

Cabinet Agenda

Date: Thursday 8 October 2020

Time: 6.30 pm

Venue: Virtual Meeting - Online

Membership:

Chair: Councillor Graham Henson (Leader of the Council, Portfolio Holder for Strategy, Partnerships, Devolution and Customer Services)

Portfolio Holders:	Portfolio:
Councillor Sue Anderson	Community Engagement and Accessibility
Councillor Simon Brown	Adults and Public Health
Councillor Keith Ferry	Deputy Leader, Regeneration, Planning and Employment
Councillor Phillip O'Dell	Housing
Councillor Varsha Parmar	Environment
Councillor Christine Robson	Young People and Schools
Councillor Krishna Suresh	Community Cohesion and Crime
Councillor Adam Swersky	Finance and Resources

Non-Executive Members:	Role:
Councillor Antonio Weiss	Non-Executive Cabinet Member
John Higgins	Non-Executive Voluntary Sector Representative

Quorum 3, including the Leader and/or Deputy Leader)

Contact: Nikoleta Nikolova, Senior Democratic & Electoral Services Officer
Tel: 020 8416 8284 E-mail: nikoleta.nikolova@harrow.gov.uk

Scan this code for the electronic agenda:



Useful Information

Meeting details:

This meeting is open to the press and public and can be viewed on www.harrow.gov.uk/virtualmeeting

Filming / recording of meetings

Please note that proceedings at this meeting may be recorded or filmed. If you choose to attend, you will be deemed to have consented to being recorded and/or filmed.

The recording will be made available on the Council website following the meeting.

Agenda publication date: Wednesday 30 September 2020

Agenda - Part I

1. Apologies for Absence

To receive apologies for absence (if any).

2. Declarations of Interest

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee, Sub-Committee or Panel;
- (b) all other Members present in any part of the room or chamber.

3. Petitions

To receive any petitions submitted by members of the public or Councillors.

4. Public Questions *

To receive any public questions received in accordance with paragraph 16 of the Executive Procedure Rules.

Questions will be asked in the order in which they were received. There will be a time limit of 15 minutes for the asking and answering of public questions.

[The deadline for receipt of public questions is 3.00 pm, 5 October 2020. Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. Councillor Questions *

To receive any Councillor questions received in accordance with paragraph 17 of the Executive Procedure Rules.

Questions will be asked in the order agreed with the relevant Group Leader by the deadline for submission and there be a time limit of 15 minutes.

[The deadline for receipt of Councillor questions is 3.00 pm, 5 October 2020].

6. Key Decision Schedule October - December 2020 (Pages 5 - 14)

7. Progress on Scrutiny Projects (Pages 15 - 16)

For consideration

8. COVID-19 Update

Verbal update by the Chief Executive.

Community

KEY 9. Housing Revenue Account Business Plan Update 2020 (Pages 17 - 32)

Report of the Divisional Director, Housing.

Resources and Commercial

10. Medium Term Financial Update - 2021/22 to 2023/24 (Pages 33 - 46)

Report of the Director of Finance.

11. Any Other Urgent Business

Which cannot otherwise be dealt with.

Agenda - Part II

Nil

*** Data Protection Act Notice**

The Council will audio record items 4 and 5 (Public and Councillor Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[Note: The questions and answers will not be reproduced in the minutes.]

Deadline for questions	3.00 pm on 05 October 2020
Publication of decisions	09 October 2020
Deadline for Call in	5.00 pm on 16 October 2020
Decisions implemented if not Called in	17 October 2020

London Borough of Harrow

Key Decision Schedule (October 2020 - December 2020)

Month: October

The following is a list of Key Decisions which the Authority proposes to take at the above Cabinet meeting. The list may change over the next few weeks. A further notice, by way of the Cabinet agenda, will be published no less than 5 clear days before the date of the Cabinet meeting, showing the final list of Key Decisions to be considered at that meeting.

A Key Decision is a decision by the Executive which is likely to:

- (i) result in the Council incurring expenditure which is, or the making of savings which are, significant having regard to the Council's budget for the service or function to which the decision relates; or
- (ii) be significant in terms of its effects on communities living or working in an area of two or more wards or electoral divisions of the Borough.

A decision is significant for the purposes of (i) above if it involves expenditure or the making of savings of an amount in excess of £1m for capital expenditure or £500,000 for revenue expenditure or, where expenditure or savings are less than the amounts specified above, they constitute more than 50% of the budget attributable to the service in question.

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Decisions which the Cabinet intends to make in private

The Cabinet hereby gives notice that it may meet in private after its public meeting to consider reports which contain confidential information. The private meeting of the Cabinet is open only to Members of the Cabinet, other Councillors and Council officers.

Reports relating to decisions which the Cabinet will take at its private meeting are indicated in the list of Key Decisions below with the reasons for the decision being made in private where appropriate. The Schedule also contains non-Key Decisions which involve Cabinet having to meet in private. Any person is able to make representations to the Cabinet if he/she believes the decision should instead be made in the public Cabinet meeting. If you want to make such representations please contact Democratic & Electoral Services. You will then be sent a response in reply to your representations. Both your representations and the Cabinet's/Leader's response will be published on the Council's website <http://www.harrow.gov.uk/www2/mgListPlans.aspx?RPId=249&RD=0&bcr=1> at least 5 clear days before the Cabinet meeting.

9 The Cabinet/Leader will be considering a report prepared by the relevant Directorate. The report together with any other documents (unless they contain exempt information) will be available for inspection 5 clear days before the decision is taken by Cabinet/Leader from Democratic Services, on 020 8424 1055 or by contacting democratic.services@harrow.gov.uk or by writing to Democratic & Electoral Services, Harrow Council, Civic Centre PO Box 2, Station Road, Harrow, HA1 2UH or on the Council's website. Copies may be requested but a fee will be payable. Reports to be considered at the Cabinet's public meeting will be available on the Council's website 5 clear days before the meeting.

The KDS looks 3 meetings ahead and will be published 28 clear days before the Decision Date / Period of Decision.

Subject	Nature of Decision	Decision Maker	Decision date / Period of Decision	Cabinet Member / Lead officer	Open or Private Meeting	Additional Documents to be submitted and any Consultation to be undertaken
OCTOBER 2020						
Housing Revenue Account Business Plan Update 2020	To approve HRA Business Plan update 2020 to set framework within which budget report can be submitted given currently known impacts of COVID-19.	Cabinet	8 October 2020	Councillor Phillip O'Dell; Councillor Adam Swersky Divisional Director, Housing tasleem.kazmi@harrow.gov.uk, tel. 0208 420 9201	Open	Agenda report and any related appendices Council tenants, leaseholders, private residents and staff.
Approval for consultation for the Edgware Town Centre Supplementary Planning Document being jointly prepared with the London Borough of Barnet (2019-2021)	To receive a draft Edgware Town Centre Supplementary Planning Document and approve it for public consultation.	Cabinet	8 October 2020	Councillor Keith Ferry Corporate Director, Community david.hughes@harrow.gov.uk, tel. 0208 736 6082	Open	Agenda report and any related appendices Finance and Legal.

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Subject	Nature of Decision	Decision Maker	Decision date / Period of Decision	Cabinet Member / Lead officer	Open or Private Meeting	Additional Documents to be submitted and any Consultation to be undertaken
Planning White Paper - proposals and implications for Harrow (including outline response to consultation)	To consider the implications of the Planning White Paper on Harrow and agree an outline proposed response to consultation.	Cabinet	8 October 2020	Councillor Keith Ferry Head of Planning david.hughes@harrow.gov.uk, tel. 0208 736 6082	Open	Agenda report and any associated appendices Finance and Legal
Harrow Statement of Community Involvement (SCI) - amendment in response to Covid-19	To consider and agree to the proposed amendment to Harrow Statement of Community Involvement (SCI).	Cabinet	8 October 2020	Councillor Keith Ferry Head of Planning david.hughes@harrow.gov.uk, tel.0208 736 6082	Open	Agenda report and any associated appendices Finance and Legal
NOVEMBER 2020						
DECEMBER 2020						

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Subject	Nature of Decision	Decision Maker	Decision date / Period of Decision	Cabinet Member / Lead officer	Open or Private Meeting	Additional Documents to be submitted and any Consultation to be undertaken
Draft Revenue Budget 2021/22 and Medium Term Financial Strategy 2021/22-2023/24	To approve the Draft of Revenue budget for 2021/22 and MTFS 2021/22-2023/24 for consultation.	Cabinet	3 December 2020	Councillor Adam Swersky Corporate Director, Resources Dawn.Calvert@harrow.gov.uk, tel. 0208 420 9269	Part exempt	Agenda Report and any related appendices
6 Draft Capital Programme 2021/22 to 2023/24	To approve: 1. The draft of 2021/22 to 2023/24 Capital Programme for consult 2. The draft of Capital strategy.	Cabinet	3 December 2020	Councillor Adam Swersky Corporate Director, Resources Dawn.Calvert@harrow.gov.uk, tel. 0208 420 9269	Part exempt	Agenda Report and any related appendices
Revenue and Capital Monitoring 2020/21 - Quarter 2 as at 30th September 2020.	1. To note the Revenue and Capital forecast position as at Quarter 2 2. To approve virements.	Cabinet	3 December 2020	Councillor Adam Swersky Corporate Director, Resources Dawn.Calvert@harrow.gov.uk, tel. 0208 420 9269	Part exempt	Agenda Report and any related appendices

