Part I – Release to Press

Agenda item

Meeting Cabinet

Portfolio Area Housing and Housing Development / Resources and Transformation

Date 13 November 2024

HOUSING REVENUE ACCOUNT MEDIUM TERM FINANCIAL STRATEGY (2024/25 – 2028/29)

KEY DECISION

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1. PURPOSE

1.1 To update Members on the Housing Revenue Account (HRA) Medium Term Financial Strategy (MTFS).

1.2. To advise Members on the current and future position (funding gap) of the Council's HRA MTFS.

1.3. The plan also forms the basis for the 2025/26 budget setting cycle for the HRA and provides the medium-term projections for capital expenditure on existing and new housing stock.

2. RECOMMENDATIONS

2.1. Members are asked to approve:

2.1.1. the 2024/25 revision of the HRA MTFS.

2.1.2. that the level of balances for the HRA MTFS are set as a minimum £7Million.

2.1.3. the Immediate Capital Options proposal to reduce the funding gap, as reported in paragraph 4.15.

2.1.4. the Immediate Revenue Option proposals to reduce the funding gap, as reported in paragraph 4.25.

2.2. Members note the service areas to be reviewed as part of mechanism to identify the remaining savings gap as reported at paragraphs 4.32 to 4.45.

3. BACKGROUND

3.1. The HRA is a ring-fenced account relating to the activities of the Council as a landlord of its dwellings and contains all income and expenditure from the provision and management of this housing stock. The Council is required by law to avoid budgeting for a deficit on the HRA (Local Government and Housing Act 1989, Section 76).

3.2. The Council's HRA 30-Year Business Plan set out the ambitions for the development of new homes, maintenance of its social housing stock and provision of its tenancy management services, as funded through the ringfenced HRA income. These ambitions are based upon the assumptions and assessments of key housing challenges at the time.

3.3. The latest updated Business Plan went to Executive in November 2023 and underpins the Council's key housing priorities for Stevenage as set out under 'More Social, Affordable and Good Quality Homes (MSAGQH)', one of the five strategic priorities of the Making Stevenage Even Better 2024-2027 Corporate Plan.

Housing Revenue Account Business Plan Review 2023/24

3.4. The table below provides a summary of the overall commitments set out at the last comprehensive review of the HRA Business Plan in 2023/24.

Borrowing and RCCO	Housing Development	Housing Asset Management	Housing Service Delivery
New Borrowing for Capital Investment £351m (30Yrs) **Refinanced debt to enable revenue operations £104m (30Yrs)** **Revenue contribution to**	**Invest £734m in new stock (30Yrs)** **Deliver 2,253 units (30Yrs) 447 in next 5yrs** **Commence 3 new schemes to maintain dev. pipeline. Deliver**	**£893m stock investment funding (30Yrs)** **£482m repairs, void and cyclical maintenance (30Yrs). Efficiency target removed, due to regulatory pressures**	**£818m in non-maintenance revenue funding (30yrs)** **Savings target £200k 24/25 then £500k pa for 8yrs. Total £20m in yrs 2-11.** **Growth of £200k pa to enable service**

Borrowing and RCCO	Housing Development	Housing Asset Management	Housing Service Delivery
capital £18m in (years 1-5)	**new homes to 5 star promise** **Larger schemes phased for staggered delivery matched to funding. Switch to market purchase if supply needed urgently.** **Continue pilot projects for new tenures and sustainable design.**	**All properties to EPC-C by 2030**	**improvement / efficiency**

3.5. This report will provide Members with a Medium-Term projection for the HRA for the period 2024/25-2028/29, with particular emphasis on the current and next year's budgets preparation, having due regard to the HRA revenue reserve levels in the medium term.

National and Local Housing Policy

<u>Social Rent Policy</u>

3.6. Since 2012, the previous Government has implemented successive rent reforms to make welfare benefits more affordable and equalise local rent levels for social providers. From April 2016, social landlords were required to reduce rents by 1% annually for four years, saving the last Government £1.4Billion by 2020/21 but reducing Stevenage's rental income by £225Million over 30 years.

3.7. In October 2017, it was announced that social housing rent increases would be limited to the Consumer Price Index (CPI) plus 1% for five years from 2020. In April 2022, rents increased by 4.1%, the largest rise in a decade. This has been followed by higher increases driven by inflation. Although a 7% rent ceiling was introduced from April 2023 to March 2024, saving tenants £200 annually but causing a 4.1% shortfall for the Council, against the agreed Rent Standard.

3.8. For 2024/25, rent policy returned to CPI+1%, allowing a 7.7% rent increase. However, the CPI for September 2024 was 1.7%, reducing the level of projected rent levels contributing to the ability to balance the HRA and meet regulatory requirements. Although CPI was lower than estimated for rent setting, spending on building safety, energy efficiency, and the Decent Homes Standard has risen, with repair costs exceeding CPI inflation due to labour and supply chain shortages. In addition, demand for repairs has increased in the light of Awaab's Law, which requires landlords to fix hazards in specific timescales.

3.9. The last Government's interventions since 2012, including rent reductions and rent capping, has contributed to the destabilisation of HRAs nationally. In response, 20 of the largest Council landlords presented a report to the new Government, in September 2024, recommending a long-term rent settlement, amongst many other interventions. Over 120 Councils, including SBC, have now become signatories to the report. The current Government plans to propose a 5-year rent settlement in the Autumn Budget, but the Local Government Association warns this may still leave councils with a £7Billion shortfall.

3.10. Locally, rent and service charge collection remains challenging due to the cost-of-living issues with low-income households' struggling with an increase in food prices and a reliance on credit and borrowing to pay for everyday household items and utilities. Whilst performance is improving, tenant rent arrears are higher particularly for those in receipt of Universal Credit. Winter energy price increases and restricted Winter Fuel Allowances are expected to worsen the situation. The Council will review its income collection policies and procedures to comply with national changes and adopt best practices.

3.11. To ensure financial resilience, the Council already transitions new lets to formula rent and has introduced an 'affordable rent' model for some new builds, set at up to 80% of market rent (inclusive of service charges). Rent flexibility options are also being considered as per paragraph 4.27.

3.12. In addition to rent policy there have also been regulation and legislative changes that have impacted the HRA in recent years. These changes have not been supported by additional funding and have had to be absorbed within the current predominantly "rent" funded budgets. This has driven the need to adjust the Council's plans for the HRA to respond to the major changes detailed below.

Social Housing Regulation Act

3.13. The Social Housing Regulation Act was passed in July 2023, and it has a number of financial implications for the HRA. Under the provisions of the Act the Regulator of Social Housing has introduced a more proactive regulatory regime through the revision of its Consumer Standards, which came into effect on the 1 April 2024. This has led to the introduction of tenant satisfaction measures; the requirement for all Housing Professionals to hold specific housing qualifications (yet to be decided); and a strengthened inspection role, which includes the power to issue unlimited fines to landlords, order emergency repairs and access homes at 48 hours' notice.

3.14. Four Consumer Standards set out specific expectations and outcomes that all registered providers are expected to achieve. The Council was subject to an on -site inspection of compliance with the Consumer Standards during September 2024 and will need to further assess the Council's position when the Regulator publishes its findings.

- The Safety and Quality Standard – requires landlords to provide safe and good quality homes and landlord services to tenants.
- The Transparency, Influence and Accountability Standard – requires landlords to be open with tenants and treat them with fairness and respect so that tenants can access services, raise complaints, when necessary, influence decision making and hold their landlord to account.

- The Neighbourhood and Community Standard – requires landlords to engage with other relevant parties so that tenants can live in safe and well-maintained neighbourhoods and feel safe in their homes.
- The Tenancy Standard – sets requirements for the fair allocation and letting of homes and for how those tenancies are managed and ended by landlords.

