1. **SUMMARY**

1.1. The report reviews the financial position and assumptions of the Housing Revenue Account (HRA) for the next five years and provides an updated position to that reported to Cabinet on 28 February 2017.

1.2. This report contains proposals to make adjustments to the HRA revenue and capital budgets in order to best place the authority in dealing with the new challenges. The key challenges are listed below:

   (i) The continuing reduction in rent in 2018/19 and 2019/20
   (ii) The full roll out of Universal Credit replacing housing benefit
   (iii) Water rates commission:
   (iv) The extension of RTB (right to buy) sales to Housing Associations
   (v) RTB capital receipts See appendix 6.
   (vi) Major works Leaseholder issues
There are a number of new build and regeneration programmes the authority is pursuing to increase social and affordable housing in the borough, through various proposed models. Given the scale and timing of the schemes, it is often required that the rest of the capital programme (eg investment in own stock) has to be flexible to accommodate.

1.3 There are estimated brought forward uncommitted revenue reserves of £7.848m at 1 April 2017 (£4.63m in April 2016). It is proposed that reserves reduce this year and in 2018/19 to increase resources for capital and to move towards the recommended level of reserves.

2. RECOMMENDATIONS

2.1 For the reasons set out in the report Cabinet is recommended

(i) To note the forecast for the HRA in Appendix 1

(ii) To agree the revised capital programme shown in appendix 3.

(iii) To note the increasing balance of retained RTB capital receipts which are subject to deadlines for spending as set out in appendix 6.

3. BACKGROUND

3.1 The HRA is a “ring fenced” account. The costs and income in the HRA relate to the provision of rented housing under the Housing Act 1985. There should be no transfer of costs or income between council tenants and council tax payers.

3.2 Major reforms to HRA finance were introduced in 2012/13 under the Localism Act 2011, including the abolition of housing subsidy and, linked to this, a reduction of Waltham Forest’s HRA debt by £120m. Total borrowing by the HRA is subject to a Government cap which allowed the Council to borrow an additional £29m after 1 April 2012. The Government agreed to increase this cap from £193.5m to £200.7m in 2015/16.

3.3 The HRA MTFS is considered annually by Cabinet (previous report November 2016). Any changes arising from the detailed budget setting are included in the February budget report. Appendix 2 sets out changes from the latest revenue forecast considered by Cabinet on 28 February 2017.

3.4 Since May 2015 the Government has announced proposals for major changes affecting the HRA:

(i) Rent reductions of 1% per year for 4 years for all current tenants of social landlords. This is set out in the Welfare Reform and Work Act 2016. This change was included in previous forecasts.

(ii) For 2016/17 supported housing was exempt from the requirement to reduce rents. The Government has now
announced that this exemption will not continue in future years except for a small group of specialised supported housing which does not include any Waltham Forest HRA property. In a modification of previous proposals the limit on public sector rents to LHA (local housing allowance) will now not apply to supported housing until 2019/20. From that date the Government will provide a specific general fund grant to local authorities to assist supported housing in their area. It is estimated these proposals will not significantly affect the MTFS forecast. The Government is consulting on the details of these proposals.

(iii) The Housing and Planning Act 2016 provides for the extension of right to buy to housing association tenants to be funded by sales of ‘high value’ local authority housing stock. The implementation of this has been delayed and is currently being piloted. We do not know when it will apply to Waltham Forest and cannot estimate the impact on the Council so the forecasts do not include any effect of this plan.

(iv) The above Act also provided that tenants of social housing with higher incomes (over £40,000 in London) were to be required to pay higher rents from April 2017. The Government has now abandoned this plan.

(v) The Government announced a 1% limit on public sector pay increases for 4 years. This is now being relaxed.

(vi) Further reductions in welfare benefits are planned which will put further pressure on many council tenants and are highly likely to result in declining rent collection.

(vii) The administration of welfare benefits will change dramatically as claimants are moved to Universal Credit (UC). For Waltham Forest the “full service” UC is expected to begin in February (Walthamstow area) and May (Leytonstone). Experience of pilot authorities has indicated that this will place further burdens on tenants and make the Council’s task of collecting rent more difficult. Increased provisions for bad debts have therefore been included in the forecast.

(viii) On 4 October the Government announced an increase in the affordable housing programme of £2 billion over this Parliament. It was also made clear that this may include dwellings at rents below the “affordable” level (80% of market rent) which was previously standard. Further details are awaited but it is expected that Councils will be required to bid for a share of this money.

