LONDON BOROUGH OF WALTHAM FOREST

Meeting / Date	**Cabinet** **4th November 2021**
Report Title	**Housing Revenue Account 30 Year Business Plan and Medium-Term Financial Strategy 2022/23 Onwards**
Cabinet Portfolio	Councillor Louise Mitchell, Portfolio Lead Member for Housing and Homelessness Prevention
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Wards affected	None specifically
Public Access	Open
Appendices	Appendix 1 HRA Medium Term Financial Strategy (MTFS) 2022/23 Onwards Appendix 2 Current HRA Capital Programme & Resources Appendix 3 HRA Future Capacity 10 Years Appendix 4 Matrix to Assess Climate Change Impacts

1. SUMMARY

1.1.1 This report sets out the current Housing Revenue Account (HRA) position after updating and reviewing the Medium-Term Financial Strategy (MTFS) and 30-Year HRA Business Plan for 2022/23 onwards. The 30-Year Business Plan is a statutory requirement, and the HRA needs to demonstrate that it is financially viable whilst continuing to deliver the Council's Housing priorities.

1.1.2 The Business Plan takes into account revenue from all sources, principally tenant rents and leaseholder service charges, set against anticipated expenditure on stock (revenue and capital), staffing and all other running costs (including recharges to the General Fund).

1.1.3 The anticipated Housing Revenue Account (HRA) budgets for 2022/23 onwards are summarised below. These consider the long-term strategy for the financial viability of the service. The Business Plan sets out how the Council will manage the range of services delivered under the HRA, using the income raised locally through council rents and other sources of HRA income for revenue and capital purposes.

1.1.4 The report also seeks to indicate the potential capacity for the delivery of a pipeline of Housing Capital projects over the short to medium term and recommend appropriate use of that capacity.

2. RECOMMENDATIONS

2.1 Cabinet is recommended to:

2.1.1 **Note** the assumptions contained in the MTFS at Appendix 1.

2.1.2 **Note** the Current HRA Capital Programme at Appendix 2.

2.1.3 **Agree** the proposals for the use of available HRA Capital Capacity at Appendix 3.

3. PROPOSALS

3.1 BACKGROUND

3.2 The HRA Medium Term Financial Strategy was last approved in November 2020 and set the financial strategy for the HRA for 2021/22. This has now been reviewed and updated for 2022/23 onwards in accordance with the annual statutory process. As part of this, internal and external factors impacting the housing service are reviewed, to take account of any emerging developments in national housing policy and the impact of changes in the wider economic environment. This review has determined the financial strategy and future capacity for the HRA and the framework for the detailed work to develop the 2022/23 budget.

3.3 HRA FINANCIAL FRAMEWORK

3.3.1 The HRA Business Plan is set in prepared in line with the voluntary code for HRA Self Financing. The code is set out below:

- **Cash Flow Forecast** – the housing authority has put in place a business planning process underpinned by appropriate financial modelling that allows the cash flows of the business to be projected.
- **Regular Review of Key Assumptions** – assumptions are kept under regular review and tested against actual financial performance.
- **Resource Allocation** – the housing authority ensures that sufficient resources are allocated for the long-term maintenance of the stock and other assets.
- **Testing Viability** – the housing authority tests the viability of proposed major capital expenditure projects against the available resources generated in the business plan.

- **Maintain Accurate Cost Data** - the housing authority maintains accurate data about the cost of its services, and regularly reviews these in relation to its procurement and commissioning strategies. The business plan allocates resources to ensure the continued viability of high-quality management services.

3.4 MTFS, BUSINESS PLAN AND LONG-TERM FORECAST OF HRA

3.4.1 The Housing Revenue Account budget is set in the context of a MTFS/30 Year Business Plan which is reviewed twice each year: first, in the Autumn, when the MTFS is reviewed, updated and agreed; and secondly, in February, when the budget is approved.

3.4.2 Resources available to invest in housing are dependent upon the income streams in the Housing Revenue Account, the most significant of these being the rental income for the housing stock.