3.15. In response to the revised Consumer Standards, the Council has adopted a new Resident Engagement Strategy to deliver an increased level of tenant engagement and influence. There has also been a need for the Council to review how decision-making and existing governance frameworks reflect the new requirements alongside a review of the Council's approach to housing performance and compliance management. In July 2024, Council approved an in-year growth request of £144K and £246K on-going for subsequent years, to recruit four additional posts to support resident engagement, business insight and performance and standardise how data and information is collected, stored and used to improve housing services.

3.16. In May 2024, the Regulator of Social Housing confirmed an increase in annual fees from £1.37 to £4.97 per property for local authority registered providers. This is a new burden introduced to ensure housing providers are meeting the full cost of a more proactive regulatory regime and a total additional cost of £39K.

3.17. There are also implications following the revised Housing Ombudsman Service (HOS) Code of Practice, specifically regarding complaint handling where the HOS can instruct landlords to apologise or pay compensation to the complainant, undertake repairs, suggest policy changes or implement staff training. To ensure that complaints are effectively managed in line with guidance from the Housing Ombudsman and in accordance with the Transparency, Influence and Accountability Standard, a Strategic Complaints Management Team comprising of four officers has been embedded within the housing service.

3.18. Due to an increased demand for the HOS service as well as a more proactive approach to compliance with the HOS Complaint Handing Code, annual fees for the service have also risen by 40% from £5.75 per unit to £8.03. The cost this financial year was £75K.

3.19. The Council underwent inspection by the Regulator of Social Housing in September 2024 and expects to receive it's grading in November. It is likely that an improvement plan will be forthcoming, at the time of writing this report any new financial burdens relating to this were not known.

Welfare Reform

3.20. Coupled with the past Government's policy position on social rents, there has been successive welfare reforms since 2012. The most notable of which was the introduction of Universal Credit (UC). The last Government first launched UC in 2013 as an attempt to streamline its benefits offering, replacing 6 legacy benefits, including Housing Benefit, and intended to reduce benefit dependency for households. The outcome of this reform locally has seen an increase in the level of tenants struggling to pay rent, often as an outcome of the 5-6-week UC waiting period exacerbating or leading to debt problems, with some claimants finding it difficult to adjust to managing their own money. In Stevenage, tenants in receipt of Universal Credit and in rent arrears account for 84% of the total overall arrears' value at September 2024, up from 75.8% at the end of March 2024.

3.21. The ‘Move to Universal Credit’ initiative has recently accelerated the migration of Stevenage households who are on legacy benefits onto UC. The Council is currently experiencing an average of 19 new cases per month, with the total number of cases increasing by 14.3% since April 2024. The Council is working with the Department of Work and Pensions (DWP) and tenants to make Alternative Payment Arrangements (APA’s) for UC claimants who find it difficult to manage a single monthly payment and who are falling into arrears. APAs allow the rent element of UC to be paid directly to the Council to reduce the chance of falling further into arrears and enforcement action becoming necessary. The Income Team have also increased the number of referrals into the Councils Debt and Welfare Advice Team as well as Citizens Advice due to the complexity of support required.

Building Safety Act

3.22. The Building Safety Act, enacted on 28 April 2022, was introduced in response to the Grenfell Tower tragedy and Dame Judith Hackitt's 2018 review of Fire Safety and Building Regulations. The Act aims to transform the design, construction, and management of tall residential buildings by addressing fundamental safety issues identified during the Grenfell Inquiry. It establishes the Building Safety Regulator (BSR) to oversee and license the occupation of these buildings.

3.23. Contractors are legally obligated to ensure their work complies with all relevant building regulations. The Act also mandates the management of High Risk Residential Blocks (HRRBs) and requires social landlords to inform residents about fire and building safety. It redefines servicing frequencies for critical fire safety assets and specifies the information councils must share with the Fire & Rescue Service.

3.24. The Act introduces a new responsibility framework for managing High Rise (over 18 metres) and High-Risk buildings. The BSR, initially based within the Health and Safety Executive (HSE), will enforce safety and performance standards, with the power to implement stringent rules for high-risk buildings. The local Fire & Rescue Service will assist in monitoring and reporting on these buildings.

3.25. A key role within this framework is the Accountable Person, who must assess building safety risks and provide a Safety Case Report. For the Council, this role is held by the corporate body. All HRRBs must be registered with the BSR, and a Building Safety Case must be submitted to obtain a Licence to Occupy. Non-compliance can result in residents being decanted and unlimited fines. The financial implications of the Act have been included in the revised HRA MTFS.

Fire Safety Act

3.26. The Fire Safety Act 2021 clarifies the scope of the existing Fire Safety Order (2005) to make clear it applies to the structure, external walls (including cladding and balconies) and individual flat entrance doors between domestic premises and the common parts of a multi-occupied residential building.

3.27. A requirement of the Act is the completion of new Fire Risk Assessments across all Council domestic premises and multi-occupied residential buildings. The purpose of the assessment requirement is to ensure that all areas of a block are risk assessed, including external walls and cladding, however minimal the cladding maybe. The financial implications of the Fire Safety Act have been incorporated in the revised HRA MTFS.

Decent Homes Standard

3.28. In November 2020 the Social Housing Whitepaper 'The Charter for Social Housing Residents' was published with an aim to rebalance the relationship between social landlords (both local authorities and housing associations) and tenants. A review of the Decent Homes Standard was a key commitment of the Charter. In the Levelling Up Whitepaper (2022) the last Government built on this by promising to halve the number of non-decent rented homes (both in the social and private sectors) by 2030 and expand the requirement to the Private Rented Sector (PRS).

3.29. A review of the Decent Homes Standard has been taking place and a consultation on proposed changes is expected in the coming months. The DHS forms part of the Regulator of Social Housing (RSH) Safety and Quality Consumer Standard. The review has considered a range of possible changes, including:

- An updated list of items which must be kept in a reasonable state of repair for a home to be considered 'decent'.
- An updated list of services and facilities that every property must have to better reflect modern expectations for a 'decent' home.
- Whether the current Decent Homes Standard sets the right standard on damp and mould to keep residents safe.
- Updates to how the condition of building components, such as roofs and walls, are measured - to make sure that buildings which are not fit for use cannot pass the standard.
- The introduction of a Minimum Energy Efficiency Standard for the social rented sector.

3.30. Alongside the review of the Decent Homes Standard there has been a review on the Housing Health & Safety Rating System (HHSRS), which defines how risks with housing are identified. Including:

- Amalgamating some hazards assessed and producing a simpler means of banding the results of HHSRS assessments.
- Publishing baselines to indicate whether a property contains serious hazards, to make assessments easier to understand.
- Publishing new statutory operating and enforcement guidance and a comprehensive set of new case studies

3.31. The full financial implications of the any changes to the Decent Homes Standard and HHSRS will not be known until the requirements are finalised and adopted. The HRA MTFS does include some assumptions in anticipation of the changes which will need to be reviewed when more detail is known.

Climate Change (Existing & Future Homes)

3.32. In 2019, the previous Government committed to net zero emissions by 2050, and the Council declared a Climate Change emergency, aiming for net zero by 2030. Following public engagement, the Council adopted its Climate Change Strategy in September 2020, pledging to reduce emissions through various projects.

3.33. A key priority is planning for zero carbon homes, exploring renewable technologies, and providing energy-efficient housing, including retrofitting existing council homes to achieve a minimum EPC band C by 2030. An EPC rates a property's energy efficiency from A (most efficient) to G (least efficient), impacting property values. By quarter 1

2023/24, 55% of social housing had an EPC rating of C or above, with ongoing initiatives to improve this.

3.34. In September 2023, the last Government revised its net zero commitments, including extending the sale of new oil boilers to 2035 and delaying the ban on new petrol and diesel cars to 2035. The Boiler Upgrade Scheme grant increased to £7,500. They also proposed making a minimum EPC rating of C for all social housing mandatory by 2030, with funding details unclear.