3.5 The tragic fire at Grenfell Tower in West London in June 2017 has caused all landlords of high rise buildings to review fire precaution and prevention measures. The implications for Waltham Forest are described below.

3.6 Legal challenges to retention of commission on water rates collection and to Waltham Forest leaseholder charges, together with historic
collection issues, have required the Council to increase provisions and reduce estimated income to the HRA to reflect the possible need for repayment.

3.7 The Council is reviewing its repairs contracts for the HRA. The forecast assumes this will not result in any additional costs. However it may be necessary to allow for disputed items and settlements with existing contractors.

4. BUSINESS PLAN AND LONG TERM FORECAST OF HRA

4.1 Councils are expected to take a long term approach to the management of the HRA. This is generally taken to mean 30 years, consistent with the method used by the Government to calculate debt transfers for the HRA reforms. Capital expenditure is determined by the resources available from the HRA. This will include additional borrowing supported by the HRA within the limit set by Government. Business plans must therefore include both capital and revenue expenditure. This year consistent with the general fund MTFS the revenue forecast has been extended to five years. To give a better picture of the longer term schemes such as regeneration the capital programme forecast has been extended to 6 years.

4.2 Of the changes set out in section 3 above the most significant financially is still the change to rent policy. After allowing for savings and available reserves the net reduction in capital resources in the 2016/17 forecast was £27m. The current forecast assumes that after the 4 years’ rent reduction, in 2020/21, Government rent policy will return to the previous CPI + 1%. The Government announced proposals on 4 October to limit increases for 2020/21 onwards to CPI plus 1%.

4.3 The effect of the requirement to sell high value council stock will not be clear until the Government publish detailed proposals. The timing is also not yet certain. The current forecast assumes the levy will be met by sales income or other measures with no net effect on resources.

4.4 The pay award proposals in respect of 2018/19 and 2019/20 are still under negotiation between the Employer’s side and the trade unions. On the basis of initial modelling the potential impact of the proposed pay structure has been built into the MTFS and profiled equally between both financial years. In terms of future years over the medium term, a general pay uplift of 2% has been assumed as it is expected that pay rises will go beyond the current 1% pay cap. Other costs are assumed to increase by 2% on average per year.

4.5 The HRA should aim for 2% annual efficiency savings consistent with the target set for general fund services and this target is included in the attached forecast. The effect with a 2% inflation assumption is that most costs are approximately unchanged in cash terms.

4.6 Rent calculations reflect that 2019/20 will be a 53 week year for rents and this has a significant effect on the overall surplus/deficit.
4.7 As noted above the Council has made provision in case it is necessary to repay water rates collected from tenants in the light of the court case on this issue. Through the Local Government Association, a consortium of affected local authorities has taken legal advice and considered the best course. Waltham Forest along with most of the other affected authorities has negotiated a new agreement with the water companies which is expected to strengthen the Council’s position against any future challenge. Delegated power for the Director of Housing to negotiate new agreements with the companies was approved by Cabinet in November 2016.

4.8 A long term, 30 year, projection of the HRA was commissioned in 2012. This has been updated periodically and continues to show that the HRA is financially viable in the long term.

5. REVIEW OF FIRE SAFETY

5.1 The Council has carried out significant work following the tragic events at Grenfell Tower to review the position on fire safety. A report setting out the steps taken, the Councils approach to fire safety and proposed next steps are set out in a report elsewhere on this agenda. Additional costs incurred to date have primarily been funded through existing revenue provision. However there will inevitably be increased costs arising from this work and additional provision is proposed in future year’s investment programmes in respect of retrofitting sprinklers to all high priority blocks. The Government has also recently announced a review of Building Regulations and further guidance on cladding is anticipated. In addition DCLG guidance has recently been issued in respect of Large Panel Construction blocks which is currently being assessed. The position remains subject to change in the light of further guidance from DCLG and the recommendations likely to emerge from the Committee of Enquiry into the Grenfell Tower fire that has now been established.

6. CAPITAL PROGRAMME

6.1 Given the pressures of housing demand and need within the borough and our commitment to create 2,000 new Council homes, including homes within a Council non-HRA vehicle it was agreed that the new build Council HRA programme should be maintained. This inevitably means reallocating investment away from improvements to the existing stock of homes, given that we are advanced in our estate renewal programme for Marlowe and Montague estates.