3.4.3 The Housing Revenue Account continually reviews priorities for investment, considering:

- The level of investment required to maintain decency in the existing housing stock
- The need to spend on landlord services (management and maintenance)
- The ability to identify resources for investment in new affordable housing
- The ability to invest in new initiatives, such as improving the energy efficiency of the existing housing stock
- The desire to invest in income generating activities and discretionary services (i.e. support)
- The ability to respond quickly to changes in housing and building legislation

3.4.4 The HRA must be able to support a significant level of housing debt whilst also ensuring the ongoing delivery of housing services. As at April 2021, the HRA was supporting a total debt of £200.631m.

3.5 MONTH 6 REVENUE POSITION

3.5.1 There is a projected overspend of £1.725m on the HRA as at Month 6 against the budget which has been largely offset against reduced interest costs. Key considerations for the MTFS that have been taken from the current year budget forecast include the following:

3.5.2 **Rents & Service Charges Income**: The rent increase for the year was 1.5%. Collection rates will need to be carefully monitored throughout 2021/22 to identify any difficulties arising as a consequence of the wider national economic outlook. This will help to identify any need for increase in bad debt cover. The current run rate on the rent debit is lower than the budget, although shared ownership income does not appear to be captured correctly within the Northgate interface (and needs to be located). There are also increased void costs that need to be analysed in more detail.

3.5.3 In recent years this budget line has also achieved increased income from the use of regen units to provide TA. The number of units available has significantly reduced for 2021/22 and this may be another driver for the reduced level of income recovery currently being projected.

3.5.4 **Hostels:** The Month 6 forecast includes voids costs relating to Hostels which are higher than budgeted. Further detail is being sought on voids performance in this area.

3.5.5 **Place:** This budget line reflects increased income from final account calculations on leaseholder service charges. There are also staff savings reflected across the Housing Operations service area while recruitment to the new structure remains on-going. In addition, an overspend of £267k on estate utilities costs is now being projected.

3.5.6 **Asset Management:** The Waking Watch pressure of £1.8m is captured within the forecast for this service area, with this service currently costing c.£400k per month. Additional pressures relating to the legal costs for the OPSL case (£200k), purchase of PPE (£70k) and identified pressures on the repairs & maintenance contracts (£230k). This is partially offset by a £300k underspend on salaries caused by vacancies across the service.

3.5.7 **Strategic Housing:** An allowance of £250k was made within this budget to fund Phase 2 of the Housing redesign project. It currently looks unlikely that this will be fully spent in 2021/22 and so the forecast has been reduced to c.£150k (with the remainder to be made available in 2022/23). This has been partly created using some of the residual funding from the £500k that was set aside for Phase 1 (to fund redundancy costs). A £100k underspend on consultancy spend has also been forecast in Month 6.

3.5.8 **Corporate Items & Financing:** The projected underspend on interest costs and the adjustment to the depreciation estimate for the year are reflected here and help to bring the HRA back to a balanced position. Current spend is also running below the inflation estimate included in the business plan which is generating an additional saving.

3.6 INCOME ASSUMPTIONS

3.6.1 **Rents -** the Government announced that rent increases would be allowed up to CPI plus 1% for 5 years from 2020/21 onwards. Subsequently the regulator issued a rent standard that is applicable for this period. The September CPI should be used for rent increases as set out in the rent standard. For the 2021/22 Financial Year a 1.5% maximum rent rise was agreed and the HRA Business Plan assumes maximum rent rises in line with current inflation predictions across the following 3 years before reverting to a prudent 1% increase assumption thereafter. The CPI at September 2021 is 3.1% (down from 3.2% in

August 2021) which will result in 4.1% rent rise in 2022/23. The September CPI is used to set the rent for the following financial year as per the Rent Standard. Any changes to these assumptions would reduce the future capacity of the HRA signficantly and put pressure on the ability to deliver the 2022/23 Capital Programme.

3.6.2 **Voids -** a void rate of 2% has been assumed on HRA Dwellings and 10% for Hostels and all properties used for Temporary Accommodation purposes.