3.35. Achieving net zero ambitions, such as retrofitting all council homes, is estimated to cost £20,000 per property, totalling £160Million. These costs are not covered in the HRA Business Plan, and long-term funding for this work is uncertain.

3.36. The Government has launched the latest round of funding through the Warm Homes – Social Housing programme, formerly the Social Housing Decarbonisation Fund, for which bids are invited for a 3-year period from April 2025.

3.37. Efforts are also underway to cooperatively engage with residents on enhanced energy performance measures, reducing fuel poverty. A sustainability champion leads pilot projects, ensuring best practices are utilized.

Additional Asset Management Proposals

3.38. The HRA Asset Management Strategy sets out the following objectives and priorities for maintaining the Council's housing stock.

- Ensure safety is our number one priority, providing safe environments and homes for our residents.
- Deliver an excellent customer experience, empowering our customers through effective engagement and providing an easy to access, straightforward service.
- Tackle the climate change emergency by investing in the right solutions to reduce energy costs and our overall carbon footprint.
- Provide and maintain high quality homes improving standards in our estates and communities.
- Improve our performance and secure long term financial sustainability through effective management of our assets, smarter ways of working and innovation.

3.39. The HRA Asset Management proposals included in the MTFS are predominantly to support the changes in policy which have emerged since 2019 along with significant increases for labour and materials which has seen the cost of works increase. The key areas within the asset management proposals which will require additional resources are:

- Compliance with the current and future Decent Homes standards
- Compliance with Building Safety and Fire Safety Acts
- Decarbonisation and specifically all homes having a minimum Energy Performance Certificate (EPC) rating of C.

Fencing

3.40. In 2022, a review found over 1,500 properties with unresolved fencing and gate repairs dating back to 2019. This backlog was caused by increased storm damage, material and labour shortages, and the Covid-19 pandemic. Many fences required partial or full replacement rather than minor repairs, and further storm damage in 2021 and 2022 increased demand.

3.41. Funding was included in the 2024/25 HRA budget to address the backlog, but new repairs created additional budget pressure. An in-year growth of £125,000 was approved to cover these costs. To reduce future contractor costs, vacant Operative roles are being filled to handle fencing and other repairs during low-demand periods.

3.42. A Fencing Policy, part of a new Repairs and Maintenance Policy, was considered by the Cabinet in July and will be brought back for approval in December after tenant and leaseholder consultation. Once approved, the policy will help manage service demand and budget pressures from fencing repairs. However, since the HRA Business Plan did not budget for this beyond 2024/25, future spending will need to be managed and considered in the 2025/26 budget-setting process against other spending priorities.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

Summary of changes to the 2024/25 and future budgets already agreed

4.1. Since the original 2024/25 budget was set in January 2024, subsequent monitoring reports have identified a net underspend of £923K. The main reasons for this underspend include a net reduction in estimated borrowing costs incurred for the year (after adjustments to interest earned) and a reduction in the projected inflationary increases related to gas and electricity. Further information can be found in the July outturn report and 1st quarter monitoring report to the September Cabinet.

4.2. A further significant change was reported to the Council in July 2024, where additional cost pressures were identified and approved relating to:

4.3. Repairs and Voids - During 2023/24 the Council experienced a significant increase in demand for roofing and fencing repairs that were carried forward into 2024/25. Also, the enhanced budget of £500K, approved in 2023/24 to manage damp and mould cases, was fully spent. With the current caseload remaining high the approved budget of £250K for 2024/25 did not meet the demand. Therefore, an in-year and on-going growth request was needed to manage the pressure.

4.4. Regulatory Demand - New regulatory requirements have created additional pressure. These requirements aim to improve digital services and data quality for the Housing

Revenue Account (HRA) and enhance performance and resident engagement in response to new legislation and regulation from the Regulator of Social Housing.

4.5. Lastly, a new delivery model for voids works was approved by the Cabinet in October 2024, aiming to improve performance and process management. The associated costs of all these changes are outlined below:

Growth Costs agreed to date for HRA	2024/25 £'000	Ongoing £'000
Responsive Repairs	500	500
Voids	1,285	750
Staffing Restructure	375	95
Disrepair claims	130	130
Sub-Total	**2,290**	**1,475**
New Posts re Regulatory Demands	144	247
New void delivery model	0	704
New vehicles for new delivery model (two-year costs only)	0	750
Total	**2,434**	**3,176**

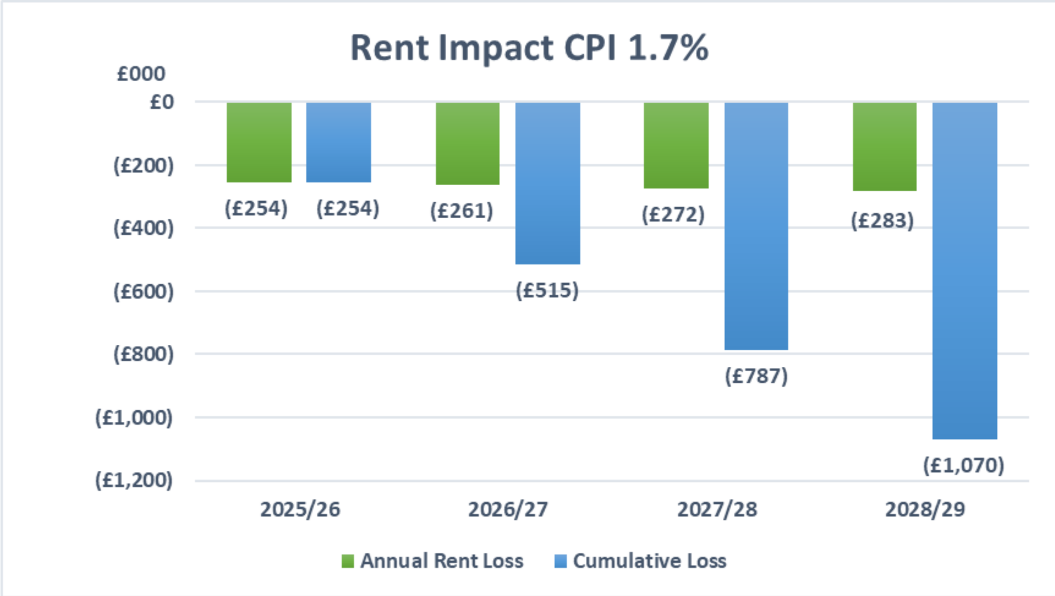
4.6. These changes have given an in-year deficit of £1.8Million and a forecast balance of £10.6Million, compared to the Business Plan forecast balance of £12.1Million.

Current Forecast MTFS Projections

4.7. In addition to the budget changes above the HRA MTFS has been adjusted to reflect the projected impact of the September Consumer Prices Index (CPI) figure of 1.7% on the rent forecast in the MTFS.

