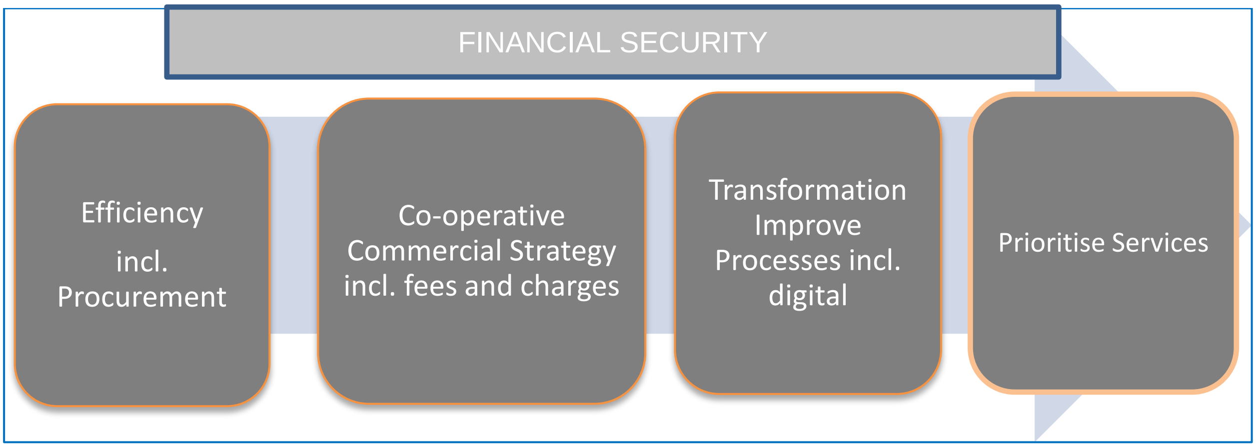
4.8.8 The combined impact of the change to property numbers and the level of annual rents, compared to the BP, can be seen in the table below.

Rent Forecasts			
Year	HRA BP £Million	MTFS £Million	Variance £Million
2020/21	-40.16	-40.23	-0.07
2021/22	-41.30	-40.75	0.55
2022/23	-43.03	-41.77	1.26
2023/24	-45.41	-43.39	2.02
2024/25	-47.48	-46.06	1.42
Total	**-217.37**	**-212.19**	**5.17**

4.8.9 The projections show that rents for the current year are broadly in line with the BP, but lower inflation for next year's rent setting creates a £500k shortfall. In later years, the estimated delays in the development programme also add to the gap between the BP and the MTFS. However, by year five the gap begins to close, to £1.4Million per annum, as property numbers increase and projected CPI returns to normal levels. The immediate fall in rents has been compensated by lower borrowing costs for the HRA (see section 4.9), but the longer term impact on the 30 year plan will need to be monitored closely to ensure that it remains viable in the medium to long term.

4.9 Financial Security

4.9 1 The Financial Security priority is the vehicle to deliver budget reductions across the General Fund and HRA and consists of four, streams. The graphic below sets out the process for 2021/22 onwards.



4.9.2 **Efficiency savings** are reported and removed from the HRA as part of the quarterly monitoring process. However, there may be some generated from changing the way we work as a result of COVID, these have increasingly been more difficult to extract and in the main cost pressures have been reported. This places more emphasis on savings from the other strands to deliver budget reductions.

4.9.3 **Commercialisation and insourcing**-The Council approved its Co-operative Commercial and Insourcing Strategy at the 12 August 2020 Executive, this set a number of work streams and the setting up of an Executive sub-committee to review initiatives. This work is expected to contribute to future Financial Security targets, however this may not be in time to deliver 2021/22 options to be included as part of the Budget and Policy framework.

4.9.4 **Improve Processes (including digital)** –With the reduction in scope for efficiency options there is a renewed importance in the delivery of commercial and improved processes. The AD ICT and Transformation is currently developing the scope to procure a partner to help the Council deliver this agenda and identify options to deliver savings. This will be in conjunction with the implementation of the digital platform and customer account. It is intended that cutting bureaucracy and stream lining processes will lead to cost reductions by transferring transactions online, efficient workflow processes and other such initiatives. It should be noted that the Housing and Investment team have already implemented a number of revised processes and digital solutions to improve efficiency through the Housing transformation programme such as an Electronic Document Management system, RAPID forms and Housing online.