6.2 The physical condition of the Council’s housing stock, with the exception of the estates subject to comprehensive redevelopment, is generally good with around 70% of homes at Decent Homes standard. However given the nature of Decent Homes, which is primarily based on the age of various building elements, properties will continue to fall out of decency each year. Significant investment is therefore needed to erode existing Decent Homes failures and meet arising need. In addition Decent Homes does not recognise some areas of needed investment that are essential to maintain and improve the condition of the housing stock. This includes work proposed to upgrade some
sheltered blocks as well as security and environmental works to estates.

6.3 Cabinet on 15 December 2015 agreed (subject to consultation) to reduce the investment in existing stock and for this to be reallocated to maintain the new build programme and delegated the final decision to the Director of Housing to consider the outcome of the consultation. The consultation demonstrated broad acceptance of the need to make this change which is reflected in the capital programme proposed in appendix 3. In making this change it is essential to continue certain elements of the current investment programme. These are:

(i) Capital works to homes to ensure that they remain wind and watertight;

(ii) Statutory obligations – such as fire risk; electrical upgrades, boiler replacements etc.

(iii) Prudent stock investment works – such as drainage, lift replacements, door entry systems, estate improvement and major voids.

6.3.1 However it is recognised that the reduction in the level of resources available for investment in the existing stock from 2018/19 will impact on the Council's ability to achieve and maintain the Decent Homes standard in future years.

6.4 The proposed capital programme is shown in detail in appendix 3. Changes from the programme approved last year are shown in appendix 3A. Overall expenditure of £228m is forecast over 7 years. There an overall surplus of resources of £13m is forecast. However there is a shortfall of resources in 2021/22 of £5m which must be met by identification of additional resources or by slippage or reduction of planned schemes. It appears to be feasible to bridge this gap but it will be seen from appendix 3 that the result is a severe reduction in starting any additional schemes until 2022/23. The current forecast is that the Council will reach the HRA borrowing cap in the current financial year. No further borrowing for HRA purposes will be possible in future years unless the Government agrees to an increase in the cap.

6.5 The Montague Estate regeneration project is at a key stage of negotiation. The budget is unchanged from last year except that cash flow is slipped two years to reflect latest indications and by extending the programme time scale we are including previously forecast expenditure which fell outside the previous five year programme.

6.6 The Council has approved the setting up of a housing company. Any development by the company will be outside the HRA and so is not considered in this report. Some costs of design fees and acquisition for company development are included in the HRA capital programme. The Council will benefit from a capital receipt if the sites have a positive value when transferred to the company but the possibility of recharging these costs to the company is also being considered.

6.7 Changes in programme for 2017/18 to 2020/21 from approved budget are summarised as follows:
<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (£,000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Services forecast underspend in 2017/18 net of carry forward</td>
<td>-1,000</td>
</tr>
<tr>
<td>Montague Estate regeneration: major spending is now forecast to slip beyond 2020/21</td>
<td>-15,727</td>
</tr>
<tr>
<td>RTB receipts no longer available to scheme</td>
<td>2,663</td>
</tr>
<tr>
<td>Land receipt also deferred</td>
<td>10,928</td>
</tr>
<tr>
<td>Marlowe heat network, net of grant</td>
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<tr>
<td>Increased costs of new build programme</td>
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<tr>
<td>Offset increased use of RTB receipts</td>
<td>-3,648</td>
</tr>
<tr>
<td>Housing Association schemes increased</td>
<td>5,423</td>
</tr>
<tr>
<td>Offset by use of RTB receipts</td>
<td>-5,423</td>
</tr>
<tr>
<td>Increased depreciation, revenue contributions and lessees charges, RTB receipts, and borrowing</td>
<td>- 8,948</td>
</tr>
<tr>
<td>Costs relating to WFD developments</td>
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<tr>
<td>Statutory interest charge transfer to revenue</td>
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</tr>
<tr>
<td>Other changes, net</td>
<td>- 46</td>
</tr>
<tr>
<td>Net change in balance of funding</td>
<td>- 736</td>
</tr>
</tbody>
</table>

### 7. RIGHT TO BUY SALES AND RECEIPTS

#### 7.1 Changes to the Right to Buy (RTB) scheme were introduced from 1 April 2012. These sales result in a loss of on-going rent income to the HRA partly offset by reduced costs. The Council has made an agreement with the Government to retain the balance of receipts (after various deductions – see appendix 6), approved by Cabinet on 19 June 2012. The money must be spent within 3 years and comprise no more than 30% of the total cost of the new housing.

#### 7.2 A summary of the latest forecast of RTB receipts and how they are allocated is shown in appendix 6. The appendix also shows the required total spending, and the deadlines to comply with the agreement on retained receipts.