<u>Rent increases for 2025/26</u>

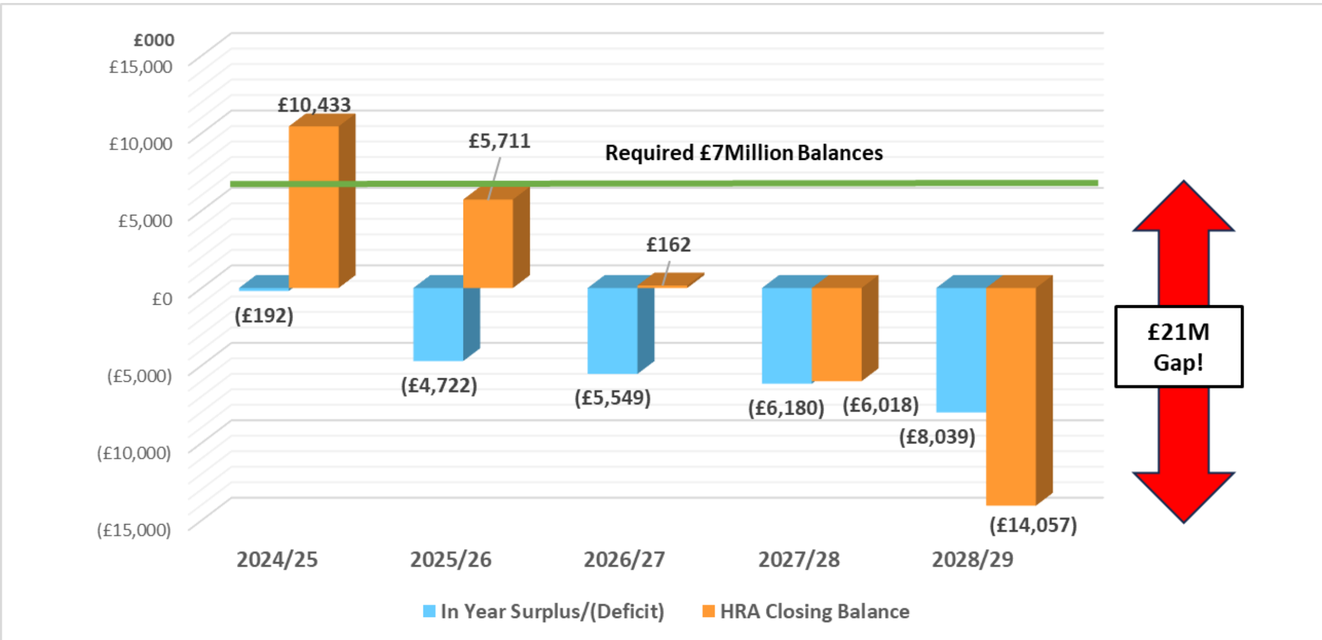
4.8. The current rent settlement from the Government allows an annual rent increase based on CPI from the preceding September, plus 1%. This means that the rent increase for 2025/26 is based on the September 2024 CPI inflation figure of 1.7%, plus 1%. The HRA business plan had initially estimated a CPI figure of 3.5% for next year's increase, based on a slower fall in inflation from 6.7% last year. As a result, there will be £248K less rent and service charge income in 2025/26 and a loss of £1.1Million over the medium term to 2028/29 (illustrated in the graph below).



<u>2024/25 quarter two budget monitor changes</u>

4.9. The quarter two revenue budget monitoring report contains further changes to the HRA balance that have also been built into the MTFS projections. Details of those changes are included in 2nd Quarter Monitoring report to this Committee.

4.10. The changes set out above have resulted in a £14.1Million deficit by the end of 2028/29, with a £21Million gap against the minimum balances estimated as required by the end of 2028/29.



4.11. Members will be aware that the Business Plan to the Executive in November 2023, recommended minimum balances of £10Million. This increase was due to the uncertainty regarding the impact of new regulations and standards, as well as the need to borrow in the early part of the plan and higher interest rates. A substantial part of this has come to fruition with new growth now in place to manage the requirements of new regulations and standards, as well as the additional costs associated with repairs and voids.

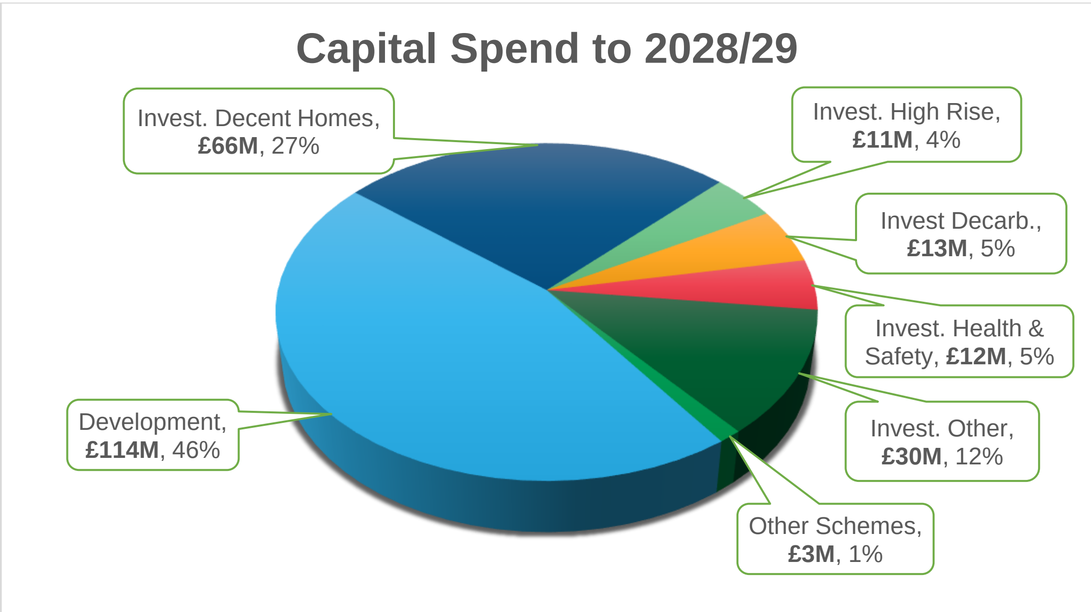
4.12. When considering the assessment for minimum balances for the updated MTFS, the risks associated with some elements have reduced. However, the need to borrow and the uncertainty of where interest rates will end up remain significant concerns. Therefore, it is recommended that for the period up to 2028/29, balances of £7Million (which represents greater than 10% of operating budget).

Immediate Options (for inclusion) to reduce funding gap

4.13. The MTFS position requires immediate action to reduce the losses set out in Paragraph 4.10 and officers have reviewed several options for recommendation to Members to reduce the £21Million gap and these are detailed in the following paragraphs.

Changes to Capital

4.14. As illustrated in the graph below the proposed changes to the capital programme still leave £249Million of investment to 2028/29. This includes £114Million on new housing stock and £132Million on existing properties.



Changes to Capital

<u>New Builds for Social Housing – £1.1Million</u>

4.15. The Council has continued the delivery of its ambitious new council housing development programme, which remains diverse in the types of quality homes being provided throughout the town. The programme has helped to deliver against a wide range of housing needs including homeless intervention projects; general needs housing for rent; Independent Living homes for an ageing local population; as well as building for home ownership to raise revenue for cross subsidy. To date over 486 homes have been delivered. and in the next 30 years a total of 2,166 new council homes will be provided.

4.16. Considering the additional pressures on the HRA of increased inflation and regulation, options need to be explored to increase revenue income and minimise the payback period for new builds. These include:

- An increase in affordable rented properties which are linked to the Local Housing Allowance in order to ensure their continued affordability for residents.
- Shared Ownership as a tenure type to help meet the demand for local housing.
- Improving the payback period for the Council and enabling a capital receipt to be generated to part fund these shared ownership/affordable works

4.17. The Council will also continue to leverage its existing Investment Partner Status with Homes England in order to bring in external grant funding to deliver more affordable housing schemes.

4.18. Overall, there are two changes to the current programme that have contributed a saving of £1.1Million over the MTFS. Additional grant from the Local Authority Housing Fund of £325K has been secured and £822K has been reduced from the asset review budget, as this work will be incorporated in the development project appraisals within the current programme.