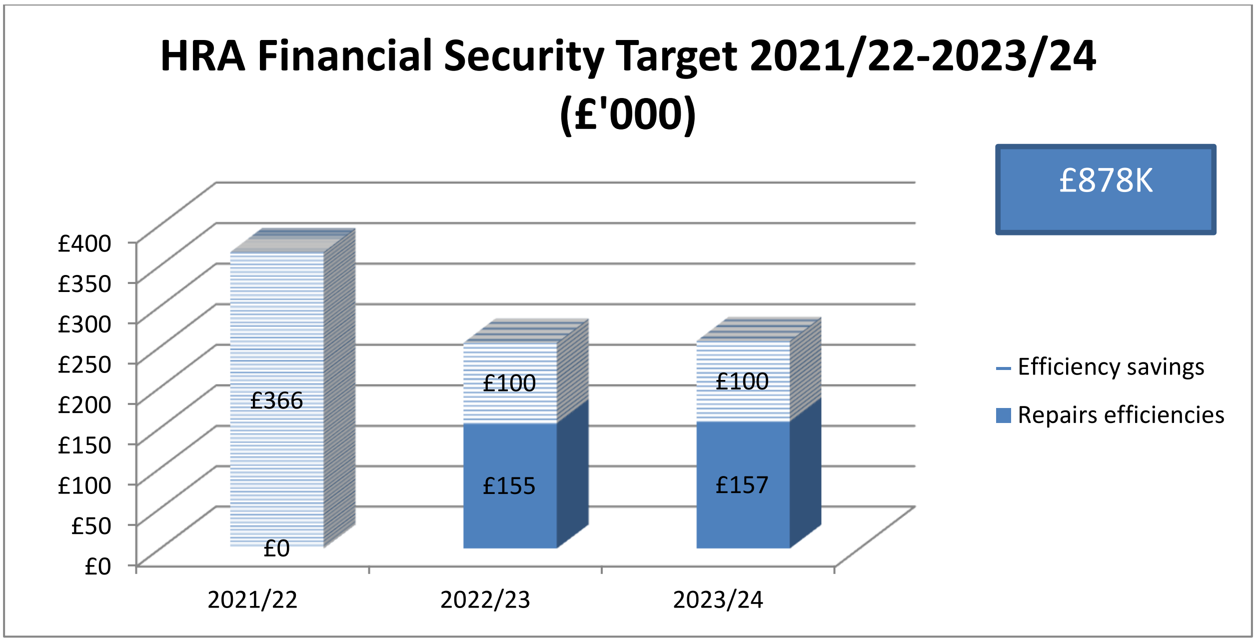
4.9.5 Options will be brought forward as part of the Budget and Policy Framework process but it is likely that this will contribute to savings targets from 2022/23 onwards.

4.9.6 The last strand of Financial Security is to review the **prioritisation of services**, to date this work has not been progressed to a large extent. The HRA financial position may not require as higher level of financial savings but there is still a need to ensure resources are directed to priority services.

4.9.7 A report will be presented to the December Executive on options for the General Fund and HRA, this is later than the normal October date, but is to allow a review of services to take place. This report will focus on one year only 2021/22. This is because of the considerable at the Council is able to meet the Financial Security target as set out in paragraph 4.9.8 below.

4.9.8 The Financial Security Target for the period 2021/22-2023 includes a target of £878K which is to:

- Efficiencies to help balance the capital programme
- A target to reduce responsive repairs as a result of the investment in the Council's housing stock
- To mitigate the impact of inflationary pressures particular when rent inflation is low



4.9.9 The impact of COVID on the Council's finances has led to significant uncertainty about future years financial projections. The Council's Executive has agreed a one year view of savings for 2021/22 as a result of this. These will be presented to the December Executive and included in the draft 2021/22 HRA budget.

4.9.10 The CFO recommends a further £100K is included in the following two years to fund transformation and commercial business cases, (The General Fund has projected £200K for two years).