Subject	Nature of Decision	Decision Maker	Decision date / Period of Decision	Cabinet Member / Lead officer	Open or Private Meeting	Additional Documents to be submitted and any Consultation to be undertaken
	3. To approve any amendment in the capital programme delegated to Cabinet					
Calculation of Council Tax Base for 2021-2022	To approve the Council's Business Rates Retention amount for 2021-22	Cabinet	3 December 2020	Councillor Adam Swersky Corporate Director, Resources fern.silverio@harrow.gov.uk, Tel: 020 8736 6818	Open	Agenda report and any related appendices
Estimated Surplus / (Deficit) on the Collection Fund 2020-2021	To agree the Councils collection fund position and to allow the appropriate transfers to the general or collection fund to clear surplus or deficit.	Cabinet	3 December 2020	Councillor Adam Swersky Corporate Director, Resources fern.silverio@harrow.gov.uk, Tel: 020 8736 6818	Open	Agenda report and any related appendices Not applicable as this is statutory obligation and a pre-requisite to the budget process.

Subject	Nature of Decision	Decision Maker	Decision date / Period of Decision	Cabinet Member / Lead officer	Open or Private Meeting	Additional Documents to be submitted and any Consultation to be undertaken
<p>⇒ Review of Housing and Homelessness Strategies (Part 2): Housing Allocation Scheme and Tenancy Strategy & Policy</p>	<p>To approve the new Housing Allocation Scheme and Tenancy Strategy & Policy.</p>	<p>Cabinet</p>	<p>3 December 2020</p>	<p>Councillor Phillip O'Dell Divisional Director, Housing Meghan.zinkewich - peotti@harrow.gov.uk, tel. 020 8424 1346</p>	<p>Open</p>	<p>Agenda report and any related appendices Consultation has been carried out with a range of stakeholders (residents, Registered Providers, Voluntary and Community Groups) and a Cross-Party Members Working Group.</p>

Harrow Council Cabinet 2020/21

Contact Details of Portfolio Holders

Portfolio	Councillor	Address	Telephone no.	Email
Leader, Strategy, Partnerships, Devolution & Customer Services	Graham Henson	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Mobile: 07721 509916 Group Office: (020) 8424 1897	Email: graham.henson@harrow.gov.uk
Deputy Leader, Regeneration, Planning & Employment	Keith Ferry	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Mobile: 07922 227147 Group Office: (020) 8424 1897	Email: keith.ferry@harrow.gov.uk
Adults & Public Health	Simon Brown	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Group Office: (020) 8424 1897	Email: simon.brown@harrow.gov.uk
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Portfolio	Councillor	Address	Telephone no.	Email
Community Engagement & Accessibility	Sue Anderson	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Mobile: 07875 094900 Group Office: (020) 8424 1897	Email: sue.anderson@harrow.gov.uk
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Finance & Resources	Adam Swersky	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Mobile: 07904 466987 Group Office: (020) 8424 1897	Email: adam.swersky@harrow.gov.uk
Housing	Phillip O'Dell	64 Marlborough Hill HARROW HA1 1TY	Tel: (020) 8861 0090 Group Office: (020) 8424 1897	Email: phillip.odell@harrow.gov.uk
Young People & Schools	Christine Robson	Labour Group Office Room 102, PO Box 2, Civic Centre Station Road HARROW HA1 2UH	Group Office: (020) 8424 1897	Email: christine.robson@harrow.gov.uk

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PROGRESS ON SCRUTINY PROJECTS

Review	Methodology	Type of report	Expected date for report to Cabinet	Comments
<p>Joint Overview & Scrutiny Committee (JHOSC) for Shaping a Healthier Future Programme</p>	<p>Joint Committee</p>	<p>Update reports will be provided for O&S/ Health and Social Care sub committee and Cabinet (for information)</p>	<p>As required</p>	<p>The last JHOSC meeting was on 7 September, hosted virtually by Hammersmith and Fulham Council. Neither Harrow member were able to attend. The meeting considered the case for change to a single CCG for NW London. The consultation has now closed and the CCG governing bodies are considering the results.</p> <p>The JHOSC meeting scheduled for 8 October has been postponed given the pressures NHS colleagues are under in preparing for a second wave of Covid-19.</p> <p>Updates will be provided to Health Sub on 19 November, as usual practice.</p>
<p>Shared Services – Lessons learnt, other councils' experiences, impact on savings and improving quality</p>	<p>Review</p>	<p>Report to Cabinet</p>	<p>TBC</p>	<p>The scope was agreed by O&S on 16 September 2019. The first meeting with the group took place on 23 September. The challenge panel took place on 2 March 2020, with a view to reporting back to O&S in April. However as council capacity and resources were diverted to deal with the Covid pandemic, this was delayed.</p> <p>The final report of the review is currently scheduled to go to O&S in October, and Cabinet thereafter.</p>

<p>Development and delivery of HSDP</p>	<p>Review</p>	<p>Single-item O&S meetings</p>	<p>As required</p>	<p>A model of informal briefing from the services followed by formal scrutiny through committee (O&S), prior to the relevant report going to Cabinet, has been adopted. This allows scrutiny to formally consider and comment on HSDP progress to Cabinet. There was a special O&S meeting on 1 September to consider the latest developments.</p> <p>Regular meetings between the Chair and Vice-Chair of O&S and the Corporate Director and services continue. There is regular informal feedback on progress through Scrutiny Leadership Group.</p>
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Contact: Rachel Gapp, Head of Policy. **Tel:** 020 8416 8774



Report for: Cabinet

Date of Meeting:	8 th October 2020
Subject:	Housing Revenue Account Business Plan update 2020
Key Decision:	Yes, sets framework for investment in Council housing and basis for the Budgets and MTFs 2021-22 onwards.
Responsible Officer:	Nick Powell, Divisional Director of Housing; Dawn Calvert, Director of Finance
Portfolio Holder:	Councillor Phillip O'Dell, Portfolio Holder for Housing; Councillor Adam Swersky, Portfolio Holder for Finance & Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All wards
Enclosures:	Appendix 1 Schedule of assumptions Appendix 2 Revenue account projections Appendix 3 Capital account projections

Section 1 – Summary and Recommendations

This report provides an update to the Council's Housing Revenue Account (HRA) Business Plan following approval of the Budget, Medium Term Financial Strategy (MTFS) and Capital Programme by the Council on 27th February 2020. This included progression of the Building Council Houses for Londoners (BCHfL) programme within the HRA which will provide up to 659 new homes in accordance with stated Government objectives. The report sets out the key assumptions used together with an update on key economic and regulatory factors.

Recommendations:

That (1) the HRA Business Plan update 2020, which will set the framework for the draft HRA Budget 2021-22 & MTFS 2022-23 to 2023-24 and capital programme and which will be submitted to Cabinet on 3 December 2020, be approved. (2) the work being conducted on alternative delivery models, the costs and procurement route of which will be the subject of a future report to Cabinet and for which the HRA Business Plan will be updated, be noted.

Reason: (For recommendations)

To have in place an updated 30-year HRA Business Plan required for construction projects within the HRA which will have significant impacts on the Community and Businesses within the Borough by providing much needed accommodation and infrastructure. Given the nature and scale of the approved new developments, together with the impact of Covid 19 and Brexit, regular and rigorous reviews of the HRA Business Plan are warranted together with consideration of alternative delivery models to achieve new housing supply and contribute to the Council's wider regeneration aspirations.

Section 2 – Report

Introductory paragraph

1. The last HRA Business Plan Update, approved by Cabinet on 10 October 2019, made reference to two options available to the Council:
 - to proceed with a more ambitious programme through further grants and borrowing resulting in a significantly increased housing supply
 - to complete the schemes already in progress and not proceed with a more ambitious programme
2. The first option was approved as a sustained depletion of the Council housing stock through Right to Buy ("RTB") sales is set to continue which will eventually compromise the viability of the Council's HRA as well as accentuate pressures on the General Fund from the cost of homelessness unless there is significant new supply of housing.
3. The Council approved, as part of the budget report on 27th February 2020, continuing with the construction of up to 659 homes funded by GLA grant £32.144m, Housing Infrastructure Fund (HIF) grant £10m, with the remainder made up of other HRA capital resources supplemented by borrowing. The total cost of these new homes, which has no impact on General Fund capital resources or borrowing, comes to £171.163m and was originally approved by the Council 28th February 2019.