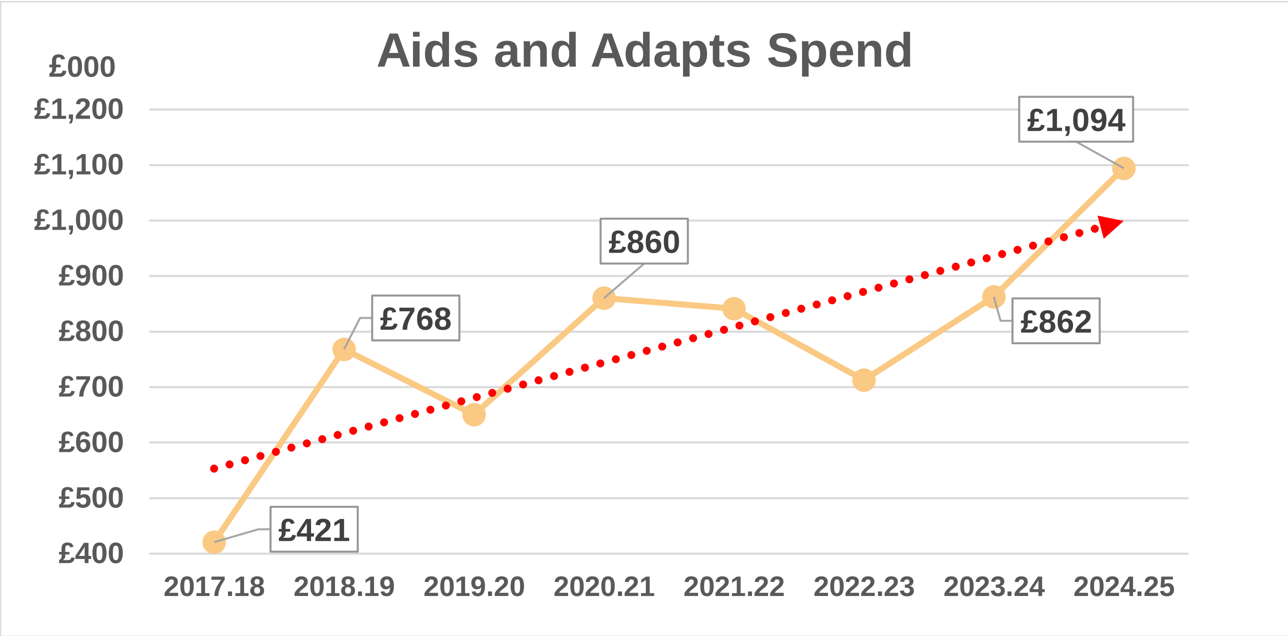
Decarbonisation - £7.4Million

4.19. Stevenage's commitment to delivering the EPC rating C programme was previously estimated to cost on average £5,000 per property to fund and a provision for this had been included in the HRA Business Plan which was approved in November 2023. It should be noted, however, that based on a proposed bid for the Warm Homes – Social Housing programme the average cost per property is estimated to be £16,500 of which £9,000 would need to be match funding provided by the Council. With circa 2.6K homes with an EPC rating below C the assumptions around the average cost per property may need to be adjusted in a future update of the HRA MTFS (and wider Business Plan). Therefore, it is proposed that a reduced programme is included in the MTFS, to bid for 500-550 homes under the current Government’s grant scheme. This will reduce the HRA costs from the current projection of £20.7Million to a revised cost of £13.3Million.

Aids and Adaptations - £2.7Million

4.20. The current budget provision for the aids and adaptations service within the HRA MTFS is £1.05Million per annum. This represents a significant investment, and based on current demand, it will need to be fully utilized in 2024/25 to address applications received to date, which will be determined in accordance with the current Disabled Adaptations Policy. However, this level of annual investment is not sustainable in the long term.

4.21. While demand is likely to remain high given the ageing demographic of tenants, there are alternative options to consider. These include moving to more suitable homes, such as Independent Living schemes and/or already adapted homes. In addition to existing stock, the housing development programme is delivering new homes targeted at older people. A recent example is Brodie Court, and there are plans to build more homes for this needs group, including on the site of garages at Brent Court



4.22. The HRA MTFS has, therefore, been updated to reduce the annual budget provision for adaptations to £550K per annum (plus inflation) (subject to Member approval). This adjustment will be supported by a review of the policy, with an updated version to be presented for approval by the Cabinet before the end of the current financial year. This will give a saving to the MTFS of £2.7Million.

<u>Other Capital Changes - £1.1Million</u>

4.23. Alongside these capital programme changes the funding for the programme has also been reviewed and this has allowed a further £1.1Million reduction in funding costs across the MTFS.

4.24. In summary, this has reduced revenue contributions to the capital programme by £12.3Million and Members are asked to approve the Capital options above.

Changes to Revenue

<u>Tightening void procedures and cost control - £2Million</u>

4.25. The voids improvement plan is addressing the issues that were identified through the independent service review and the work undertaken by the Community Select Committee as part of the scrutiny of the service last year. However, implementation is going to take a further 12-18 months as the key transformational change will form part of the proposed transition to a hybrid voids delivery model which was agreed by the Cabinet in October 2024. However, the estimated additional resourcing need for 2025/26 identified in the Cabinet report has been incorporated as an analysis of more recent spend on voids has evidenced a downward trend in average costs. This has been achieved through a combination of actions taken in 2024/25 including move to new interim contractors, staffing changes and improved internal controls/processes. It is anticipated that the following proposed changes will also have a downward pressure on costs:

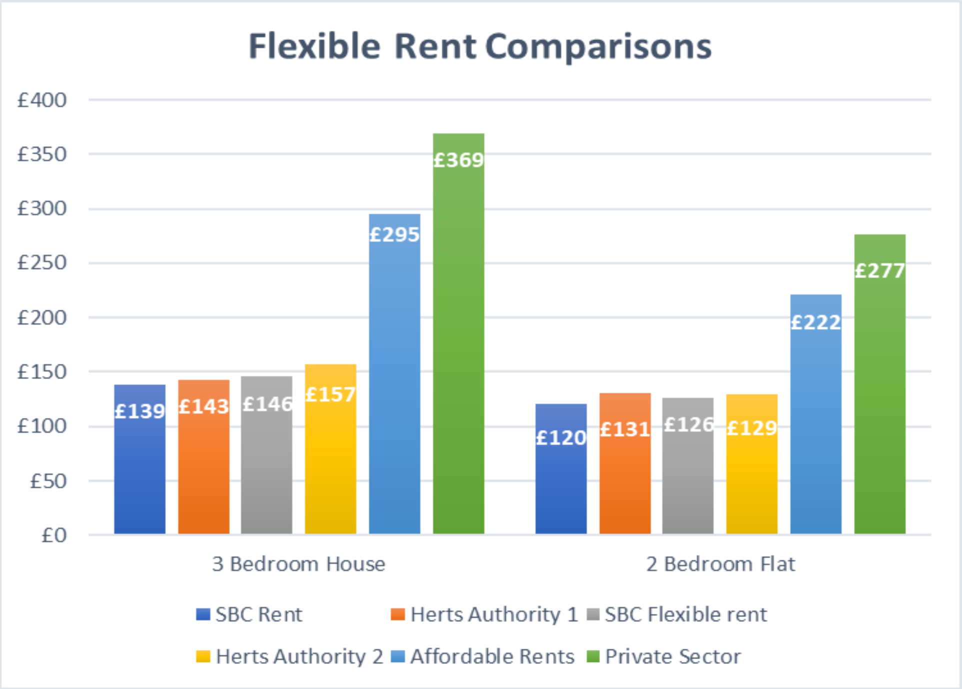
- establishment of contractor and client functions for voids which is due to be implemented from November 2024. This will enable clear separation of duties including responsibility for scoping works and management of contractors which will further strengthen internal controls.
- procurement of longer-term support contractors for repairs and voids due to be concluded in quarter 4 of 2024/25.
- pre-termination visits and tenancy audits to improve condition of properties when they become void.

4.26. Work is ongoing to determine how much the average cost of voids can be reduced. Early estimates suggest potential annual savings of around £500K and these have been included in the MTFS position. These potential savings will also be reviewed and confirmed as part of the 2025/26 budget report, which will be presented to Members later in the year.