3.6.3 **Rent Collection** – the collection rate at July 2021 was 98.44% against a profiled target of 96.51%. If this trend continues there will be sufficient provision within the MTFS for bad debt relating to rent arrears.

3.6.4 **Tenants Service Charges -** tenant service charges are set to reflect the actual cost of the services provided.

3.7 EXPENDITURE ASSUMPTIONS

3.7.1 The assumptions made within the MTFS and Business Plan are kept consistent, where applicable, with those made in the Council's General Fund MTFS. Further forecasts of the CPI measure of inflation are based on the average medium term inflation indices published by the Government.

3.7.2 **Employee Costs -** HRA budgets, based on a recently reviewed staffing establishment following the service redesign include salary inflation of 2% annually. The potential impact of any increase awarded for 2021/22 is being managed within existing service budgets.

3.7.3 **Energy Costs –** inflation of 2% has been included on energy costs.

3.7.4 **Recharges -** costs of support services, which are estimated to increase by 2% p.a. in line with pay inflation, are allocated to services using suitable bases of apportionment (e.g. number of staff, estimated time allocation, gross budget). Recharges reflect the full cost of all support services and are designed to permit transparency and challenge to secure value for money.

3.7.5 **Repairs Expenditure -** contract inflation linked to CPI has been included in the HRA MTFS on Repairs and Maintenance budgets.

3.7.6 **Bad debt provision -** tenant arrears have remained under control as a result of ongoing tenant education and engagement about the impact of Welfare Reforms. A review of debt profiles based on professional judgement by the service indicates bad debt provision remains unchanged. The roll out of Universal Credit resulting in reductions in benefits for some residents is substantially completed and the impact of these will be kept under review in relation to the HRA bad debt provision.

3.7.7 **Waking Watch –** an additonal allocation of £4.8m has been included in the 2022/23 budget foir the ongoing provision of Waking Watch which is projected to continue into the next year.

3.7.8 **Other Expenditure -** an annual efficiency saving of 2% has been assumed on all other budgets across the plan (meaning that these budgets are expected to absorb the effect of inflation).

3.8 CHARGES FOR CAPITAL

3.8.1 HRA Borrowing is divided into historic and new borrowing. Historic debt includes shared in a single loans pool with General Fund, averages at 4.7% and is assumed to continue at this level. New borrowing is estimated at £42m (based on the current agreed Capital programme) in 2021/22 and expected to be at a lower interest rate of 2.0% for 2022/23, increasing to 3.0% over the next 10 years..

3.8.2 Current HRA rules do not require either debt to attract Minimum Revenue Provision (MRP), a mandatory charge in General Fund designed to ensure the cost of the asset is charged to revenue over its useful economic life. This is because depreciation in the HRA counts as a genuine charge against revenue and transfers resources to the HRA's Major Repairs Reserve which can be used to finance capital expenditure as well as repay debt.

3.9 RESERVES

3.9.1 The Housing Revenue Account reserve position is shown in the table below:

HRA Reserves	Opening Balance	Budgeted Use of Reserves	Closing Balance
	1st Apr 2021	2021/22	31st Mar 2022
	£000's	£000's	£000's
General Reserve	6,442	(1,442)	5,000

3.10 CAPACITY ASSESSMENT

3.10.1 Since the abolition of the Debt Cap in October 2018 there is no limit to borrowing within the HRA. However, the existing asset and operating base generates a net income stream that offers a logical limit on sustainable borrowing levels. Future operating surpluses created within the HRA can be used to fund the interest on additional borrowing. The HRA Voluntary Code of Practice covers six Principles that describe what the sector considers as essential elements for the continued sustainability of a self-financed HRA Financial viability. The finance Principle is that the housing authority has put in place arrangements to monitor the viability of the housing business and takes appropriate actions to maintain viability. Therefore, the following framework has been designed for assessing the viability of the HRA Business Plan and is being applied within the current model. These metrics are based on successful operation of similar minimum/maximum metrics across the housing sector. They represent a sound and effective way of managing borrowing and investment capacity:

- A minimum closing reserve balance of 7.5% of total revenue expenditure or £5.0m (whichever is greater);
- An Interest Cover Ratio set at a minimum of 1.25, defined as net operating surplus divided by HRA interest costs;
- A Loan to Value ratio set at a maximum of 70%, defined as outstanding HRA borrowing (HRA Capital Financing Requirement) divided by total asset valuation of HRA assets on the balance sheet.

