



Report to Safer and Stronger Communities Scrutiny & Policy Development Committee

Report of: Executive Director, Communities

Subject: HRA Business Plan Annual Review

Author of Report: Liam Duggan, Housing Business Plan Team, 0114 2930240

Summary:

The HRA Business Plan sets out how all aspects of council housing will be funded from income (predominately rent) the Local Authority is able to generate in its capacity as landlord.

Each year the HRA Business Plan is reviewed and updated to set budgets and charges for the year ahead and to provide an updated 5 year plan in the context of a 30 year affordability profile.

The Safer and Stronger Communities Scrutiny and Policy Development Committee has a role in overseeing the annual review. This year the Committee has requested a review of progress against some of the key themes within the business plan as well as a look forward to this year's review and the identification of risks.

The first half of this report considers each chapter of the business plan in turn and progress made over the last 3 years. The second half of this report considers the impact of the Government's recently announced rent reductions, as set out in the Chancellor's 'Summer Budget', on the HRA and the Council's response to it.

Type of item: The report author should tick the appropriate box

Reviewing of existing policy	x
Informing the development of new policy	
Statutory consultation	
Performance / budget monitoring report	
Cabinet request for scrutiny	
Full Council request for scrutiny	
Community Assembly request for scrutiny	
Call-in of Cabinet decision	
Briefing paper for the Scrutiny Committee	x
Other	

The Scrutiny Committee is being asked to:

Give views on the response to be taken by the Council to the national social housing rent reductions as set out in the Chancellor's 'Summer Budget'.

Receive an update on the detail of the Housing Bill when this is made public this autumn and receive further updates in the New Year as the implications of the Bill and the response of the Council to the rent reductions are worked through in more detail.

Background Papers:

Report to Council, *Housing Revenue Account (HRA) Business Plan, HRA Budget and Rent Increase 2015/16*, 4th February 2015

<http://sheffielddemocracy.moderngov.co.uk/ieListDocuments.aspx?CId=154&MId=5632&Ver=4>

Category of Report: OPEN/CLOSED

Report of the Director of Communities

HRA Business Plan Annual Review

1.0 Introduction

- 1.1 The Housing Revenue Account is the financial account of the Council as landlord. It is ring-fenced in law for spend on activity relating to council housing. In England the HRA has operated since 2012 using a self-financing funding model which means that each Local Housing Authority has to fund its council housing from the income it is able to generate from rents and other charges.
- 1.2 The HRA Business Plan sets out how all aspects of council housing will be funded from income (predominately rent) the Local Authority is able to generate in its capacity as landlord. It sets budgets for the coming year and provides a 5 year plan in the context of a 30 year affordability profile.
- 1.3 The HRA Business Plan is divided into 6 key chapters:-
- a) Governance
 - b) Income
 - c) Homes
 - d) Tenant Services
 - e) Debt and Treasury Management
 - f) Value for Money

Sections 2 – 8 of this report provide an update on the development and progress being made against the key business plan priorities under each business plan chapter heading.

- 1.4 Sections 9-12 focus on the reduction of income into the HRA as a result the social rent reductions announced in the Government's Summer Budget of the 8th July. Consideration is given to how the Council may respond to these reductions to ensure the HRA Business Plan continues to be financially viable and planned activity can be afforded.
- 1.5 Sections 13-15 consider some of the future risks facing the business plan and the consultation with tenants and leaseholders this autumn.

2.0 Governance

- 2.1 The Governance section of the business plan has tracked the involvement of tenants, members and officers in the business plan decision making process and the support provided to tenant groups in recognition of the contribution they make.
- 2.2 An offer was made in the 2014/15 update to support the development of an independent Tenant Federation subject to the group's establishment, the production of a robust business plan and progress being made. No funding has yet been released as the group have not yet satisfied these criteria.

3.0 Income

- 3.1 Rents have continued to set be in accordance with national policy since the transition to 'self-financing' in 2012.

- 3.2 The de-pooling of service charges to make charging more transparent and prevent all tenants paying for services only some receive was considered in 2012. Consultation has been on hold until such time as there is more certainty as to how rents will be regulated following the introduction of Universal Credit.
- 3.3 The burglar alarm charge and the sheltered housing service charge have been reviewed recently to ensure they reflect current costs. The district heating charge is reviewed annually. The arrangements for temporary accommodation will be reviewed in the coming months.