Rent Flexibility Level - £750K

4.27. The Government's Rent Policy allows some discretion over the Social Rent set for individual properties, when considering local factors. This policy permits councils to set rents up to 5% above the formula rent for general needs properties and up to 10% for supported housing.

4.28. To explore the option of rent flexibility, a review of the Council rents compared to other local providers and the private sector has been conducted. The comparison is illustrated in the graph below, which shows where the Council's flexible rents would be for two types of properties (a 3 Bed House and a 2 Bed Flat) compared to two other local housing providers in Hertfordshire, as well as the rates charged for affordable rents and rent in the private sector.



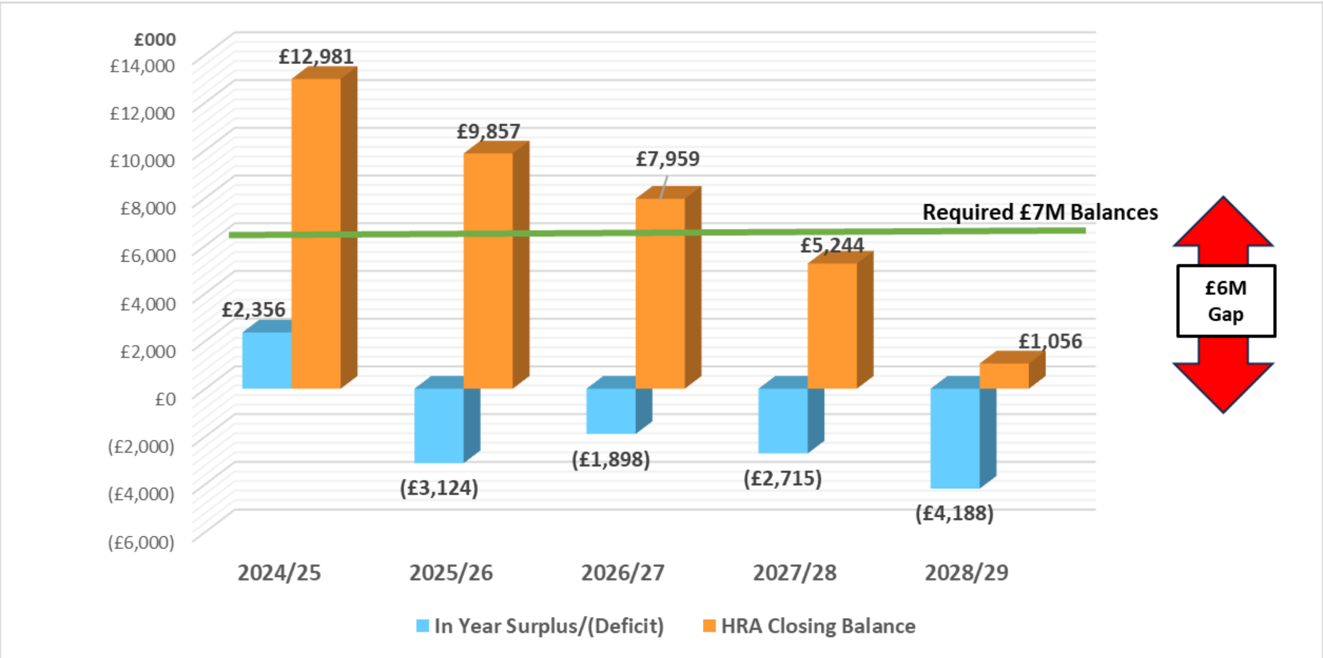
4.29. The calculations are based on rent levels for 2024/25 and demonstrate that proposed rent flexibility levels are broadly comparable with other local providers of social housing and significantly below affordable rents or what tenants would be expected to pay in the private rented sector. Members should note that approximately 60% of households are in receipt of Universal Credit or Housing Benefit. Based on void trends and the time required for consultation, the MTFS has forecasted 50% of additional income in the first year, representing approximately £50K extra income, and £100K in each subsequent year, subject to Member approval.

4.30. The Council proposes to implement rent flexibility only when a property becomes vacant (void) and necessary works have been completed to ensure the property meets the decent homes standard and is ready for re-letting to a new tenant. Officers recommend that the Cabinet approves this proposal. If approved, officers will begin consultations with relevant stakeholders, including tenants and the Government.

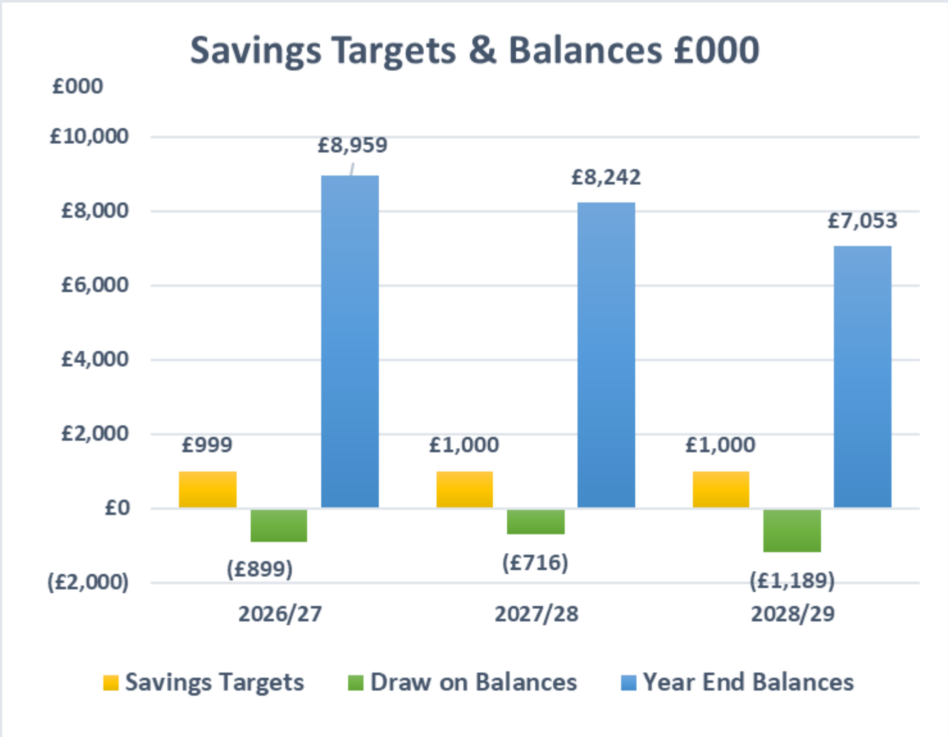
4.31. These changes will increase HRA balances by £2.75Million over the MTFS and Members are asked to approve the revenue options above.

Future Savings Options

4.32. After taking into account the above changes (to Capital and Revenue options), the graph below indicates that the HRA MTFS still shows a £6Million gap (excluding the original business plan savings target of £500K per annum) in relation to closing HRA balances at the end of the period 2028/29, compared to a revised minimum balance requirement position of circa. £7Million.



4.33. To achieve a position closer to the minimum balance requirements, the savings target has been increased from the business plan target of £500K to circa £1Million per annum from 2026/27. The projected balance position for 2028/29 is shown in the graph below.



4.34. The spread of the savings over the three-year period has been spread over the MTFS to ensure the in-year targets are more achievable, although still significant. Starting from 2026/27, this approach allows the Council to manage potential savings in a controlled manner. The current options being reviewed are based around the Housing Service proposals and consist of the following:

<u>Independent Living</u>

4.35. Following Star Chamber sessions where services were required to look at potential savings options, one area identified was the cost of Independent Living services and the cross subsidy of this activity against all rent payers. The service currently costs £4.3Million to deliver, which represents a cross subsidy of £2.8Million. It is recommended that a review of service delivery takes place, also considering activity led functions across the wider housing service to create efficiencies of scale and a leaner cost model.