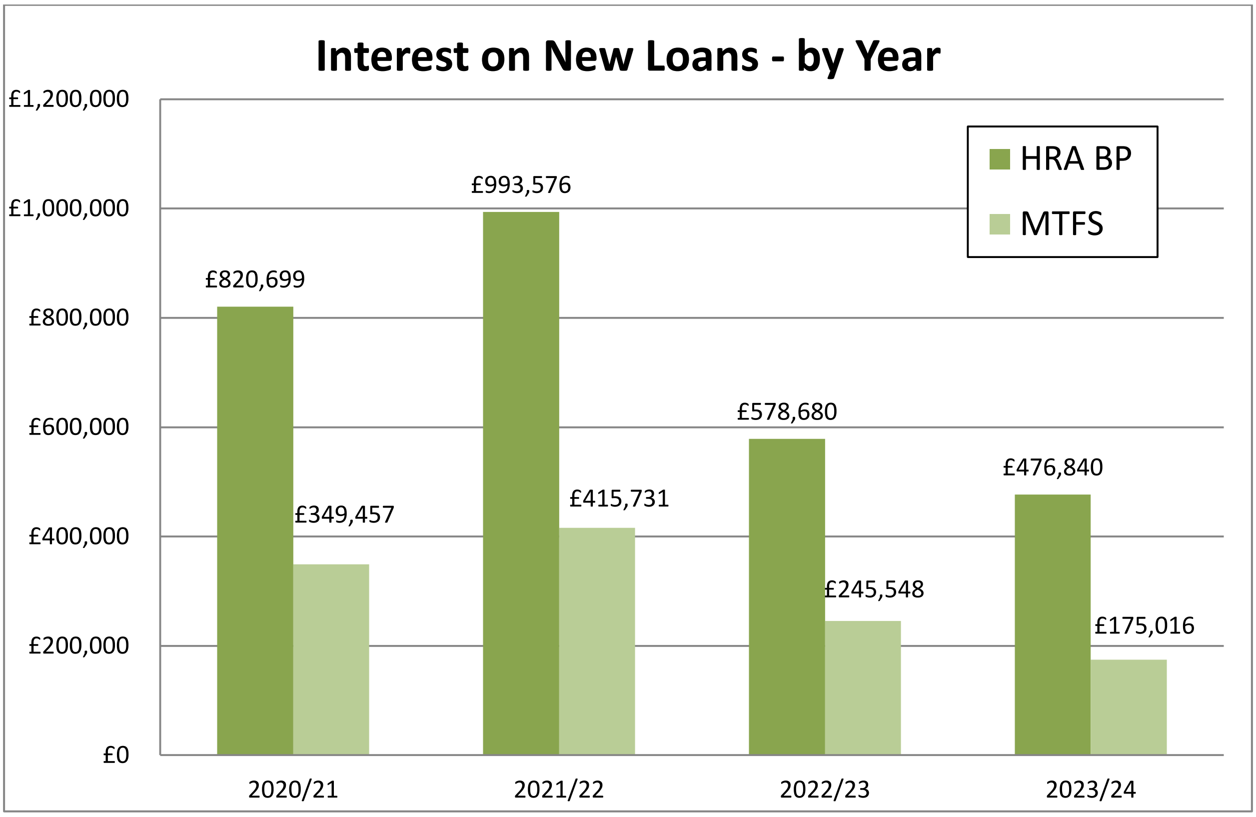
4.10 Borrowing assumptions in the MTFS

4.10.1 As already mentioned in 3.5 of the report, the HRA BP was completed on the basis of a 1% interest rate rise that the Government placed on PWLB loans in October 2019. However, this was reversed specifically for housing borrowing in March of this year and this has given the HRA a positive impact from the original forecasts. The BP is now also projecting lower investment interest as a result of the base rate reduction to 0.1%. The table below compares the target interest rates used in the BP and the updated MTFS.

Year	HRA Business Plan	2020/21 MTFS	Variance
2020/21	3.45%	1.47%	1.98%
2021/22	3.73%	1.56%	2.17%
2022/23	3.70%	1.57%	2.13%
2023/24	4.55%	1.67%	2.88%
2024/25*	0.00%	0.00%	0.00%

* No new loans in this year.

4.10.2 This table shows that rates are likely to stay at lower levels over the coming years and not return to the long term averages that were anticipated when the BP was completed. The graph below compares the projected interest on new borrowing in the BP to the MTFS.