4. This would assume full achievement of the programme of cost reductions totalling £1.9m on the revenue account by 31st March 2021. The capital programme is based on the latest stock condition data with priority given to compliance and Health & Safety works moving to a “just in time” approach to ensure the programme remains affordable.
5. This report refreshes the position taking into account 95 homes have already completed leaving 564 remaining to be built with £2.078m of the £32.144m GLA grant received leaving £30.066m to be claimed, and £3.573m of the £10m HIF funding received leaving £6.427m to be claimed. A claim for £4m HIF funding has been approved and paid by the GLA.
6. Updated borrowing requirements will be included in the Council’s Treasury Management update.

Options considered

Background

7. The HRA Business Plan has had to face a number of financial challenges over the last few years which have had a significant impact on the plan. Although Government have provided some clarity on future rent policy, this will not mitigate the financial loss to the business plan from enforced rent reductions over the last few years. Each year the HRA Business Plan is reviewed and updated to set budgets and charges for the year ahead. It also provides an updated 5-year plan for our capital investment programme. These plans are set within the context of a 30-year affordability profile – our long-term planning horizon for balancing the HRA. HRA income predominately comes from tenant rents, with other income received from Right to Buy receipts and Government grant. HRA expenditure includes the capital investment programme, tenant services and repairs and maintenance.
8. Financial year 2019-20 was the last year of the Government imposed statutory rent reductions spanning the four years 2016-17 to 2019-20 inclusive and Government have since approved rent increases of up to CPI + 1% for five years 2020-21 to 2024-25 inclusive. Prior to Covid-19 and the increasing possibility of a no deal Brexit, it was considered not unreasonable to assume such increases would continue in the longer term. A review by external advisors has since suggested such increases may not now be possible therefore this update assumes rent increases will be limited to CPI only from April 2025 with the long-term CPI target set at 2%.
9. Self-financing of the HRA, introduced in 2012, imposed a limit on the Council’s HRA borrowing of £150.683m, which was reached as at 31st March 2019. The Council approved debt repayments in line with the level of RTBs therefore this debt has been reduced to £149.924m as at 31st March 2020. In October 2018, Government issued a determination lifting the HRA debt cap, providing more freedom and flexibility to undertake additional borrowing, specifically for new build schemes, subject to the principles of the Prudential Code for Capital Finance in Local Authorities of affordability, sustainability and prudence. As a result of this new borrowing flexibility the aggregate additional borrowing will be £73.1m.
10. This has been supplemented by external funding totalling £42.144m from the GLA although the Council has submitted a further bid to extend the BCHfL programme within the HRA, the impact of which is included in the stress testing section later in the report.

Options

11. The Council can continue to progress the construction of up to 659 units through three options or stop or curtail the scheme under the fourth option:

- First option, through the HRA
- Second option, an alternative delivery model to support the programme should the HRA Business Plan suggest a level of risk which cannot be reasonably mitigated.
- Third option, combination of the above two
- Fourth option, stopping or significantly curtailing construction

Option 1: Continue with the new build programme within the HRA

12. This would provide up to 659 additional units across a mix of tenures including Affordable Rented and shared ownership as part of the BCHfL programme

13. Full utilisation of approved grant and borrowing would be assumed and tested against a broader suite of assumptions in the HRA Business Plan.

14. Regular review and testing of assumptions would ensure continued viability given changing macro-economic and regulatory assumptions with appropriate mitigations against identified risks:

- **Scheme phasing** – new build schemes will be procured in a phased manner once planning consents are secured and the Business Plan re-evaluated to ensure continued viability. This would prevent over extension of resources which would otherwise adversely impact on delivery of core services. Borrowing would also be drawn down in phases to limit the Council's exposure to debt in accordance with the Council's Treasury Management Strategy.
- **Regular re-appraisal** – Business Planning process to continue with reappraisals addressing a range of factors including scheme costs, interest rates, inflation and regulatory issues
- **Earmarked reserves** – A client contingency has been set up to safeguard against unforeseen events and regulatory reforms; this will ensure specific resources are set aside and kept separate from general reserves, balance £173k as at 31st March 2020 with a view to augmentation.
- **Government announcements** – Uncertainty still remains mainly due to the unknown impacts of Covid 19, Brexit and future Government policy as well as the full effects of Welfare Reform and the demands on social landlords post Grenfell. The four year mandatory rent reduction period ended on 31 March 2020. The Regulator of Social Housing's Rent Standard made provision for an annual increase in social housing (including local authority) rents of CPI +1% with effect from 6 April 2020.
- **Rent policy** - We recognise that a return to a CPI + 1% rent increase each year will mean tenants having to pay more to rent their homes from the Council. However, this increased income is vital if we are to maintain services to tenants and develop more social housing to address the needs of local people. The return to a rent increase will not mitigate the losses of the past five years and means that we are now setting rents at a lower baseline than we otherwise would have been. Previous Government Guidance on Social Rents policy of CPI + 1% was intended to apply for 10 years from 2015 but only lasted a year before the statutory decrease came in. There is a risk that this future rent policy may change again and will necessitate remodelling although the withdrawal of CPI + 1% increases post 2025 have already been addressed.

Option 2 : Consider alternative delivery models

- The HRA Business Plan is predicated on a suite of assumptions which can potentially have a significant impact on the viability of the service.
- Although the Business Plan has been stress tested for changes in key assumptions, it is considered prudent for the Council to remain prepared to consider and expedite alternative delivery models to ensure the new housing supply is achieved in full as part of the HRA's risk management strategy.
- Work is planned in considering these options in the context of the Council's wider regeneration aspirations and will be reported, together with the procurement options and their likely financial impact

Option 3 : Combination of development within the HRA combined with alternative delivery option.

- The costs and procurement route of entering into an alternative arrangement to support development within the Council's HRA are currently being worked on and will be reported to Cabinet later in the financial year.
- Such an arrangement would aim to mitigate the risks to the Council whilst supporting its wider regeneration aspirations.
- This option, which is recommended, is to continue with construction within the HRA in accordance with the approved budget.
- The costs associated with alternative delivery options to support extension of the construction programme will be used to refresh the HRA Business Plan and will form part of a separate report to Cabinet.

Option 4 : Stopping or significantly curtailing construction

- Should the Council decide to stop or curtail the construction of new homes this would result in abortive expenditure being charged to the revenue account which could impact on its viability as well as compromising broader Council objectives.
- Grant monies received from GLA, some of which have been used, will also have to be repaid.
- Together, the costs associated with this option are expected to be prohibitive therefore this option is not considered viable

Significant assumptions

15. Planned investment programme has been refreshed using latest stock condition data and reflects prioritisation of statutory and compliance works required by current health & safety standards. Costs associated with achieving carbon neutrality and the Government's Green Energy targets, which have not yet been fully quantified, are expected to be significant. These costs will need to be significantly offset by grant support which the Council will be applying for as and when Government makes the funding available and included in a future update.

16. Service reviews identified £1.9m costs on the revenue account which could be eliminated by 31st March 2021 without compromising key service objectives therefore these have been included in the budget for 2020-21. Latest monitoring indicates £1.3m have been achieved up to 31st March 2020 with the last £600k expected to be achieved by 31st March 2021. Although the review has indicated the cost reductions have not been made in the areas originally envisaged, compensating reductions in other areas have been identified. Progress on the remaining cost reductions will be monitored to ensure these can be achieved without compromising service priorities and the position will be kept under review and form part of an update to Cabinet later in the year.
17. A review of tenant service charges is in progress which will ensure tenants are charged appropriately for services received and all relevant costs recovered
18. Other significant assumptions, detailed in Appendix 1, underlying this update are given below:
- a) **Rental income** – CPI + 1% for financial years 2020-21 to 2024-25 inclusive reverting to CPI only from April 2025 which is considered a more prudent assumption given developments in the macro-economic environment. Rents for the BCHfL programme will be at London Affordable Rent where they are part funded by GLA grant although rents for existing tenants remaining at Grange Farm will be at the Council's social rents (in accordance with our tenants charter commitment). Re-lets for all other units to be at target rent in line with approved budget.
 - b) **Right to Buys** – estimated 24 disposals 2020-21 and 2021-22 dropping to 20 per annum thereafter in line with approved budget with an average discount of £111k. It is assumed retained RTB receipts permitted to finance qualifying schemes will remain at 30% (under current rules), although there is a proposal to increase this to 50% (see below "Consultation papers").
 - c) **Recycled RTB receipts** – the Council successfully recycled £3.073m RTB receipts as capital grant through the GLA in 2019-20, £52k of which was utilised in 2019-20 with the remainder earmarked to support the Grange Farm scheme. No further applications to recycle RTB receipts, which would otherwise become repayable to Government under the terms of the Retention Agreement, have been assumed.
 - d) **Retained RTB receipts** – in accordance with the terms of the Right to Buy Retention Agreement, entered into 26th September 2012, these resources will be used to support schemes which are not part funded by GLA grant.
 - e) **Grant** – Housing Infrastructure Funding grant of £10m assumed for Grange Farm; all infrastructure works assumed completed by 31 March 2021 so the full amount can be utilised. GLA grant of £100k per social unit and £38k per shared ownership unit has also been assumed, payable 50% start on site, 50% on completion. As a result of Covid-19 GLA have extended deadlines for grant claims and these have been reflected in the revised spend and rental income profiles.
 - f) **BCHfL build costs** – recent developments in the economy combined with the increasing possibility of a no deal Brexit suggest build costs may increase. As the majority of schemes are at design stage these developments are likely to have a detrimental impact on the Business Plan. As referenced in the Risk Management section the financial impact of this, together with other developments, will be evaluated and reported to Cabinet later in the year.