<u>Service Charges</u>

4.36. Service charges are an amount that tenants pay to cover the cost of providing communal or shared services to a building and, if applicable, the surrounding estate.

4.37. The Council proposes to undertake a review of service charges during 2025/26 to ensure that all costs that can and should be recovered are included in the service charge model and that services provided are delivering value for money for tenants.

<u>Housing Management Service</u>

4.38. The Social Housing Regulation Act 2023 and subsequent changes to the Consumer Standards, coupled with the inspection from the Regulator of Social Housing has prompted the Council to scrutinise the delivery of Housing Management Services to ensure that it is compliant. It is recommended that a review of the operating model of the Housing Management Service takes place to ensure that an effective, efficient, and compliant service continues to be delivered in the future.

4.39. The review will consider how Tenant Satisfaction Measures influence future service delivery to ensure that the Council is delivering against key performance metrics with tenants at the heart of the service.

Temporary Accommodation

4.40. The Council provides its temporary accommodation (TA) from within the HRA and the property management and maintenance costs are included in the ring-fenced account. Before the start of the pandemic, there was a noticeable increase in the demand for TA that arose during the COVID crisis, as the previous Government ordered all homeless households to be accommodated.

4.41. In response to the increased demand the Council provided more properties within the HRA for TA and has also purchased bespoke properties for this client group as well as the development of a purpose-built facility of 27 units at Dunn Close, due for completion in January 2025. As a result of this work there are currently no households in bed and breakfast accommodation (September 2024) and cases are at more manageable levels. However, this is a demand led service, and the Council is aware of many other local authorities facing increased demand for housing in this area.

4.42. In anticipation of the newly built facility, the mix of stock currently being used is undergoing review with a consideration to releasing units back into general needs circulation, whilst still limiting the use of bed and breakfast accommodation that is funded from its General Fund services.

4.43. A review would also consider how effectively the service can manage the void process for TA to limit rent loss and rent arrears.

4.44. For all reviews, a timeline is currently being established to ensure that they are undertaken effectively and that adequate resources with specialist knowledge can be identified to ensure the reviews are successful in their aims. This may include the commission of independent specialists and reviews will be completed in order of highest perceived savings to be gained.

4.45. The timeline, scope and outcome of service reviews will initially be shared with the Executive Housing Work Group who will consider potential savings identified and the impact on service delivery before wider consultation and decision making takes place.

Other Financial Assumptions

4.46. The 2025/26 onwards inflation assumptions are summarised in the table below. The September Consumer Price Index (CPI) was 1.7% (August 2.2%). The MTFS assumes that inflation will remain at 2% in the medium term.

	2025/26	2026/27	2027/28	2027/29
Inflation-Applied to:				
Salaries - % increase	3.00%	2.00%	2.00%	2.00%
CPI indices increases	2.00%	2.00%	2.00%	2.00%
Utilities - Electricity	10.00%	10.00%	10.00%	10.00%
Utilities - Gas	8.00%	8.00%	8.00%	8.00%
Other Assumptions:				
RTB Sales	50	35	35	35
Void Rates (General Needs Stock)	1.25%	1.25%	1.25%	1.25%
Bad Debts (General Needs Stock)	0.70%	0.65%	0.60%	0.60%
Interest Earned on Balances	4.00%	3.00%	3.00%	3.00%
New Borrowing	£25.8m	£38.7m	£12.3m	£13.3m
HRA Minimum Balance	£7.0m	£7.0m	£7.0m	£7.0m

Financial Model Risks

4.47. Section 5 of the report highlights significant risks and mitigations considered in producing the MTFS, but there are specific financial risks that have been identified and these are:

1. **Inflation –** recently this has been coming down and impacts both income and expenditure within the MTFS. It is the main driver for rent levels and is key to the overall stability of the HRA.
2. **Interest Rates –** as the business plan now relies more heavily on borrowing, especially over the coming years, it is more exposed to changes in borrowing rates.
3. **Rent Policy –** the current Government policy that controls rents set by the Council is due to end in 2024/25. The plan assumes a continuation of the current approach, but this could be subject to change and may adversely impact the plan.
4. **Regulation Changes –** the social housing sector is now subject to new regulations and standards. These are currently being implemented and further changes around Decent Homes could increase operating costs above those currently estimated in the model.
5. **Climate Goals –** the Council is committed to achieving net zero as an organisation, but there are currently technical and funding issues regarding the decarbonisation of the housing stock. It is unlikely that the Council could meet the costs entirely from tenants' rents and currently a definitive solution has not been identified. This area will need to be addressed in future plans.

4.48. **Increased Right to Buy –** the Council currently has more demand for housing than can be met by the existing housing stock. The model allows for a net gain in properties over 30 years, but any significant increase in RTB sales would reduce income and place additional pressure on the development of new provision, however this should be taken in the context of Autumn Budget Statement set out below.

Autumn Budget Statement

4.49. On the 30 of October the Chancellor of the Exchequer delivered an Autumn Budget Statement containing changes and measures that will impact the HRA and the forecasts made in this MTFS report. Unfortunately, not all the details of the changes are available at the time of writing this document and further analysis will be included in following reports. However, some initial estimates have been made on two of the main impacts, employers National Insurance contributions and Right to Buy scheme changes for council tenants.

4.50. Employer's National Insurance contributions will increase from 13.8% to 15.0% from April 2025, with a reduction to the per-employee threshold at which employers become liable to pay National Insurance to £5,000. All eligible employers will now benefit from the National Insurance employment allowance, which itself will be increased from £5,000 to £10,500. The impact of these changes to the HRA is an estimated £350K per annum and this includes the impact on central support recharges from the General Fund. However, the Government have said that any increase will be offset in the grant settlement to the Council and this should neutralise the increase. There is still some technical uncertainty on how any compensating payment will reach the ring-fenced housing account and the Council will seek clarification on this matter. No impact has been included in the MTFS at the current time.

4.51. The other major change to highlight regards the Right to Buy scheme for council tenants. The new Government had stated before the budget announcement that they intended to reduce the council homes sold under the scheme and they would be looking at discount levels to help achieve this reduction. Following these statements these changes were included in the budget:

4.52. They also confirmed that councils will no longer be required to return a proportion of the capital receipt generated by a RTB sale to HM Treasury. Nationally this totalled £183m a year and will increase capital receipts over the MTFS by £3.5Milion.

4.53. The cost floor protection will increase from 15 years to 30 years. The cost floor limits the discount on RTB properties to ensure that the purchase price of the property does not fall below what has been spent on building, buying, repairing or maintaining it over a certain period of time.

4.54. There will be secondary legislation to return discounts to their pre-2012 levels laid in Parliament on 30 October, with the intention of it coming into force on 21 November. The new Government intends to keep discount levels under review to balance between protecting social housing stock and enabling tenants to access home ownership and will be updating Parliament by the end of 2026 to 2027 on whether any changes to discount levels are needed.

4.55. Maximum cash discounts will not be updated annually in line with inflation, as they have been since 2014.

4.56. While these changes mainly effect capital receipts and spending, because the HRA Business Plan includes significant funding of capital from revenue, this could have a positive impact on revenue balances and the savings targets outlined in this report if the level of sales remains constant. The table below shows the potential impact on the HRA based on current sales.

MTFS Impact 2025/26 -2028/29	Total £000
Capital Receipts	
Increased Receipts - lower discount	£6,440
Retention Of Gov Share	£3,452
Total Increase in Receipts	**£9,892**
Revenue Impact	
Reduction in Contrib. to Capital	£7,419
Reduced Borrowing Interest	£46
Total Potential Increase in Balances	**£7,465**

4.57. However, if the level of sales reduced due to less generous discounts there would be an overall loss of capital receipts, with more retained rental income (20 sales versus 35 would give, £144K per annum of rent of more rent. The current HRA BP was based on losing a level of stock and investing to provide a level plus circa 1,000 homes over a 30 year period. While retaining more stock and losing less through lower discounts, it maybe that the level of replacement stock needs to be revised. Officers will need to closely monitor the impact of the changes and update Members on this and any recommended changes to the BP.