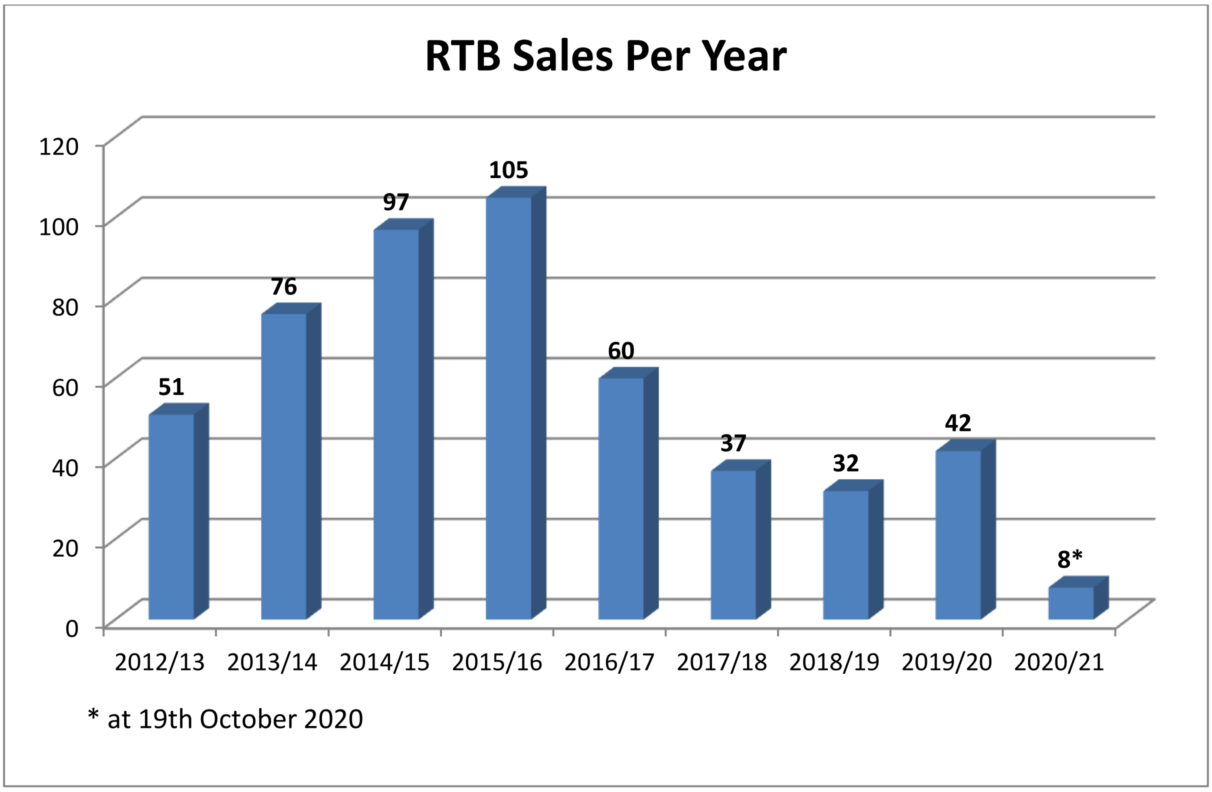


4.10.3 Based on the current anticipated borrowing levels, interest on loans taken out over the next four years could be **£1.7Million per year less** than expected in the BP (no new borrowing is currently planned in 2024/25). This would be a considerable saving going forward and would help to offset pressures caused by lower rent charges and the current pandemic.

4.10.4 The figures above are based on the current estimate of required borrowing that was set out in the BP last year. These levels have not been revised as part of the MTFS process due to the uncertainty caused by the current COVID crisis and the potential impact of future events like Brexit. The Chief Finance Officer (CFO) will continue to minimise financing costs to the HRA, while seeking to take advantage of historically low interest rates, when determining capital financing in each financial year.

4.11 Right to Buy Assumptions

4.11.1 The level of property sales under the Right to Buy (RTB) scheme are very difficult to predict, as can be seen in the graph below. Also the revenue generated from the sales can vary widely depending on the type of property sold and the complex calculations required by the Government's receipts pooling regulations.

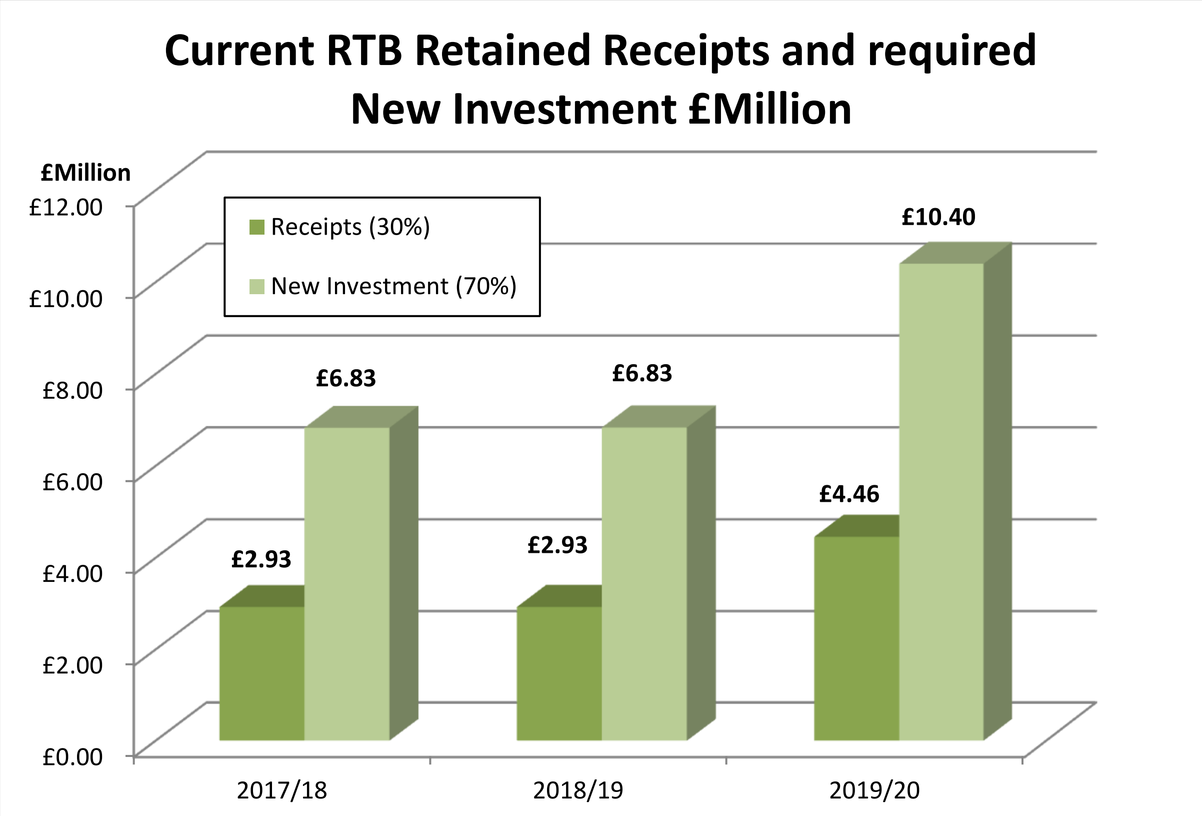


4.11.2 The HRA BP projected that there would be 35 sales in 2020/21,however, based on the current status and number of applications being processed, this figure has been revised down to 27 for this year. At the 19th October the Council had sold only 8 properties, as sales have clearly been impacted by the current pandemic. However, it is possible that a backlog is building and that sales will increase between now and the year end. Using last year's averages for RTB sales proceeds and this year's rent, the table below illustrates the potential impact of the lower figure on the HRA.