g) Bad debt provision – assumed £150k as set out in Appendix 1, although this will be kept under review as full impact of Covid-19 and the Government's Welfare Reform & Work Act 2016, become clearer.

h) Ongoing management cost assumptions – management costs, which reflect the impact of the Housing Senior Management restructure required as part of the £1.9m cost reductions, are assumed to be at the level included in approved budget 2020-21 and to continue at that level, adjusted for inflation as appropriate. Costs will be reviewed to ensure they are commensurate with stock numbers as part of ongoing benchmarking with other Authorities.

i) Ongoing revenue maintenance assumptions – revenue maintenance costs are assumed to be at the level included in approved budget 2020-21, as adjusted for inflation as appropriate assuming CPI is 2% in line with the Government's long term target (see appendix 1). Costs will be reviewed to ensure they are commensurate with stock numbers.

j) General Reserves – minimum balances of £2.3m as at 31st March 2021 and an average of £2.7m over ten years are required based on a prudent estimate of 7% of gross income. The Business Plan projects £7.1m general revenue reserves as at 31st March 2021 with an average of £11.7m over ten years.

k) Earmarked reserves – the Council's HRA has four earmarked (or specific) reserves set up as at 31st March 2020 for prescribed purposes :

- Transformation fund £422k – to support investment in replacement Housing IT system
- Hardship fund £25k – to support the most vulnerable and disadvantaged Council tenants affected by the Governments programme of Welfare Reforms which can significantly reduce benefit entitlement and the ways these are paid
- Regeneration reserve £173k – it is prudent to set aside reserves for unforeseen expenditure for which no budget provision was made.
- Repairs reserve £164k – to support voids, cyclical and response repairs

The Business Plan has assumed set aside for the above items although these will be kept under review.

l) Borrowing – this is divided into historic and new borrowing :

- historic debt – this includes debt that self-financing Authorities were required to take on in order to leave the subsidy system and resulted in the Council reaching the Government imposed cap of £150.683m on 31st March 2019; reduced by debt repayment to £149.924m as at 31st March 2020 commensurate with the number of RTB disposals thereby reducing interest exposure and providing capacity for future investment in existing stock. Interest on this historic debt, shared in a single loans pool with General Fund, averages at 4.05%.
- new borrowing – for new build programme only, estimated at £73.1m in line with approved budget and expected to be at lower interest rate of 3%, not shared with General Fund. Current estimates indicate this would be taken out over a total of six years although this will be reviewed as the construction programme progresses.

Neither debt attracts Minimum Revenue Provision (MRP) which is a set aside designed to ensure the principal debt is repaid at the end of the term as this is not currently required for the HRA.

Interest rates are stated after taking into account the impact of the 1% increase on Public Works Loans Board (PWLB) borrowing.

Although debt repayments have commenced in line with RTB disposals, current estimates suggest further repayments will be possible. As the majority of HRA debt is in the shared pool, additional repayments will affect General Fund therefore a co-ordinated approach is required to ensure maximum advantage to the Council and will form part of the Treasury Management update to Cabinet later in the year.

m) Use of HRA stock as Temporary Accommodation – HRA units have been used to accommodate homeless families and it has been assumed this will continue to alleviate the significant cost pressures which would otherwise arise on the Council’s General Fund.

19. A full list of assumptions underpinning this update is given in Appendix 1.

Summary outputs

20. The table below summarises the key outputs from the Business Plan as at years 5 and 10 based on the current information available and assumptions listed in Appendix 1 and shows, on a cumulative basis:

- Revenue reserves
- Capital expenditure including new build
- Debt, historic and new debt
- Major Repairs Reserve (MRR) which can be used for additional capital expenditure and increased repayment of debt

Cumulative revenue & capital expenditure and borrowing

Financial year, all cumulative	Revenue reserves £'000s	Capital expenditure £'000s	Borrowing including historic debt £'000s	MRR after provision for debt repayments £'000s
2024-25, to yr 5	9,962	176,863	223,020	107
2029-30, to yr 10	18,934	216,531	223,020	12,752

21. MRR or revenue reserves can be used to repay debt thereby reducing interest costs or be used to increase planned investment in stock.

22. Although estimated balances on the MRR are expected to steadily increase in the medium term these will be fully utilised over the 30-year life of the Business Plan, as funding planned investment expenditure, therefore only revenue balances can be used to repay debt.

23. Longer term projections of the revenue and capital accounts are given in Appendices 2 and 3 respectively.

Government Consultations

24. “Use of receipts from Right to Buy sales” – Government is proposing increasing the proportion of eligible new build expenditure which can be funded from retained right to buy receipts from 30% to 50% as well as potentially extending the deadline for reinvestment of these proceeds from three to five years enabling Councils more time and manoeuvrability to reinvest earmarked sales proceeds to replenish stock lost through right to buy. This will mean the Council will have to put less of its own resources in should this proposal go through.
25. Other proposals in this consultation paper include ring fencing of returned RTB receipts for future use by the Council, possibly as a recycled grant, and allowing greater flexibility in the use by the Council owned housing companies to reinvest these proceeds on the Council’s behalf. Another proposal is extending the use of retained RTB receipts to fund shared ownership products and providing increased flexibility for the transfer of vacant General Fund land to HRA for development. Consultation closed 9th October 2018 and Government are reviewing responses as at date of this report.

Performance Issues

26. The BCHfL programme contributes to delivery of the Homes for Harrow programme and the specific delivery targets agreed with the GLA for Harrow’s Council House Building for Londoners Programme, the Council’s target to provide up to 659 new Council homes as well as the overall affordable housing targets set out for Harrow in the London Plan. Failure to continue with the project would jeopardise achievement of the above targets and potentially result in grant funding not being taken up resulting in costs already incurred being written off to revenue which would compromise the longer term viability of the Council’s HRA.

Environmental Implications

27. All new homes must meet high standards of energy efficiency to reduce CO2 emissions as well as reduce fuel poverty as required by London Plan.

Data Protection Implications

28. There are no GDPR implications.

Risk Management Implications

29. The HRA Business Plan is based on a set of assumptions which, if changed, will have a significant impact on both Revenue and Capital resources which will impact on investment decisions in the Council’s Housing stock.
30. Key assumptions underpinning the Business Plan are set out in Appendix 1 and these are included in the risk register.
31. The Business Plan has been stress tested by varying interest rates on borrowing, rent policy changes beyond April 2025, extending the BCHfL programme and its costs and flexing achievement of cost reduction targets and minimum balances. The results indicate impacts on HRA resources as shown below:

Scenario	Revenue account	Capital account
Base case – rent increases at CPI only from April 2025, borrowing 4.05% historic, 3% new, BCHfL as approved budget	Fully funded	Fully funded
Base+ 20 new units for Rough Sleepers “next steps” - additional cost £4.2m in excess of BCHfL, £120k grant each, at London Affordable Rent, support package to help persons into mainstream society	Fully funded	Fully funded
Base+ BCHfL cost pressures – additional £3m costs not budgeted for identified on BCHfL programme	Fully funded	Fully funded
Base + increased borrowing rate – new borrowing up 1% from 3% to 4% in annual ¼% increments	Fully funded	Fully funded
Base + reduced borrowing rate – new borrowing down from 3% to 2% from 2020-21, all years	Fully funded	Fully funded
Base + cost reductions delayed – final £600k of £1.9m cost reductions delayed 12 months	Fully funded	Fully funded
Base + lower revenue balances , thresh hold for minimum revenue reserves reduced from 7% to 5% x gross income	Fully funded	Fully funded
Base + increase in build cost , increase of cost of remaining units increased by 25% to reflect changes in market and macro-economic environment	Fully funded to yr 27, breach yr 28, exhausted yr 30	Fully Funded

32. All scenarios are over a 30-year time horizon. The first seven assume the programme will be delivered based on the original cost estimates approved by the Council 28th February 2019 and can be accommodated. The final scenario assumes an increase in build costs of 25% for the remaining units which are exposed to cost increases (i.e. not on site or at tender stage). This scenario suggests revenue reserves are at risk of breaching minimum thresholds at year 28 then becoming exhausted at year 30.