4.58. As an alternative to using RTB receipts, or borrowing, for the development programme the Government has announced an additional £500Million of Local Authority Housing Grant that the Council could bid for on eligible schemes.

4.59. Overall, the proposed changes will help to stabilise the level of council housing available for Stevenage residents and will allow the Council to keep all of the capital receipts from any sales locally. Clearly more detail is still required on some of these changes to accurately forecast the impact on the HRA in the coming years, but when this information becomes available it will be included in future reports to Members.

Consultation

4.60. The proposed revisions to the HRA MTFS will be consulted on with Members at the Executive Housing Working Group on the 6 November 2024. At the time of writing this report, there is no feedback to note.

4.61. The HRA MTFS will also be presented to the Community Select Committee for comment at a meeting scheduled for the 28 November 2024.

4.62. There will also be a consultation on the future of Rent Policy for social landlords launched on 30 October 2024, as the Autumn Budget was delivered. The current Government is seeking views on a proposed five-year rent settlement, as well as longer-term ones, that would allow housing associations and stock-owning councils to raise social rents by the Consumer Price Index (CPI) plus 1% each year. This would be consistent with the last rent standard and in line with the Council's current projections in the MTFS.

4.63. The policy, once agreed, will come into force from 1 April 2026. The consultation will close on the 30 December 2024 and the Council will provide feedback to the consultation, as directed by the Executive Housing Working Group.

4.64. There will also be consultation with tenants and relevant stake holders regarding the implementation of rent flexibility, detailed at paragraph 4.27. There is a requirement in the regulations to undertake consultation before implementing this policy and feedback from that process will be reported to Members at the Executive Housing Working Group.

4.65. Finally, the parameters set in this MTFS will be used to construct the budget for 2025/26 and this will follow the normal budget policy framework. The budget report will be agreed by Cabinet and then passed to the Overview and Scrutiny Committee. Any feedback will be sent back to Cabinet for review and a final report will go before the Overview and Scrutiny again, before proceeding to a full Council meeting.

5. IMPLICATIONS

5.1. Financial Implications

5.2. The report is financial in nature and any implications are included in the body of the report.

5.3. Legal Implications

5.4. The objective of this report is to outline a medium-term financial strategy for the ring-fenced Housing Revenue Account and to set out the parameters for the 2025/26 budget.

The legal framework relevant to the Housing Revenue Account at this stage of the planning cycle is set out in the body of the report. The key legislative features of the Housing Revenue Account are:

- It is a ring-fenced account within the General Fund
- Credits and Debits are prescribed by statute
- There is no general discretion to breach the ring-fence
- The council cannot budget for a deficit
- all borrowing within the HRA must be in line with the CIPFA Prudential Code

5.5. Risk Implications

5.6. A review of a range of risks facing HRA budgets are listed below. A number of the risks below are monitored through the Council's Strategic Risk Register.

Risk Area	Risk Mitigation	Likelihood	Impact
Not able to service increased level of debt (£271Million in 2024/25 peaking at	Annual review of HRA Business Plan to ensure that assumptions are correct. A higher level of HRA balances maintained to absorb	Low	High

Risk Area	Risk Mitigation	Likelihood	Impact
£310Million in 2028/29)	cost increases. Regular review of capital programmes. Loans assumed at long term average interest rates.		
Rent and service charge income (Negative Risk) - A future Government could change its commitment to current national rent policy of CPI + 1% rent increases, which is currently in line with the Council's BP rent assumptions. Service charges may not be fully recovered.	Rent and service charge policy is in place and allows for rents 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
Unexpected build price inflation for new construction schemes	Forward ordering, supporting local supply chains and batching projects for optimum competitive procurement.	Medium	High
Shortage of skills and supply chain disruptions due to market slow down/national policy shifts and	Supporting local SME with ongoing market engagement and support to enable competitive bidding and promoting certainty of work.	Low	Low
Unexpected build price inflation for new construction schemes	Forward ordering, supporting local supply chains and batching projects for optimum competitive procurement.	Medium	High
Stock Investment (Negative Risk) Investment needs exceed planned expenditure due to increased costs and/or unforeseen investment requirement (including planned changes to the Decent Homes and Consumer standards)	Revised HRA Asset Management Strategy approved. Stock data is further being enhanced through a rolling programme of surveys. All properties will be surveyed rather than cloning data for similar property types. Assumptions for the revised Decent Homes and Consumer Standards have been built into the plan, but these will need to be reviewed when the implications of DHS2 can be fully costed.	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
Decarbonisation and Net Zero (Negative Risk) The current plan does not include provision for achieving Net Zero by 2050.	The HRA Asset Management Strategy sets out the likely costs to achieve Net Zero for the councils housing stock. We have secured funding through the Social Housing Decarbonisation fund (SHDF) to support homes meeting EPC C by 2030. It is proposed that a bid for circa 500-550 homes is submitted for the latest round of funding under the Warm Homes – Social Housing programme (formerly SHDF). We will continue to seek additional funding to support the decarbonisation of the housing stock. However, match funding requirements, uncertainty around level of future Govt funding post 2028 and building cost inflation and skills shortages represents a risk to meeting the Council's ambitions.	Medium	High
Building Safety Act (Negative Risk) The requirements of the act currently only apply to those building greater than 18m. There is a potential for height requirement to change which would bring more SBC buildings into scope and increase the financial requirements for the council.	The implications for a change of scope are being captured to allow us to understand the implications to any change in criteria for those building in scope. The cost implications for any new stock which meet the current criteria are also being captured in the business plan.	Medium	High
Increased Rent Arrears leading to higher bad debt provision and increased write offs	In order to mitigate the impact on the HRA business plan, a two-year action plan was put in place to ensure continued focus on this area of work. A revised Arrears Action Plan is currently being developed which will take into account the increased cost of living and the impact this will have on vulnerable residents.	Medium	High

Risk Area	Risk Mitigation	Likelihood	Impact
Social Housing Regulation Act In the event of failure to meet the new requirements of the Social Housing Regulation Act there is a risk of enforcement action against Stevenage Borough Council or fines for non-compliance	Gap analysis against existing position and new Consumer Standard requirements. New Resident Engagement Framework implemented.	Medium	High
Autumn Statement the changes to the RTB could reduce capital income for the Housing Development Programme	It is unclear the impact of the lower RTB discounts will have on sales (while welcome) and the BP may need to be adjusted as set out in the report		

5.7. **Policy Implications**

5.8. 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.

5.9. **Climate Change Implications**

5.10. The anticipated revised decent homes standard and the targets set within the HRA Asset Management Strategy will continue to improve the environmental performance of our existing stock. The Housing Asset Management 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 actions within the Council's Climate Change Strategy and Action Plan, subject to affordability of measures required and availability of grant funding.

5.11. 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.

5.12. **Equalities and Diversity Implications**

5.13. All projects and activities leading to a policy or service change in fulfilment of the priorities of the HRA MTFS will be assessed through the Council's Equality Impact Assessment (EqIA) process.

6. BACKGROUND DOCUMENTS

HRA Business Plan Review 2023 (Executive 15 November 2023)

Final Housing Revenue Account Budget Setting and Rent Report (Council 24 January 2024)

4th Quarter Monitoring Report General Fund, Housing Revenue Account, Capital, and Group Companies 2023/24 (Cabinet 24 July 2024)

Housing Revenue Account 2024/25 and On-Going Cost Pressures (Council 31 July 2024)

Future Voids Delivery Model (Cabinet 9 October 2024)

7. APPENDICES

Appendix A – HRA MTFS Dashboard