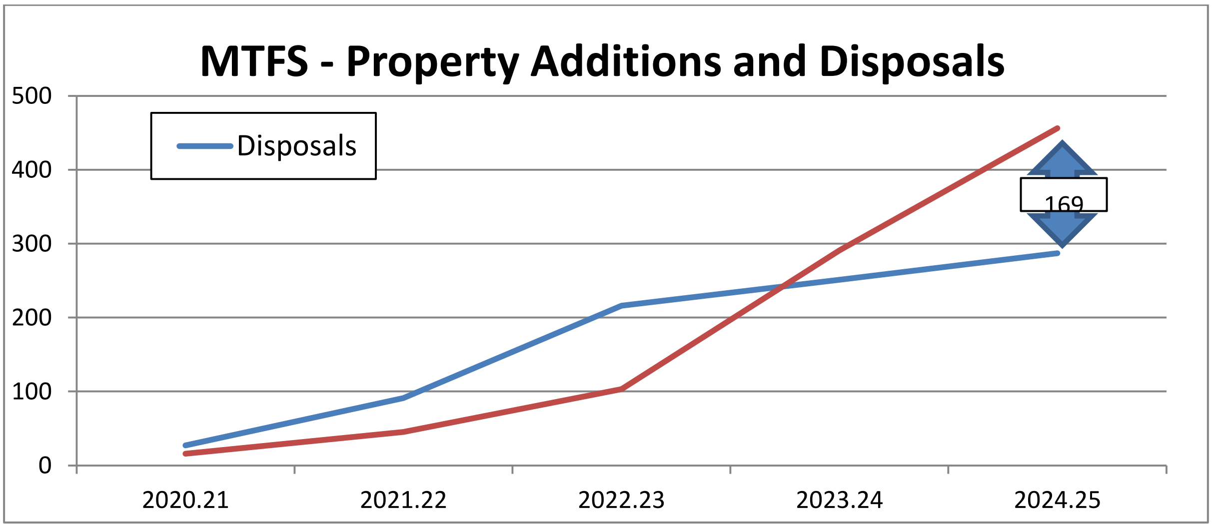
	Unit Sum	HRA BP	MTFS	Variance
Properties		**35**	**27**	**8**
Revenue Impact				
Rent loss	£99.27	£180,671	£139,375	£41,296
RTB Admin Fees	(£1,300)	(£45,500)	(£35,100)	(£10,400)
Net revenue Loss		**£135,171**	**£104,275**	**£30,896**
Capital Impact				
Residual Debt	(£29,206)	(£1,022,195)	(£788,550)	(£233,644)
Net 141 Receipt (30%)	(£108,714)	(£3,804,990)	(£2,935,278)	(£869,712)
Replacement Funding (70%)		£8,878,309	£6,848,981	£2,029,328
Net Additional Costs to spend receipts		**£5,073,319**	**£3,913,704**	**£1,159,616**

Capital figures based on 2019/20 averages

4.11.3 The table shows that rent loss would be £41k less and that the net capital position would be £1.2Million better, with reduced property sales. This is mainly caused by the requirement for the Council to provide an extra £7 for every £3 that it keeps from a sale, to invest in replacement properties. The chart below shows the current retained receipts and the additional investment required by the Council to invest in new homes.



4.11.4 The graph below shows the impact of the current RTB forecast sales compared to the other projected additions and disposals over the years covered by the MTFS. **The current forecast would see a net increase in properties of 169 by 2024/25**, which is slightly lower than the BP that projected a net increase of 215 over the same period. However, this shortfall is expected to be closed in the following years.



4.11.5 Overall, the reduced projection on RTB sales in this year should have a positive impact on the HRA and has helped to compensate for the lower development numbers caused by delays due to the current pandemic.