3.10.2 Adopting these measures and testing changes to the plan against them will enable the Council to maximise its outcomes whilst ensuring a financially sustainable Business Plan is in place at all times. It will also ensure that decision making on future HRA capital schemes becomes more efficient in terms of considering long-term income and expenditure forecasts.

3.10.3 The HRA's capacity over the medium term to invest in capital projects may not be sufficient to deliver all the proposed projects in the pipeline whilst also investing in the existing stock to the full requirement. Projects will be prioritised with those required to deliver statutory obligations, such as Building and Fire Safety, and those with Health and Safety consequences given first priority. The current capacity assessment identifies available resources of approx. £69m available for any future pipeline investment.

3.11 CURRENT HRA CAPITAL PROGRAMME

3.11.1 The HRA currently has a Capital Programme of £451m across the term of the existing MTFS from 2021/22 to 2026/27. Total financing of £625m is available across this period, with the additional resources of £174m coming from borrowing. These additional resources have been factored into the capacity calculation shown in Appendix 3.

3.11.2 The agreed programme scheme budgets have each been reviewed as part of the MTFS process to ensure existing budgets are sufficient to deliver the agreed outcomes. The following changes have been made and are reflected in Appendix 3:

- **Sixty Bricks Phase 1** – these schemes (including those managed on behalf of the Council) have been re-profiled and contingencies have been increased where those included in the initial costings were not considered sufficient.

3.12 FUTURE HRA CAPITAL PROGRAMME

3.12.1 **Investment in Existing Stock –** the investment needs are based on the standard that as being required to maintain the Council's housing assets based on the most up to date stock condition data. The projected investment needs reach a total of £881m over a 30-year period at an average rate of £95k per tenanted unit an annual average overall requirement of £29.37m. This is £60m more than is currently included in the capital programme.

3.12.2 **Building and Fire Safety -** the Corporate Task and Finish Group work is being progressed in accordance with the agreed terms of reference and will clarify staffing and financial impacts on the delivery of Building Construction works. This may have an impact on future budget requirements.

3.12.3 **Sixty Bricks – Phase 2 and 3 –** Sixty Bricks have been developing a pipeline of new schemes following Shareholder Committee and Cabinet endorsement of the company's revised Business Plan in July 2021. This included approval for £3.2m to fund fees for RIBA Stages 1 to 3. These schemes form a Phase 2 and Phase 3 with estimated costs in the capacity assessment.

3.13 RIGHT TO BUY SALES AND RECEIPTS

3.13.1 The authority entered into an agreement with the Ministry of Housing, Communities and Local Government (MHCLG) to retain right to buy receipts for the purposes of 1-4-1 replacement. Targeting expenditure for eligible right to buy receipts has proved to be challenging in the past although to date these targets have been mostly met.

3.13.2 From 1 April 2021 the rules on spending retained additional receipts have changed:

- Pooling of RTB receipts will take place annually, replacing the former quarterly system. Deadlines for spending retained receipts will also be calculated on an annual basis. A minimal amount of non-financial management information will still be collected quarterly.
- The timeframe local authorities have to spend new and existing Right to Buy receipts is extended from 3 years to 5 years. This will make it easier for local authorities to undertake longer-term planning, including remediation of larger plots of land.
- The percentage cost of a new home that local authorities can fund using Right to Buy receipts increases from 30% to 40%. This will make it easier for authorities to fund replacement homes using Right to Buy receipts, as well as making it easier to build homes for social rent.
- Authorities can use receipts to supply shared ownership and First Homes, as well as housing at affordable and social rent, to help them build the types of home most needed in their communities.
- A cap is introduced on the use of Right to Buy receipts for acquisitions to help drive new supply with effect from 1 April 2022 and phased in over 2022-23 to 2024-25.
- These changes take effect from 1 April 2021, except for the acquisition cap, which will be introduced from 1 April 2022, on a phased basis. They are in response to a consultation on the Use of Right to Buy Receipts.