33. Most of the programme is currently at design stage therefore actual costs are still to be firmed up as build contracts are tendered taking account of ongoing economic impacts from Covid-19 and Brexit. Additionally, the current BCHfL programme made assumptions about the cost of delivering Phase 2 of Grange Farm and did not include the costs of delivering Phase 3. A report on the Procurement strategy and cost provision for Grange Farm Phase 2 and 3 will be considered by Cabinet in November/December 2020 and the HRA business plan will need to be reviewed at this point to assess the impact of the additional costs of completing Grange Farm and other schemes. Given the long-time horizons involved this will form part of future updates in accordance with the Council’s risk management strategy.

Procurement Implications

The recommendation of this report has no direct or immediate procurement implications however any procurement arising from the recommendation will be required to follow internal governance process, comply with the Public Contract Regulations 2015 and the Council's Contract Procedure Rules. The procurement team will provide professional advice and support when required to do so

Legal Implications

Council, as a Local Housing Authority, must maintain a Housing Revenue Account (HRA) in accordance with s74 of the Local Government & Housing Act 1989 (the "1989 Act"). The HRA must include sums falling to be credited or debited in accordance with the category of properties listed within s74(1) of the 1989 Act, which consists primarily of Council housing stock. The HRA must include any capital expenditure on housing stock which a Local Authority has decided to charge to revenue. Save in accordance with a direction of the Secretary of State, sums may not be transferred between the HRA and the General Fund, therefore the HRA is ring-fenced and cannot be used to subsidise a budget deficit within the General Fund, neither can the General Fund be used to subsidise a budget deficit in the HRA. Section 76 of the 1989 Act requires Local Authorities to formulate and implement proposals to secure that the HRA for each financial year does not show a debit balance. If a debit occurs, this must be carried forward to the next financial year.

Financial Implications

34. Continuation of the new build programme will require full utilisation of external grants together with external borrowing within required timescales.
35. Although permanent cost reductions of £1.9m on the revenue account are expected to be fully achieved by 2021 these will be kept under review as part of the budget monitoring process and included in future updates as required
36. Further debt repayments will have to be co-ordinated with General Fund and will therefore form part of the Treasury Management update to Cabinet later in the year.
37. A key mitigation will be the regular and rigorous review of the financial viability of the Council's HRA as the BCHfL scheme progresses against a suite of assumptions, the most significant of which have already been stress tested.
38. The HRA Business Plan provides a framework within which more detailed budgets can be constructed. Significant decisions around the extension of the BCHfL programme and the procurement route to support this, including alternative delivery models, are outstanding. The financial impacts of these decisions will form part of an update to Cabinet later in the year.

Equalities implications / Public Sector Equality Duty

39. Pursuant to the Equality Act 2010 ("the Act"), the Council, in exercise of its functions, has to have 'due regard' to (i) eliminating discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; (ii) advancing equality of opportunity between those with a relevant protected characteristic and those without; and (iii) fostering good relations between those with a relevant protected characteristic and those without. The relevant protected characteristics are age, race, disability, gender reassignment, pregnancy and maternity, religion

or belief, sex and sexual orientation. The duty also covers marriage and civil partnership, but to a limited extent.

40. When making decisions, the Council must take account of the equality duty and in particular any potential impact on protected groups. There are no new equality impacts of the recommendations contained within this report as it represents a continuation of existing policy.

Council Priorities

1. Improving the environment and addressing climate change

The Planned Investment programme is being designed to address key climate change issues with a focus on renewable energy and efficiency in existing and new homes.

2. Tackling poverty and inequality

The additional housing will be genuinely affordable thereby providing accommodation to the most vulnerable in the Borough

3. Building homes and infrastructure

Provision of additional housing will support the local community and economy thereby contributing to the wellbeing of residents and supporting community cohesion,

4. Thriving economy

The Business Plan is designed to support the longer term viability of the HRA which provides much needed housing and advice to residents and those at risk of becoming homeless.

Affordable and high quality housing is in high demand and will support the local economy by providing a stable base for local workers as well as contractors engaged in building and maintaining the new houses.

Section 3 - Statutory Officer Clearance

Statutory Officer: Tasleem Kazmi

Signed on behalf of the Chief Financial Officer

Date: 18th September 2020

Statutory Officer: Paresh Mehta

Signed on behalf of the Monitoring Officer

Date: 7th September 2020

Statutory Officer: Nimesh Mehta

Signed by the Head of Procurement

Date: 28th August 2020

Statutory Officer: Paul Walker

Signed by the Corporate Director

Date: 29th September 2020

Mandatory Checks

Ward Councillors notified: NO, as it impacts on all Wards

EqlA carried out: YES

EqlA cleared by: Dave Corby

Section 4 - Contact Details and Background Papers

Contact:

Tasleem Kazmi, Finance Business Partner – Housing & Regeneration,
Tel 020 8416 5201 or email tasleem.kazmi@harrow.gov.uk

Background Papers:

[HRA Budget 2020-21 and MTFS 2021-22 to 2022-23](#)

Call-in waived by the Chair of Overview and Scrutiny Committee

NO

Appendix 1: HRA Business plan assumptions

Item	Assumption
Inflation	RPI 2.9%, CPI 2% in line with long term Government target
Rents and service charges	Non-sheltered: ave rent £116.28, service charge £3.25 Sheltered: ave rent £96.73, service charge £3.71 Total: ave rent £115.22, service charge £3.25 2020/21 to 2024/25 CPI + 1%, then reverting to CPI only
Other income	Facility charges 5%, Community Centres 4%, Garages 0% increase
Bad Debt Provision	£150k per annum
RTB sales	2020/21 & 2021/22, 24 disposals then 20 per annum Average valuation £336k, average discount £111k
SSCs	2020/21 £3.435m increasing 2% per annum
Depreciation	Dwellings £7.508m, based on 2019/20 accounts Non dwellings £285k
Capital investment expenditure - existing stock	£6.4m per annum first five years, equating to £1,310 per tenanted dwelling
Repairs - all revenue expenditure & overheads associated with repairs except SSCs	£6.6m per annum first five years, equating to £1,338 per tenanted dwelling
HRA working balance	Set at 7% x gross income given no borrowing capacity on historic debt and macro-economic uncertainties Revenue account minimum balances not breached.
Borrowing and interest	Historic debt £149.924m at 4.05%, repayments linked to RTB, shared pool with General Fund New debt to support BCHfL £73.1m 3%, no repayments assumed No requirement for MRP
External funding	HIF £10m GLA £32.144m RTB receipts recycled as Affordable Hsg Grant £3.073m, no further applications assumed