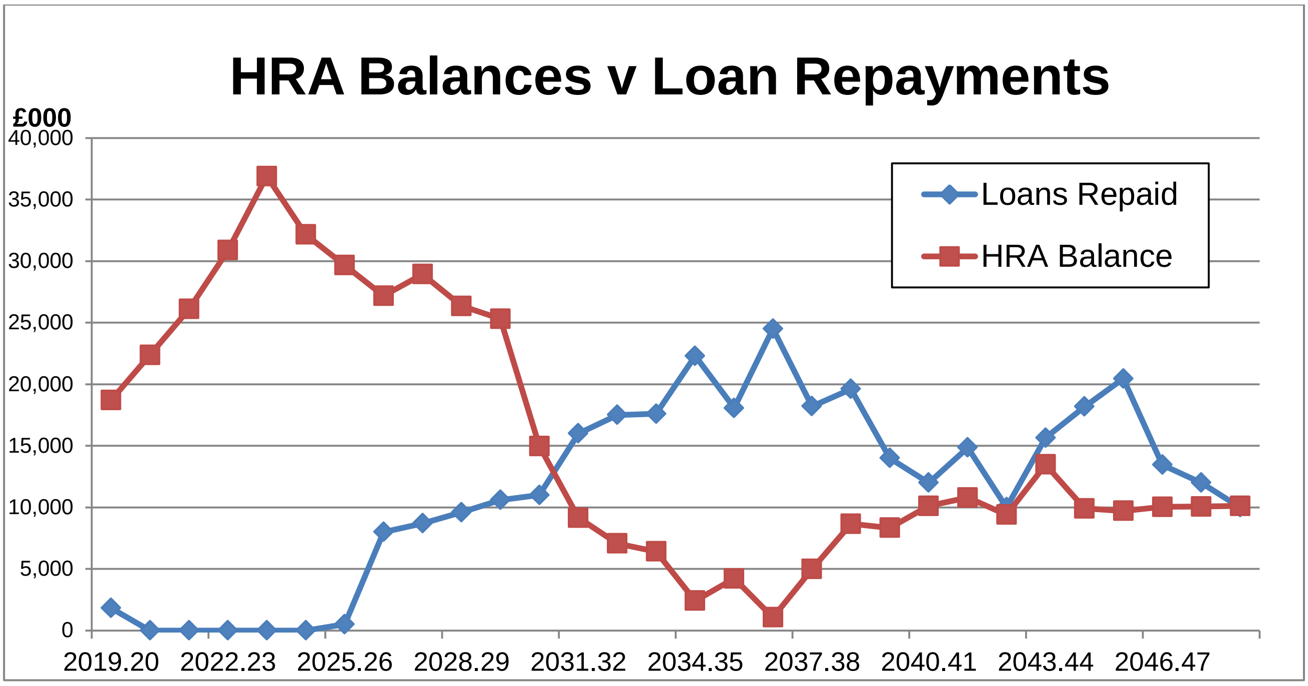
4.12 HRA balances

4.12.1 The Council's HRA reserve is designed to cushion the impact of unexpected events/emergencies and help absorb the impact of uneven cash flows.

4.12.2 Reserves can be held for three main purposes:

- A working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- A contingency to cushion the impact of unexpected events or emergencies; and
- A means of building up funds to meet known or predicted liabilities. (This is often referred to as allocated reserves).

4.12.3 The Council's HRA balances as at 1 April 2020 were £19.8million. Currently, there is a need to build relatively high balances in the HRA in order to pay back loans taken out for the self-financing agreement with the Government. The graph below shows the annual projection of balances in the business plan and the annual loan repayments over the 30 years. By the mid part of the plan balances are expected to be at the minimum requirement, but should recovery in later years.