#### 7.3 In order to make the best use of the receipts:

(i) Cabinet agreed in November 2015 to a Local Authority Affordable Housing Grant Programme 2015–2018 to part fund the provision of affordable housing by other providers. This included grant aid to a new build scheme by Walthamstow and Chingford Almshouse Charity for 20 new units of which the
Council will grant aid 30% (£1.95m) using RTB receipts, in return for nomination rights. Grants to housing associations have also now been agreed.

(ii) Cabinet agreed in July 2016 to the purchase of individual properties to be used for temporary accommodation for homeless families.

(iii) A review was carried out of the funding of schemes which were to be part financed by GLA grant to utilise RTB receipts instead if this gives the best financial outcome for the Council. A number of new initiatives are under development to enable the Council to make full use of the receipts.

7.4 It will be seen from Appendix 6 on the basis of the measures set out above the Council was required to make repayments in 2016/17 and will be close to the thresholds for repayment in this and future years. Further schemes will need to be identified to meet later deadlines or if there is any delay or slippage in the schemes proposed. If the money is not spent in accordance with the agreement it must be repaid to the Government with interest at 4% over base rate. The HRA budget includes an estimate of interest to be repaid on the basis that no further eligible schemes are identified.

7.5 A separate report on the agenda sets out current plans to use this resource.

8. RENTS

8.1 The major income to the HRA comes from tenants' rents. Decisions on the level of rents are made by the Council. In 2003 the Government introduced its Social Rent Reform policy. Authorities were recommended to follow the guidance in that policy when setting rents and Waltham Forest did so. The aim was to broadly equalize the rents charged by social landlords (Councils and housing associations) in each area. It was intended to achieve this equalization by 2011/12 but the target date was changed several times to avoid unacceptable increases in rents and in recent years was 2015/16 but no movement to target rents was included in the guideline for 2015/16.

8.2 Under this guidance a target rent is set for each property. Target rents are calculated based on the value of the property in 1999, the number of bedrooms, and average manual earnings in the area. The target rent increased each year by inflation plus 0.5%. Rent increases were linked to the increase in the RPI plus 0.5% plus an element to move to target rent. Individual rent increases were subject to a limit of RPI plus 0.5% plus £2 per week.

8.3 Current Government policy requires the Council to reduce rents for existing tenants by 1% each year for the four years 2016/17 to 2019/20. Supported housing was excluded from this requirement for 2016/17 (see above).

8.4 Council policy is that new lettings are at target rents, with some exceptions. This policy continues subject to the 1% per annum reductions in rents as required by the Act.
8.5 A review of all tenant charges is currently being carried out by the housing service in order to fully identify recoverable costs and to ensure the most appropriate apportionment of those.

8.6 Approximately 60% of Waltham Forest tenants receive housing benefit towards their rents. In principle housing benefit is 100% funded by the Government, (subject to some adjustments the cost of which falls on the general fund). However the Government applies a system called rent rebate subsidy limitation (RRSL) which means that housing benefit subsidy is reduced when Council rents exceed a limit set by the Government. The limitation effectively results in the HRA bearing the cost of housing benefit for any rent increase above the limit. Currently Waltham Forest’s average rent is below the limit rent and so there is no cost of RRSL to the HRA. However the limit remains as a constraint on Councils’ freedom to increase rents in future. Some stock can be excluded from this calculation, for instance newly built housing let at affordable rents.

9. **RESERVES and PROVISIONS**

9.1 The Council is required by law to avoid budgeting for a deficit on the HRA (Local Government & Housing Act 1989, section 76). This means that the budget must not be based on total HRA revenue reserves falling below zero. In practice the Council is expected to maintain a reasonable balance of reserves to provide a contingency against unforeseen events.

9.2 Opening reserve positions at 1 April 2017 are shown in appendix 5. The reform of the HRA has the effect of transferring significant risks from central government to the Council’s HRA. Appendix 4 lists the main financial risks and suggests a level of reserves which the Cabinet agreed as part of the HRA MTFS in January 2012, with minor updates. Many of the risks might effect many years but it is recommended to keep reserves to meet the effect of two years impact which would give the Council time to amend its plans if, for instance, an increase in inflation caused a permanent increase in overall costs.

9.3 As a result of underspends in the HRA in previous years it is proposed that deficits can be absorbed in the next few years whilst still maintaining the HRA reserves at an acceptable level.

9.4 As noted above recent legal challenges on water rates and leaseholder charges have required the Council to increase provisions against the possibility that income will reduce and/or repayments may be necessary. However should these challenges be overcome as we hope substantial additional funds would be released which can be used to fund the capital programme or support HRA services.