Appendix 2: HRA Revenue account projections

£'000s / Year	Income			Expenditure						Net		
	Net rent Income	Other income	Total Income	Managt.	Depreciation	Responsive & Cyclical	Other Revenue spend	Total expenses	Interest, RCCO, transfer to/from earmarked reserves	Surplus (Deficit) for the Year	Surplus (Deficit) b/fwd	Surplus (Deficit) c/fwd
2020.21	29,019	3,292	32,311	-10,756	-7,794	-7,573	-133	-26,256	-6,484	-430	7,526	7,096
2021.22	30,289	3,340	33,629	-10,971	-7,981	-7,916	-136	-27,005	-6,507	118	7,096	7,214
2022.23	31,628	3,390	35,018	-11,191	-8,246	-8,107	-139	-27,682	-6,823	513	7,214	7,726
2023.24	32,999	3,441	36,440	-11,415	-8,636	-8,419	-141	-28,610	-7,400	430	7,726	8,156
2024.25	35,907	3,493	39,401	-11,643	-8,924	-8,778	-144	-29,490	-8,105	1,806	8,156	9,962
2025.26	37,406	3,548	40,954	-11,876	-9,625	-9,177	-147	-30,825	-8,326	1,803	9,962	11,765
2026.27	38,391	3,604	41,995	-12,113	-10,052	-9,474	-150	-31,790	-8,313	1,893	11,765	13,658
2027.28	39,019	3,662	42,681	-12,356	-10,306	-9,735	-153	-32,550	-8,300	1,832	13,658	15,489
2028.29	39,657	3,721	43,378	-12,603	-10,565	-10,004	-156	-33,328	-8,288	1,762	15,489	17,251
2029.30	40,304	3,783	44,086	-12,855	-10,832	-10,280	-159	-34,125	-8,278	1,683	17,251	18,934
2030.31	41,749	3,846	45,595	-13,112	-11,104	-10,563	-162	-34,941	-8,267	2,386	18,934	21,321
2031.32	41,628	3,911	45,539	-13,374	-11,384	-10,854	-166	-35,777	-8,257	1,505	21,321	22,825
2032.33	42,305	3,979	46,284	-13,642	-11,670	-11,153	-169	-36,634	-8,248	1,402	22,825	24,227
2033.34	42,992	4,048	47,040	-13,914	-11,963	-11,461	-172	-37,510	-8,240	1,290	24,227	25,517
2034.35	43,690	4,120	47,810	-14,193	-12,264	-11,776	-176	-38,408	-8,233	1,169	25,517	26,686
2035.36	45,252	4,194	49,446	-14,477	-12,571	-12,101	-179	-39,328	-8,226	1,891	26,686	28,577
2036.37	45,117	4,270	49,387	-14,766	-12,887	-12,434	-183	-40,270	-8,221	896	28,577	29,473
2037.38	45,846	4,349	50,195	-15,061	-13,210	-12,777	-187	-41,235	-8,217	744	29,473	30,216
2038.39	46,587	4,430	51,017	-15,363	-13,541	-13,129	-190	-42,223	-8,213	581	30,216	30,798
2039.40	47,339	4,514	51,852	-15,670	-13,880	-13,491	-194	-43,234	-8,211	408	30,798	31,205
2040.41	48,102	4,600	52,702	-15,983	-14,227	-13,862	-198	-44,271	-8,209	222	31,205	31,427
2041.42	49,816	4,689	54,505	-16,303	-14,583	-14,244	-202	-45,332	-8,207	966	31,427	32,393
2042.43	49,662	4,781	54,443	-16,629	-14,948	-14,636	-206	-46,419	-8,206	-181	32,393	32,212
2043.44	50,459	4,876	55,335	-16,962	-15,321	-15,039	-210	-47,532	-8,206	-402	32,212	31,810
2044.45	51,269	4,974	56,243	-17,301	-15,703	-15,453	-214	-48,672	-8,206	-635	31,810	31,175
2045.46	52,090	5,075	57,165	-17,647	-16,095	-15,879	-219	-49,839	-8,206	-881	31,175	30,294
2046.47	52,924	5,179	58,103	-18,000	-16,496	-16,316	-223	-51,035	-8,206	-1,138	30,294	29,156
2047.48	54,804	5,287	60,090	-18,360	-16,907	-16,765	-227	-52,260	-8,206	-376	29,156	28,780
2048.49	54,628	5,398	60,026	-18,727	-17,328	-17,227	-232	-53,514	-8,207	-1,695	28,780	27,085
2049.50	55,499	5,512	61,011	-19,102	-17,760	-17,701	-237	-54,798	-8,209	-1,996	27,085	25,089

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Appendix 3: HRA Capital account projections

£'000s / Year	Expenditure			Financing						
	Major Works & Imps	New Build Development	Total Expenditure	Borrowing	RTB 141 Receipts	Other RTB Receipts	Other	MRR	RCCO	Total Financing
2020.21	10,153	24,601	34,754	4,249	0	782.3	14,362	14,860	500	34,754
2021.22	5,296	28,861	34,157	10,440	280	1039	15,115	7,283	0	34,157
2022.23	5,447	33,119	38,566	19,000	860	700.4	10,875	7,130	0	38,566
2023.24	6,147	41,877	48,023	23,500	885	630.3	14,681	8,327	0	48,023
2024.25	6,323	15,041	21,364	7,700	551	982.9	3,650	8,480	0	21,364
2025.26	7,491	0	7,491	0	0	1030.1	0	6,461	0	7,491
2026.27	7,706	0	7,706	0	0	1038.7	0	6,667	0	7,706
2027.28	7,927	0	7,927	0	0	920	0	7,007	0	7,927
2028.29	8,155	0	8,155	0	0	656.1	0	7,498	0	8,155
2029.30	8,389	0	8,389	0	0	665.6	0	7,723	0	8,389
2030.31	8,760	0	8,760	0	0	675.3	0	8,084	0	8,760
2031.32	9,295	0	9,295	0	0	685.1	0	8,610	0	9,295
2032.33	9,671	0	9,671	0	0	695.2	0	8,976	0	9,671
2033.34	10,480	0	10,480	0	0	705.4	0	9,774	0	10,480
2034.35	11,104	0	11,104	0	0	715.8	0	10,388	0	11,104
2035.36	12,324	0	12,324	0	0	726.3	0	11,597	0	12,324
2036.37	12,678	0	12,678	0	0	737.1	0	11,941	0	12,678
2037.38	13,042	0	13,042	0	0	748.1	0	12,294	0	13,042
2038.39	13,417	0	13,417	0	0	759.2	0	12,657	0	13,417
2039.40	14,475	0	14,475	0	0	770.6	0	13,704	0	14,475
2040.41	14,891	0	14,891	0	0	782.2	0	14,109	0	14,891
2041.42	15,319	0	15,319	0	0	794	0	14,525	0	15,319
2042.43	15,759	0	15,759	0	0	806	0	14,953	0	15,759
2043.44	16,211	0	16,211	0	0	818.2	0	15,393	0	16,211
2044.45	16,677	0	16,677	0	0	830.6	0	15,847	0	16,677
2045.46	16,359	0	16,359	0	0	843.3	0	15,516	0	16,359
2046.47	16,829	0	16,829	0	0	856.2	0	15,973	0	16,829
2047.48	17,313	0	17,313	0	0	869.4	0	16,443	0	17,313
2048.49	17,810	0	17,810	0	0	882.7	0	16,928	0	17,810
2049.50	18,322	0	18,322	0	0	896.4	0	17,426	0	18,322

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Report for: Cabinet

Date of Meeting:	8 th October 2020
Subject:	Medium Term Financial Update – 2021/22 to 2023/24
Key Decision:	No
Responsible Officer:	Dawn Calvert - Director of Finance and Assurance (S151 Officer)
Portfolio Holder:	Cllr Adam Swersky – Portfolio Holder for Finance and Resources
Exempt:	No
Decision subject to Call-in:	Yes
Wards affected:	All Wards
Enclosures:	None

Section 1 – Summary and Recommendations

In light of Covid-19, this report sets out the current estimated financial impact of the pandemic on the Council, the estimated impact over the three years of the Medium Term Financial Strategy and the next steps and considerations the Council is taking in the run up to presenting its draft 2021/22 budget to Cabinet in December.

Recommendations:

Cabinet is requested to note:

- 1) The estimated financial impact of Covid-19 on the Council in 2020/21 as reported to MHCLG (Table 1)
- 2) The Council's strategy to tightly manage the 2020/21 revenue budget to protect reserve balances for future years (paragraph 3.5 & 3.6)
- 3) The actions the Council is taking to reduce pressures against the MTFFS prior to announcements around the indicative funding settlement from central government (paragraphs 3.10 to 3.13)
- 4) The estimated range of the budget gap for 2021/22 from £22.6m to £18.8m, dependent upon a number of scenarios, and the uncertainties upon which this is based (Table 2 and paragraph 3.26)
- 5) The choices the Council face in the setting of the draft 2021/22 budget in light of the lack of clarity around the indicative funding settlement from central government (paragraph 3.27)

Reason: (for recommendations)

To ensure Cabinet are updated on the estimated impact of the Covid-19 pandemic on the Council's already challenging financial position over the medium term.

Section 2 – Report

1.0 Introductory paragraph

- 1.1 The Cabinet has received a number of reports over recent months detailing the Council's strategic response to the Covid-19 pandemic. The financial pressure that the Council faces from Covid-19 remains the highest strategic concern and this report sets out the estimated financial pressure, over the medium term, that the pandemic places on the Council's budget. Central government have provided financial support for the current financial year but announcements on future funding arrangements, which are expected to be through the Local Government Financial Settlement in December, places the Council in

an unprecedented position as it approaches setting the draft Budget and Council Tax requirement for 2021/22. It is important to note this report is not a draft budget.

2.0 Background Information

- 2.1 The financial context in which the Council operates is well documented in the annual budget report. The key points are detailed below to demonstrate the significant financial pressure the Council was already facing prior to the Covid-19 pandemic which means the Council has little resilience to manage the financial impact, both immediately and over the medium term.
- 2.2 The Council remains a low funded Council with its core spending power in 2019/20 being £170 lower than the London average and £75 lower than the rest of England.
- 2.3 The Council has managed a revenue budget shortfall of £137m over the last eight years to fund the £50m reduction in Revenue Support Grant (RSG), £61m of demand led growth pressures and £26m of inflationary pressures and capital investment.
- 2.4 The Council has not shied away from making difficult decisions around Council Tax with the rate being increased annually to the maximum referendum level including applying the Adult Social Care precept in full. However, a consequence of this, alongside the reduction in RSG, is that 77% of the revenue budget is supported by Council Tax and Harrow has the third highest Council Tax rate in London. As a borough with one of the high rates of low paid work, the borough is very susceptible to a downturn in the economy.
- 2.5 The Council's retained business rates are low and remain static at £14.9m. As a borough with one of the highest levels of SME's and micro business in London, this again potentially makes the Council's business rate base fragile and at risk of a downturn.
- 2.6 The Council's reserves are at the lower end of the lowest quartile in terms of levels across London. After taking account of earmarked reserves for items such as PFI's, insurance liabilities etc. the Council has £10m of uncommitted General Fund Reserves and a further £10m of reserves that could be re-purposed.
- 2.7 The Council does have robust financial management and has delivered a balanced revenue budget for the last 8 years and, over the same

period, has not set a revenue budget which has relied upon the use of reserves to achieve its legal requirement to balance.