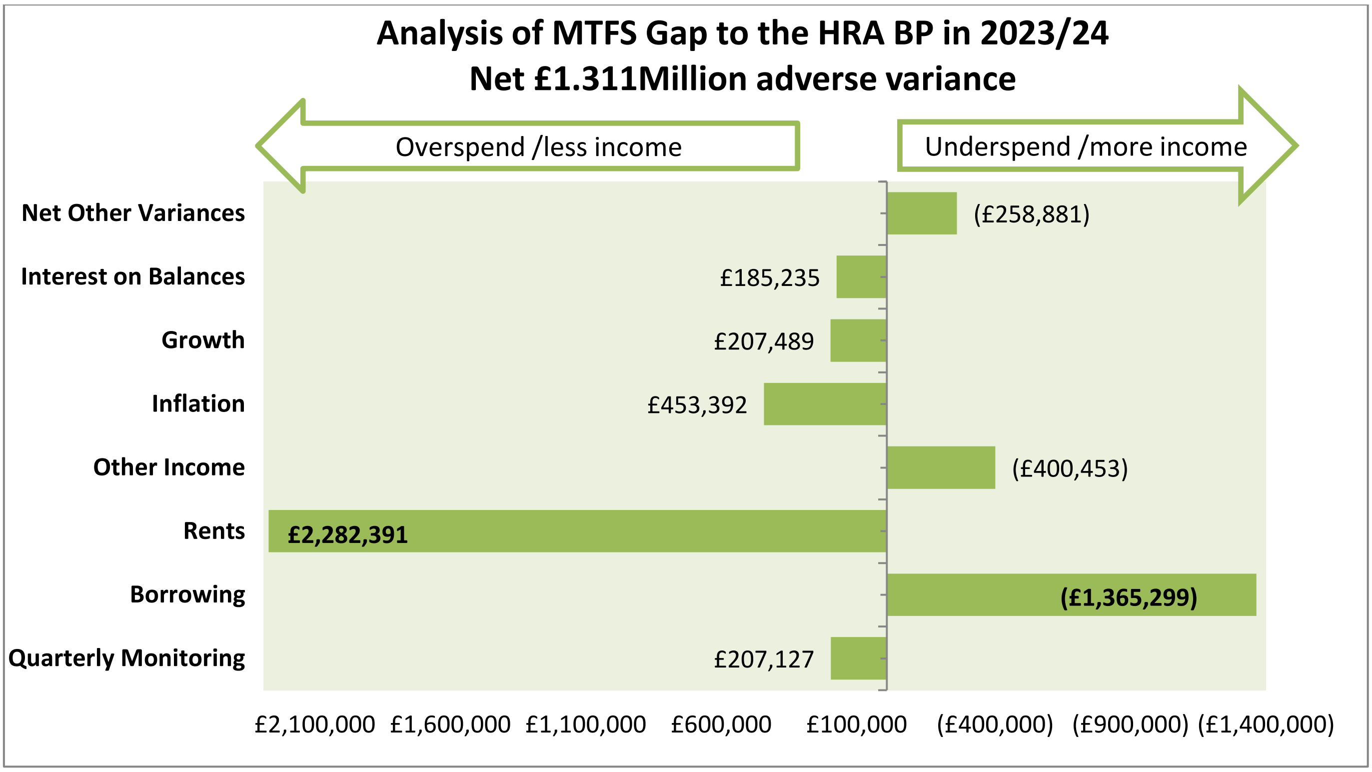


4.12.4 The HRA projections based on the MTFS are summarised in the table below., compared to the HRA BP for the same period.

HRA Balances	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Opening Balance	(£19,817)	(£23,126)	(£26,254)	(£30,584)	(£35,655)
In Year (Surplus)/Deficit	(£3,309)	(£3,128)	(£4,330)	(£5,071)	£4,800
Closing Balance	(£23,126)	(£26,254)	(£30,584)	(£35,655)	(£30,855)
HRA Business Plan	(£22,373)	(£26,098)	(£30,880)	(£36,891)	(£32,149)
Variance to the HRA Business Plan	£754	£156	(£296)	(£1,236)	(£1,294)

4.12.5 The table above illustrates that, with the current assumption in the MTFS, balances are projected to be £1.29million lower than anticipated in last year's BP by 2024/25. This is as a result of the changes explained in the report, especially regarding the fall in anticipated rent levels, which has been mainly offset by lower borrowing costs.

4.12.6 The chart below looks at the gap between last year's projections and the last year in the 2019 HRA MTFS (2023/24), to identify where divergence has occurred. This illustrates that the main areas of difference are on rents and loan interest payments, but also shows the increased allowance for inflation, lower interest on balances and the impact of budget monitoring changes to the balances.



4.12.6 The HRA BP needs to remain balanced and the spending plans and Financial Security targets will be revised in a refresh of the 2021 HRA BP. This will be appropriate as forecasting during the current time in terms of the impact on inflation etc. is difficult. However the HRA has significant balances over the MTFS period.

4.12.7 In order to assess the adequacy of unallocated general reserves when setting the budget, the CFO must take account of the strategic, operational and financial risks facing the HRA.

4.12.8 The table below shows the current calculation of minimum balances for the HRA that was presented in the budget for 2020/21. A revised minimum balance will be calculated as part of the budget for 2021/22. However, as explained above, the HRA is currently holding much larger balances in order to meet future debt repayments. This does give short term flexibility to the account, but in the longer term reserves will need to be built to meet the debt liabilities.

HRA balances Minimum Level Assessment	2020/21 £Million
Amount to cover income related risks	£0.276
Amount to cover capital and maintenance risks	£1.272
Amount to cover other budget changes	£0.099
Amount to cover RTB changes & higher arrears	£0.024
Amount to cover savings risks	£0.030
Amount to cover variation on general expenditure	£0.284
Amount to cover general increase in borrowing	£1.000
Total Estimated HRA Reserve	**£2.985**

4.13 Allocated Reserves

4.13.1 The HRA holds an allocated reserve for interest rate fluctuations which may arise as a result of the increased level of HRA borrowing approved as part of the 2019 HRA Business Plan. The reserve is projected to remain at £5.7Million due to the lower interest rates currently projected for the HRA.

4.14 CFO commentary

4.14.1The HRA is currently in a position where it needs to build balances to meet future debt repayments from the Government's self-financing agreement. This does give the fund some short term flexibility in meeting the current economic challenges and will allow the Council to make considered decisions regarding service delivery and spending plans.

4.14.2 Based on the 2019 HRA BP the projection is hit minimum reserves in the mid part of the 30 year plan, when significant loans are due for repayment. Therefore it will still be necessary to ensure that the medium to long term position of the account is maintained and that sufficient reserves are available to meet these payments. In addition the MTFS by year four is £1.294Million balances less than the BP so a full 30 year refresh will be required in 2021/22.