3.13.3 The Council is updating its plans for the future use of recipts in light of these changes.

3.14 RISKS

3.14.1 A number of risks have been identified in realtion to the HRA MTFS and are listed below. In the event that these materialise, individually or collectively, they could impede the delivery of core services and Capital Investment and/or challenge the continuing financial viability of the HRA.

- **Rent Increases** – Government has permitted rent increases for five years from 2020/21 to 2024/25. The Business Plan assumes maximum rent rises during that period and a prudent increase thereafter. To mitigate any changes to this position HRA reserves will be maintained at a minumum level and the Business Plan refreshed and stress tested to ensure the Council's HRA remains viable.

- **Welfare Reforms** – the government's continued reform of welfare and benefits is likely to continue to impact on rent collection and cash balances. These are being assessed and reported through in year performance monitoring.

- **Covid 19** - The economic impact of the pandemic to date, will continue to impact on rent collection and arrears levels. As a mitigation, the bad debt provision will be kept under review and updated based on in-year monitoring and emergent trends in cash recovery from affected tenants.

- **Leasehold Major Works** - challenges on major works spend may significantly exhaust HRA reserves if they cannot be successfully defended on the basis of accuracy or correct consultation. The council has been successful in recent tribunal challenges and has implemented stronger controls to mitigate risks going forward.

- **Repairs and Maintenance** - these budgets are subject to demand led fluctuations and can be drastically impacted from changes in weather or unforeseen events such as flooding or power outages in blocks. In addition, the previous contractor has submitted claims which are being contested by LBWF. This area continues to be closely monitored for any volatility via regular operational meetings with the contractors.

- **Delays to schemes** – GLA grant funding and additional borrowing will be linked to successful delivery of additional housing supply in line with agreed targets for start on sites and completions. Failure to deliver a new supply in line with these targets could result in withdrawal of funding and/or borrowing which would result in lower or delayed rental income streams and potential write off of costs to revenue. In mitigation regular monitoring of new build schemes and update of the overarching HRA Business Plan will identify potential delays and appropriate action taken to substitute and expedite schemes ensuring full grant utilisation and keeping rental income in line with expectations.

- **Build costs** – costs for the programme have been estimated using the best information available although this will change as a result of macroeconomic and market conditions. Changes in the estimates of costs will be included in the HRA Business Plan and will be stress

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tested against a range of assumptions, including build costs, to inform the need for further mitigations.

- **Carbon Neutral -** the Council has declared a climate emergency and accepted the recommendations of the Climate Emergency Commission on how to reduce local carbon emissions. Evidence shows that housing is the single biggest contributor of CO2 and whilst our homes are more efficient than those of other tenures, there is still a lot to be done to reduce carbon emissions among our stock. The asset management programme is progressing a number of projects to boost measures aimed at improving the energy efficiency of our properties, assessing the viability of alternative fuel systems which will inform when to programme the switch of gas boilers to alternative fuel sources, whilst delivering on the Council's Net Carbon Targets by 2030 without impacting on fuel poverty. A capital budget allocation of £50m has been included in the propsed use of capacity in Appendix 3.

3.14.2 In the light of these risks it is essential that the cost base of the HRA kept under continuous review.

4. OPTIONS & ALTERNATIVES CONSIDERED

4.1.1 This report sets out the legal framework and latest forecasts within which the Council formulate detailed plans for capital and revenue expenditure.

5. SUSTAINABLE COMMUNITY STRATEGY PRIORITIES (AND OTHER NATIONAL OR LOCAL POLICIES OR STRATEGIES)

5.1 The Council will consider the impact of HRA budgetary decisions on its priorities as part of the February Cabinet budget setting report along with considering and agreeing the rent increase for 2022/23.