- 2.8 However, when the 2020/21 budget was approved in February 2020, the Council also published a budget gap of £22.6m over the last 2 years of its Medium-Term Financial Strategy (MTFS). And for the first time in many years £3.8m of one-off reserves had to be used to balance the 2020/21 budget, used largely to fund additional demand pressures in Adult social care not fully cover by precept income and specific government grant.

3.0 Financial Impact of Covid-19 in 2020/21

- 3.1 The Council has been in direct contact with the Ministry of Housing, Communities and Local Government (MHCLG) to directly explain Harrow's financial position and the challenges around the Council's ability to move forward if a sustainable financial solution is not found for Local Government.

- 3.2 Alongside this the Council is required to report monthly to MHCLG identifying the impact of the pandemic in the current financial year. Harrow's submissions are summarised below:

Table 1: Estimated Impact of Covid-19 in 2020/21

Submission	1	2	3	4	5
	15/04/20				
	£'000	£'000	£'000	£'000	£'000
Est Additional Expenditure	11,291	14,157	18,719	14,345	12,927
Est Loss of Income	23,662	40,663	25,320	24,053	23,536
Impact prior to funding	34,953	54,820	44,039	38,398	36,463
Less s31 Grant		-17,000			
Less Emergency Funding		-13,100	-13,100	-15,039	-15,039
Less estimate of Income Compensation					-4,700
Impact after funding received		24,720	30,939	23,359	16,724

- 3.3 Table 1 shows that, at submission 5, the Council is forecasting a financial impact of £36.463m. This figure includes a Collection Fund loss of £10.7m which is the estimated loss against receipts for collection of Council Tax (£7.5m) and Business Rates (£3.250m). In the current financial year this estimated loss is held within the Collection Fund with the impact on the revenue account applied in the 2021/22 budget which is referred to later in this report when referencing the impact on the MTFS. At the time of writing this report the Council has received £15.039m of Emergency Funding to fund additional expenditure incurred and lost income. In July the Government announced their co-payment mechanism for irrecoverable sales, fees and charges income, with the government covering 75% of losses beyond 5% of planned income. Under this mechanism, the Council are required to make 3 submissions over the course of the financial year, the first return being due at the end of September. The estimate of compensation income from this scheme is £4.7m. MHCLG submission 6 for income and expenditure is due for submission on 02 October. Whilst both these funding streams are gratefully received, they are one off and there is no indication that they will continue into 2021/22 to fund the ongoing impact of Covid-19.
- 3.4 Also, in July the government announced a mechanism to allow the repayment of Collection Fund losses over the next three years. As with all income and expenditure, the Council's Collection Fund loss will be kept under monthly review and the decision will be made at the point of setting the draft budget (December) as to whether to make use of this mechanism.
- 3.5 The Council reported its Quarter 1 Financial Performance to September Cabinet. Throughout the pandemic the Council has strived to maintain its robust financial grip to ensure a balanced budget is achieved for 2020/21 to prevent any unnecessary drawn down from reserves. One of the key messages the Council has expressed consistently to MHCLG is that Covid-19 is not a one year issue but will have a significant legacy impact over the MTFS making it highly unlikely that a number of budgets, either income or expenditure, will return to their pre Covid-19 levels. To this extent, it is crucial that the limited level of reserves the Council does hold are not used in 2020/21 and carried forward to provide much needed support whilst there remains such a lack of clarity on central government funding for 2021/22 and beyond.
- 3.6 As at Quarter 1 the monitoring process is forecasting an overall budget overspend (business as usual and Covid-19) of £1.5m. However, this position is supported by £20m of Emergency Funding and income compensation which is one off and there is no indication this support

will continue into 2021/22. The September Cabinet report explains the correlation between the Quarter 1 financial performance and the MHCLG submission. The Council remains very focused on achieving a safe balanced budget in 2020/21 to ensure there is no requirement to make a call on reserve balances.

Medium Financial Strategy Refresh 2021/22 to 2023/34

- 3.7 The Councils current MTFS was approved by Council in February 2020. It covered the three years 2020/21 to 2022/23 and showed the legally required balanced budget for 2020/21 but with a significant budget gap of £22.6m for years 2 and 3. The MTFS is refreshed annually and rolled forward one year.
- 3.8 The Council finds itself refreshing the MTFS in unprecedented times against the backdrop of the long term, and in many cases unknown, impacts of the Covid-19 pandemic and a lack of any form of clarity on its funding settlement from central government. Prior to the pandemic the expectation was for the Spending Review 2020, which would set the quantum of the overall funding envelope for local government. Alongside this was the intended Fair Funding Review which would reset the needs baseline to determine how the overall quantum of funding would be distributed. The latter being a potentially important review for the Council on account of its continued low funding position with the current funding formula not keeping pace with the needs of the borough.
- 3.9 In July the government announced the 2020 Spending Review which confirmed the process would be finalised in the Autumn and cover a revenue settlement for three years and capital allocations for four years. At the time of writing this report the government have confirmed that their Autumn Budget has been cancelled and there remains much speculation that the intended three-year settlement will instead be replaced by a one-year temporary settlement. It is highly unlikely that any details of the local government financial settlement, be it one or three years, will be released before mid-December. In addition, there was a recent announcement that the government's plans to publish the much awaited Adult Social Care Green Paper has been pushed back a further year.
- 3.10 Against this backdrop of uncertainty the Council has continued with an in-depth review of its financial position to inform the refresh of the MTFS. All aspects of the budget have been reviewed and over the summer directorates were tasked with reviewing their budgets to:
- Reduce estimated expenditure pressures into future years to stem baseline increases

- Review demand pressures and potential mitigating actions
 - Review income strategies to reduce the estimated loss of impact
- 3.11 The intended outcome of the in depth reviews is to ensure that the Council has done everything it can do to reduce the pressures within the MTFS prior to the announcement of its indicative finance settlement in December at which point the budget gap can be finalised with a greater degree of clarity and the Council can agree its strategy on how to move forward.
- 3.12 The Councils Asset Management Strategy is being reviewed and updated. An immediate outcome from this review may be the small scale disposal of a number of assets that have reached the end of their strategic use and will provide much needed receipts to support the MTFS. Such actions will require Cabinet approval. One rationale for an initial immediate outcome is to make use of the government tool for capital flexibilities which is due to end in March 2022 unless extended.
- 3.13 The Councils Capital Programme is subject to a whole scale baseline review to ensure it is aligned to agreed strategic priorities, to realise any potential capital financing efficiencies and to reduce the occurrence of carrying forward slippage into future years. The outcome of this review will be the refreshed draft Capital Programme brought to Cabinet in December.
- 3.14 Table 2 below summarises the refreshed MTFS supported by a high-level explanation of adjustments and key assumptions. It important to note that the information in the table is based on estimates and assumptions that will remain under constant review until the draft budget is set in December. The purpose of this report is to show the indicative impact of current thinking on the MTFS only and the report is not making recommendations on the budget. Therefore, the detailed schedules to support numbers shown in the table will be brought to December Cabinet when the position is finalised and forms the draft budget for consultation:

Table 2: MTFS Refresh 2021/22 to 2023/24

	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	
Published Budget Gap - February 2020	11,414	11,178		22,592
Adjustments:				
Removal of estimated increases in the CT base	750			
Directorate Pressures carried forward from 2020/21:				
Resources	-176	-339		
Children's:	750	600		
Adults	4,095	1,047		
Community:				
Expenditure	2,445	-750		
Loss of income @ 39%	7,939			
Under 18's Transport - removal of subsidy from TFL	860			
New Homes Bonus - continuation of scheme	-782	-728		
Freedom Passes - reductions in usage	-1,086	-1,400		
Pay and Non Pay Inflation			4,750	
Revised Budget Gap - 20/09/20	26,209	9,608	4,750	40,567
Assumption - receipt of Adult Social Care Funding	-3,482			-3,482
Revised Budget Gap - 20/09/20	22,727	9,608	4,750	37,085
Community Income Scenario's				
Income loss at 30%	-1,789			
Revised gap @ 30% income loss	20,938	9,608	4,750	35,296
Income loss at 25%	-2,854			
Revised gap @ 25% income loss	19,873	9,608	4,750	34,231
Income loss at 20%	-3,839			
Revised gap @ 20% income loss	18,888	9,608	4,750	33,246

Council Tax Base:

3.15 The current MTFS assumption that the CT base would increase to 88,180 band D equivalent properties is removed as development across the borough has either ceased or slowed during the pandemic.