4.14.3 Last year's BP sought to take advantage of the borrowing freedoms that the HRA received after the Government removed the debt cap from the ring fenced account. Taking advantage of these borrowing freedoms brings both risks and rewards, as long term borrowing decisions commit resources for decades and can limit the ability to react to future problems and reshape financial plans. However, current economic forecasts indicate that interest rates will remain lower than expected over the short to medium term and this should reduce both the risks and costs of borrowing for the account.

4.14.4 Given the national economic fallout from the current crisis and the unknown potential impact from Brexit and the reduction in HRA balances in the medium term as stated in 4.14.2 a full refresh of the HRA 30 year BP is recommended. To ensure that the current investment strategy is sustainable and the account is still balanced. This would give the Council the opportunity to revisit the assumptions made last year in the light of current events and adjust the plan to meet these challenges.

4.14.5 Overall the HRA is in a more stable position than the GF, but does face substantial challenges moving forward. Long term investment decisions and meeting rising demand for housing will need to be weighed against the requirement to maintain a balanced account and meeting increased costs from regulatory requirements around building safety.

4.15 Approach to Consultation

4.15.1 Over the last few years the Council has sought the views of residents and stakeholders through consultation, finding out their preferences for reducing services, increasing fees and charges and increasing Council Tax. This has been via Residents survey other consultation exercises. These views will be taken into account in developing the Financial Security options.

4.16 Decision Making Process

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

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

Date	Meeting	Report
Dec-20	Executive	Financial Security Report with 2021/22 savings proposals for the General Fund and HRA Draft 2021/22 HRA budget and rent setting report
	Overview and Scrutiny	Financial Security Report with the 2021/22 savings proposals for the General Fund and HRA Draft 2021/22 HRA budget and rent setting report
Jan-21	Executive	Final 2021/22 HRA budget and rent setting report Draft 2021/22 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Draft 2021/22 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2021/22 HRA budget and rent setting report
Feb-21	Executive	Final 2021/22 General Fund budget, Council Tax and Council Tax Support
	Overview and Scrutiny	Final 2021/22 General Fund budget, Council Tax and Council Tax Support
	Council	Final 2021/22 General Fund budget, Council Tax and Council Tax Support

4.16.3 Following the approval of the proposed Financial Security options for 2021/22, the Council will have an obligation to begin consultation with staff and partners

.

4.16.4 Future year proposals beyond 2020/21 will be monitored via the officer Financial Security group on their development and by each sponsor for the following budget cycles as reported to the LFSG.

5. IMPLICATIONS

5.1. Financial Implications

5.1.1 As explained earlier in the report, the HRA is currently in a position where it is required to build balances to service future debt from the self-financing agreement with the Government. This does give it some immediate flexibility in being able to handle short term shocks, like those currently being seen with the pandemic. However, the necessity to build the reserves still remains and if there is a need to use current reserves above the business plan forecasts, these will need to be replaced in future years.

5.1.2 Current plans still rely on savings and efficiencies built into the BP to maintain a balanced HRA and where these are not met further spending adjustments may be necessary.

5.1.3 It is also likely that rental income will continue to be pressured during any post COVID economic recovery and there is likely to be continued pressure on income collection from the continued roll out of Universal Credit.

5.1.4 However, it is now more likely that interest rates will remain lower over the coming years and that this will benefit the HRA in securing cheaper loans to support development.

5.2. Legal Implications

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

5.3. Risk Implications

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

Risk Area	Risk Mitigation	Likelihood	Impact
Inflation (Negative Risk) – Rent increases are 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. Additional resources have been given for income collection. 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	Rent and service charge policy is in place and allows for rents to be	Low	High

Risk Area	Risk Mitigation	Likelihood	Impact
(Negative Risk) - The future Government could change its commitment to a 5-year 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.	set at formula levels on re-let. Lower than anticipated rent increases would require compensating reductions in planned spending within programmes/services.		
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 2021. 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)	Revised Housing Asset Management Strategy was	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
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)	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.		
Fire Safety Investment (Negative Risk) Changes to building safety regulations following the recommendations of the Hackitt report will have associated revenue and capital cost implications.	The Council has a capital scheme to retro fit sprinklers to the 7 high rise blocks of flats. An additional £500k per annum was allowed in the HRA BP for building safety. However this will need to be reviewed as the full implications of the regulation changes become known and further resources, both capital and revenue, may be required to meet the new standards.	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 in prior years 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	A pipeline of schemes has been agreed and the Executive	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
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.	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		
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
Corona Virus (negative risk) – the impact of the pandemic leads to increases in operating costs and a reduction in income.	Detailed monitoring has been put in place to identify problems early and seek to minimise costs, or losses. Additional resources have been put in place to cope with immediate service pressures and to reduce increasing levels of rent arrears.	High	Medium

5.4. Equalities and Diversity Implications

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

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

5.5. Policy Implications

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

5.6 Staffing and Accommodation Implications

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

BACKGROUND DOCUMENTS

BD1 - 2019 MTFS Strategy

BD2- COVID Recovery Plan MTFS June 2020 Executive

APPENDICES

Appendix A MTFS