10. **RISK FACTORS**

10.1 The major ongoing risks to the HRA identified in 2012 are listed in appendix 4, with updated figures, showing how this leads to a view on
the minimum level of reserves required for the HRA. Further specific risks which have been identified more recently are:

(i) Impact of extending RTB to Housing Associations through the sale of high value voids.

(ii) Leaseholder challenges against the consultation process as part of the major works billing.

(iii) Water Commission. Following the court judgement on Southwark Council,

(iv) Increasing rent arrears may arise as a result of benefit changes and the introduction of universal credit.

(v) Reductions in major works spending on existing stock run the risk that the condition of the stock will gradually deteriorate. It may be appropriate to consider a renewed stock condition survey, although a continuous sample of 10% of stock each year is surveyed.

(vi) Renegotiation of the repairs contract

(vii) Increased expenditure requirement for fire safety.

(viii) The Montague Estate regeneration scheme is now at a critical stage of negotiation. Any major increase in costs could only be met by deferring other schemes within the programme. The scheme budget must take account of the potential impact of building cost inflation, offset by possible increases in sale values.

10.2 Based on the above challenges, Housing will need to maintain their reserves ring fenced from the General Fund, and most likely need to find further efficiencies within their budgets and capital programme if any of the above risks come into fruition.

11. OPTIONS AND ALTERNATIVES CONSIDERED

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

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

12.1 The Council will consider the impact of budgetary decisions on its priorities as part of the budget setting report.

13. CONSULTATION

13.1 There will be articles in Residents News about the key elements of this Report as well as budgets and rent setting for 2018/19.

13.2 A change in water charges collection would require consultation with tenants.
14. IMPLICATIONS

14.1 Finance, Value for Money and Risk

14.1.1 Construction of new dwellings results in increased council tax income to the Council and receipt of new homes bonus. Affordable housing attracts a higher level of new homes bonus and assists the Council in dealing with its homelessness responsibilities.

14.1.2 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 is in appendix 4.

14.1.3 As noted above there remains considerable uncertainty about the effect of welfare reform and this may reduce rent collection in future years

14.2 Legal

14.2.1 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.

14.2.2 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.

14.2.3 The purpose of the 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. The attached HRA MTFS sets out the proposals to address the Council's objectives and policies against the financial implications of national and local constraints in the provision of housing. It seeks to project the impact of expected statutory changes and recent legal challenges on the HRA. Looking in such detail now at the financial challenges provides a sufficient timescale against which to assess the options, consult as necessary and carry out such other steps as may-be required to address the matters identified.

14.2.4 Decisions flowing from this report will require adherence to the relevant decision making processes. In making any decision regard must be had to any relevant statutory provisions and administrative rules by taking into account relevant considerations and ignoring those which are irrelevant. Regard will be had to the Council’s statutory duties in relation to housing, its housing vision and priorities as set out in Waltham Forest 2020 and the financial constraints faced. Regard must also be had to the Council's fiduciary duties and the specific statutory framework for the operation of the HRA as set out above in particular the requirements of S76 of the Housing Act 1989
14.2.5 In so far as action is taken to implement the Council’s HRA proposals it may be necessary to consult with tenants (under the Housing Act 1989) and leaseholders (under Landlord and Tenant Act 1985 and Leasehold Reform Act 2002) or under general principles of fair decision making. Consultation should comply with any consultation scheme, occur when proposals are at a formative stage, give sufficient reasons for any proposal to permit consideration and allow adequate time for consideration and response. Whilst the Council does not have to follow the outcome of the consultation it must be able to show that the decision maker has considered the consultation responses before taking the decision. Whether to consult will depend on the issues, the nature and the impact of the decision and the particular statutory provisions concerning consultation by local authorities with their tenants, leaseholder’s and other users of its housing services.

14.2.6 Where the proposed savings will have an impact affecting staff, the Council will consult the staff affected and their representatives under its change management policies.

14.3 Equalities and Diversity

14.3.1 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.

14.3.2 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).

14.3.3 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.
14.4 Sustainability (including climate change, health, crime and disorder)

14.4.1 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.

14.5 Council Infrastructure (e.g. Human Resources, Accommodation or IT issues)

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)

Cabinet Report 8 November 2016 Housing Revenue Account Medium Term Financial Strategy

Cabinet Report 28 February 2017 Housing Revenue Account Budget and Housing Rents and Charges 2017/18