Directorate Pressures:

3.16 Resources – the directorate is reviewing the growth provisions included in the current MTFS with a view to reducing the strain on the MTFS.

3.17 Children's – the Qtr 1 Monitoring report to September Cabinet explained that since March 2020 there has been a net increase in the number of Looked After Children rising from 180 to 200 in July. The directorate can identify plans to partly mitigate this increase but returning to March 2020 levels is not possible and the strain is reflected in the refreshed MTFS.

- 3.18 **Adults** – at the point of setting the 2020/21 budget in February 2020, estimated growth projections were forecast for Adult Services covering the MTFS. The identified pressures were not built into the MTFS because of future funding uncertainties, the Council only received a one-year financial settlement in 2020/21 with no certainty about how social care was to be funded in future. Including the legacy impact of Covid-19, growth projections are currently estimated at £6.4m for 2021/22 and £3.7m for 2022/23. After accounting for growth already included in the MTFS, the refreshed MTFS reflects the additional strain of £5.142m. Forecasting growth under normal circumstances is challenging and the task has only increased as a result of Covid-19. The division are continuing with their modelling assumptions in the run up to the draft budget.
- 3.20 **Community** – the Qtr 1 Monitoring Report to September Cabinet reported pressures of £15.124m (£2.029m business as usual and £13.095m Covid-19 related). As a result of the review work over the summer period, expenditure pressures moving forward are estimated at £1.695m (over 2 years) and the income loss, primarily as a result of Covid-19, is estimated at £7.939m assuming a 39% reduction on budgeted income. The income estimate is based on evidence known at the time of writing this report. Table 2 also shows a number of scenario's around how the loss of income could improve and the financial benefits from this. However, as we enter a potential second wave, the income position will closely reviewed in preparation for the draft budget.
- 3.21 **Under 18's Transport** - The transfer date of this responsibility from Transport for London is now estimated to be January 2021. The MTFS strain of £860k is a high level estimate until further details are clarified.
- 3.22 **New Home Bonus (NHB)** – The current MTFS assumes the NHB will cease however it is now assessed as reasonable to assume that the grant will continue in some guise and the income is planned for reinstatement in the MTFS.
- 3.23 **Pay and non pay inflation** – The £4.750m assumes pay award inflation at 2.75% (£2.750m) leaving £2m for non-pay inflation and other pressures, (including an increase in capital financing costs of £500k to cover minimum additions to the Capital Programme in future years) .
- 3.24 **Freedom Passes** – Freedom Passes cost the Council £10m per annum and the charge in based on usage over the last two years hence a reduction in charges are anticipated as a result of the pandemic. The current estimates from TFL indicate a 2-year benefit of

£2.4m which is the midpoint of the best and worst case scenarios provided by TFL.

3.25 The conclusion of all this work can be summarised as:

- The budget gap for 2021/22 is shown to increase from £11.4m to £26.2m. Due to the delay in the Adult Social Care Green Paper, if it is assumed that additional funding is received in 2021/22 for adult social care commensurate with that received in 2020/21, the budget gap could be further reduced to £22.7m and then further potential reductions based on the loss of income scenario's.
- Based on a number of assumptions on collection rates, bad debt and CTS requirements, if Council Tax was increased to its current referendum level of 1.99% and a 2% Adult Social Care precept levied, this would generate approximately £4.8m in 2021/22 which simply does not meet the estimated budgeted gap.
- The budget gap for 2022/23 is shown to reduce from £11.4m to £9.6m. However, this does not include the impact of using any one-off measures to manage the 2021/22 budget gap. For example, if a value of one-off reserves was applied to the 2021/22 budget, the reversal of this one-off action in 2022/23 would immediately increase the budget gap
- The budget gap for 2023/24 is currently shown at £4.7m

3.26 However it must be stressed that the revised budget gap figures shown are based on a number of assumptions which are subject to constant change. It is incredibly difficult to predict the impact of a second wave of the pandemic, the implications of the changes to the furlough scheme, how the general economy will recover after Covid-19 and what will happen as Brexit approaches. This uncertainty runs alongside existing budget pressures including social care demand, demographic changes and housing and homelessness. What the Council has done is make the most appropriate assumptions to support the MTFS refresh process which will be kept under close scrutiny to ensure that the draft budget presented to Cabinet in December reflects the most accurate and up to date impact of Covid-19 and other pressures in the Council's medium term financial position.

3.27 Focusing on the estimated position for 2021/22, the Council is faced with a number of choices:

- It could embark on a drastic programme of cuts to address the budget gap. This report has highlighted all the uncertainties in terms of financial planning, the most significant being the lack of clarity on the indicative financial settlement due in December. It would be unwise to consider any programme to reduce Council services until there is clarity on the Council's funding settlement which will inform the budget gap

- The Council do have limited reserves that can be applied to the budget gap:
 - Budget Planning Reserve £2,628m
 - Commercialisation Reserve £1.264m
 - MTFs Implementation Reserve £1.775m
 - Adults Social Care Reserve £1.9m
 - Business Risk Reserve (ear marked for member investment) £2m
 - General Fund Balances £10m
- The Council will consider the need to call on reserves when setting the draft budget. The main concern is that reserves are only a temporary solution and will need to be carefully considered alongside announcements on the indicative funding settlement.

Options Considered

3.28 The purpose of this report is to update members on the MTFs. Where financial scenarios are relevant, these have been identified in the report.

Risk Management Implications

3.29 The inability to deliver the Council's approved MTFs and the recovery of the Council from Covid-19 are both reflected on the Corporate Risk Register.

Procurement Implications

3.30 This report is for noting and there are no direct procurement implications arising from this report.

Legal Implications

3.31 Section 31A of the Local Government Finance Act 1992 requires billing authorities to calculate their council tax requirements in accordance with the prescribed requirements of that section. This requires consideration of the authority's estimated revenue expenditure for the year in order to perform its functions, allowances for contingencies in accordance with proper practices, financial reserves and amounts required to be transferred from general fund to collection fund.

3.32 Local authorities owe a fiduciary duty to council tax payers, which means it must consider the prudent use of resources, including control of expenditure, financial prudence in the short and long term, the need to strike a fair balance between the interests of council tax payers and ratepayers and the community's interest in adequate and efficient

services and the need to act in good faith in relation to compliance with statutory duties and exercising statutory powers.

- 3.33 These proposals will eventually be referred to Council so that Council can approve the budget envelope and set the Council Tax. There will be contingencies within the budget envelope so that decision makers have some flexibility should any decisions have detrimental equalities impacts that cannot be mitigated.

Financial Implications

- 3.33 This report is for noting only and there are no direct financial implications arising from this report.

Equalities implications / Public Sector Equality Duty

- 3.34 Decision makers should have due regard to the public sector equality duty in making their decisions. The equalities duties are continuing duties they are not duties to secure a particular outcome. This report is for noting but when decisions are to be made the equalities impact will be assessed on each of the proposals as they are developed. Consideration of the duties should proceed the decision. It is important that Cabinet has regard to the statutory grounds in the light of all available material such as consultation responses. The statutory grounds of the public sector equality duty are found at section 149 of the Equality Act 2010 and are as follows:

A public authority must, in the exercise of its functions, have due regard to the need to:

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;
- (c) Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
- (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;
- (c) Encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

Having due regard to the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it involves having due regard, in particular, to the need to:

- (a) Tackle prejudice, and
- (b) Promote understanding.

Compliance with the duties in this section may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under this Act.

The relevant protected characteristics are:

- Age
- Disability
- Gender reassignment
- Pregnancy and maternity
- Race
- Religion or belief
- Sex
- Sexual orientation
- Marriage and Civil partnership

Council Priorities

3.35 The Council's financial plans are prepared in line with delivering the Council's priorities as set out below:

1. **Improving the environment and addressing climate change**
2. **Tackling poverty and inequality**
3. **Building homes and infrastructure**
4. **Addressing health and social care inequality**
5. **Thriving economy**

Section 3 - Statutory Officer Clearance

Statutory Officer:

Signed by the Chief Financial Officer

Date: 29 September 2020

Statutory Officer:

Signed on behalf of the Monitoring Officer – Jessica Farmer

Date: 29 September 2020

Statutory Officer:

Signed by the Head of Procurement

Date: 29 September 2020

Statutory Officer:

Signed by the Corporate Director - Resources

Date: 30 September 2020

Mandatory Checks

Ward Councillors notified: YES

EqlA carried out: NO

This report is for noting only. No EqlA required.

Section 4 - Contact Details and Background Papers

Contact: Dawn Calvert – Director of Finance and Assurance (S151 Officer), dawn.calvert@harrow.gov.uk

Background Papers: None

Call-in waived by the Chair of Overview and Scrutiny Committee

NOT APPLICABLE