6. CONSULTATION

6.1 The February Budget Setting Report will go to Housing Scrutiny and the STAR Panel before Cabinet.

7. RESET

7.1 In July 2021, the Council approved its Strategic Reset priorities and delivery programme to recover from the pandemic and build a bright future for all in Waltham Forest.

7.2 The HRA delivers a range of essential services for residents and enables investment in existing housing stock and the building of new Council homes giving a greater choice of affordable homes. This directly supports a key Reset priority to tackle the inequality that holds some of our residents back and aligns with those Reset themes being delivered under the Supporting families, children, young and older people delivery area of the Reset. In addition, work to reduce carbon emissions by 80% by 2050 across Council housing stock aligns with the Tackling the climate emergency delivery area.

8. IMPLICATIONS

8.1 Finance, Value for Money and Risk

8.1.1 The subject of this report is the financial plans for the HRA and sets out the current forecasts and issues that will need to be dealt with when the HRA budget and rent levels are set later in the financial year. A list of risks and their suggested implications for the level of HRA reserves and future capacity has been addressed in Section 3.12.

8.2 Legal

8.2.1 Under section 74 of the Local Government and Housing Act 1989 the Council has a duty to keep a Housing Revenue Account and must comply with the obligations under the Act regarding the keeping of the HRA. As stated elsewhere in the report the Council has a duty under section 76 of the 1989 Act to balance the HRA and not budget for a deficit.

8.2.2 Under section 9 of the Housing Act 1985 the Council has the power to provide housing accommodation by building or acquiring such accommodation and must keep the needs of the area in relation to housing under review.

8.2.3 The purpose of the HRA Business Plan and MTFS is to pull together in one place known and anticipated factors affecting the Council's HRA position and financial sustainability over the medium term.

8.3 Equalities and Diversity

8.3.1 The Council must have due regard to its Public Sector Equality Duty (PSED). The Council will consider the impact of its budgetary decisions on these duties. Mitigating action will be identified wherever possible. The outcome will be reported as an integral part of the HRA/rent setting report to be considered in February which will include an equalities analysis.

8.3.2 The Equality Act 2010 requires public authorities to have due regard to the need to eliminate discrimination and advance equality of opportunity. The Council must further take into account its wider Public Sector Equality Duty (PSED) under s.149 of the Equality Act 2010 when making its' decisions. The public sector equality duty (s.149, Equality Act 2010) requires the Council, when exercising its functions, to have "due regard" to the need to: eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited under the Act, advance equality of opportunity between those who share a "protected characteristic" and those who do not share that protected characteristic and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (this involves having due regard, in particular, to the need to (a) tackle prejudice, and (b) promote understanding).

8.3.3 The Council will consider the impact of changes that might arise as a result of implementing the proposals for change arising out of its HRA strategy on those with protected equality characteristics. Individual proposals will be subject to a full equality analysis wherever relevant, prior to any decision taken to proceed, including the identification of mitigating action where possible. Where there is any potential impact on staff, the agreed HR procedures will be followed.

8.4 Sustainability (including climate change, health, crime and disorder)

8.4.1 The reduced investment in the Council's existing stock (which was agreed at Cabinet on 15 December 2015) could affect energy efficiency and fuel poverty. The capital programme includes provision for communal boiler replacement, energy efficiency improvements, heat recovery ventilation, anti condensation programme and boiler upgrades to a more efficient standard after 10-12 years. However, exact carbon savings or number of installations cannot be quantified at this stage as the programme is still to be developed. The annual carbon savings from the Capital programme are reported via the Council's Climate Local initiative. The service is reviewing work programmes to secure potential funding from Carbon Offset Fund.

8.5 Council Infrastructure

8.5.1 Any proposals to review the budget which involved staff reductions would be subject to consultation with staff.

BACKGROUND INFORMATION (as defined by Local Government (Access to Information) Act 1985)

None