4.0 Homes – core investment

- 4.1 The primary commitment in the original business plan was to complete the Decent Homes programme by March 2014. This was achieved with an under-spend to the programme following work with Kier to deliver efficiencies and lower than expected investment need at forward addresses. In 2014 plans were announced for replacement kitchen, bathrooms, windows and doors by March 2019 for 7,000 of the 12,800 homes still needing some work. This work is currently out to tender and contracts for these will be awarded in January 2016.
- 4.2 The secondary investment target from 2012 was to address 90% of existing and emerging heating backlog by March 2017. There were 13,000 obsolete heating systems in 2012. Over 11,000 (85%) of these will have been addressed by March 2016. All remaining properties are due to refusals or no access and will be picked up in future programmes. Since the programme started a further 1500 properties have become obsolete. Subject to access, these will all be completed in 2016/17.
- 4.3 In 2013 sufficient resources were committed to address all higher priority roofs by March 2019. All roofing projects have now been procured and they are expected to progress quickly in 2015/16 as the contractors get to grips with the programmes.
- 4.4 The final part of the investment backlog – electrics- is now being considered. An electrical strategy is under development which outlines a programme of improvements to ensure electrics are maintained in line with the latest safety requirements and to modernise properties to bring them to a standard fit for the future.
- 4.5 More recent priorities for the business plan have including the scheduling of items which had previously been considered unaffordable. In 2014 a commitment was made to refurbish the communal areas of all low rise flats within 5 years and in 2015 a provision was made in the 5 year programme to begin works to maisonettes. In 2015 funding for a garage strategy was committed and other works such as the insulation of non-traditional properties was scheduled.

5.0 Homes – self-financing schemes

- 5.1 In 2013 a commitment to 75 new build council homes within 3 years was made and by 2015 this had been extended to 1,000 new/ replacement council homes by 2019/20.
- 5.2 In September 2015 the HRA Stock Increase programme has so far delivered over 150 new/ replacement council homes made up of:
- 27 new build homes purchased from the Sheffield Housing Company

- 15 new build acquisitions at Fox Hill
- 32 long-term empty properties and
- 13 4-bed acquisitions
- 64 standard acquisitions (former Right to Buy properties)

5.3 Phase 1 of the Council's new build programme comprising 51 new homes in Darnall and Manor has been delayed because of the preferred contractor entering administration. The new contractor is expected to start on site in the coming weeks and complete in 2016/17. Phase 2 includes proposals for up to 45 new build properties in Birley and a start on site in Spring 2016, completing March 2017.

5.4 An acquisition strategy was agreed in April 2015 which takes account the findings of the 2013 Strategic Housing Market Assessment and sets out how properties will be prioritised for purchase.

5.5 In early 2015 the Council set out its proposals to pursue the option of installing up to 6,000 photovoltaic panels on the council housing roofs in order to bring in over £30m subsidies from energy companies to offset costs, to create or maintain 250 jobs and reduce tenants' energy bills. On 27th August the Government issued a consultation proposing dramatic reductions to subsidy (Feed in Tariff) rates payable for new PV installations from January 2016.

6.0 Tenant Services

6.1 In March 2012, immediately before the national transition of council housing to a self-financing system the Welfare Reform Act was enacted by Government which made changes to the rules concerning a number of benefits offered within the social security system. The restriction of housing benefit to under-occupying social housing tenants (the 'bedroom tax') was introduced in Sheffield in April 2013, the benefit cap following shortly afterwards during October 2013 and Universal Credit is to be implemented from early 2016. The Council responded early to these changes by investing in services to support council tenants through these reforms. This support included thousands of visits to affected tenants, supported applications for Discretionary Housing Payments totalling hundreds of thousands of pounds, ICT training, debt advice, downsizing assistance, hardship fund assistance, direct debit promotion and the provision of budgeting accounts.

6.2 Making best use of council homes was the second priority for tenant services in the first business plan of 2012. Cabinet approved a new Lettings Policy in March 2013. Implementation of the new policy began in April 2014 and will conclude in April 2016. A new Choice Based Lettings (CBL) system has been in operation since October 2013. The system has helped to streamline the re-housing and bidding process.

6.3 The original 2012 business plan included an ambition to improve the sustainability of tenancies over the long term by linking up support services to more effectively prevent tenancies failing. In March 2014 a 'Housing Plus' model of housing management was approved by Cabinet which would deliver the vision for the housing service developed by Members, customers and staff, deliver services in a more effective, joined-up, tailored way to meet the individual needs of customers, help tenants maintain their tenancy and to become less dependent on more costly intervention services. A full roll-out of Housing Plus is expected in 2016 with net savings expected from 2017/18.

6.4 Reducing the high cost of estate services whilst ensuring that neighbourhoods continue to be attractive and pleasant place to live is also a key objective for the business plan and a high priority for tenants. In October 2014 Cabinet approved the integration of the grounds maintenance provision by Estate Officers into the Parks and Public Realm Service. This will release efficiencies to the HRA this year and over the next 3 years. An Estate Services review is now underway to consider the configuration of the Estate Service function which remains in the Housing and Neighbourhoods Service. This will build on a number of business plan initiatives such as the Education and Enforcement activity and investment in waste facilities.

7.0 Debt and Treasury Management

7.1 Since the start of self-financing in 2012 and the splitting of the Council's debt portfolio between the HRA and General Fund the proportion of the HRA's debt portfolio at risk from interest rate increases has reduced from nearly 60% to around 40%.

7.2 The ambition of the Council to 'externalise' internal borrowing, and in so doing reduce the amount of variable rate debt further, is currently impacted by the availability of the HRA's own cash balances. As these balances are required to fund planned capital activity in the coming years, all remaining internal debt will be externalised and fixed.

8.0 Value for Money

8.1 In the 2012 HRA Business Plan set a target to achieve efficiency savings in 2012/13 and beyond on the 'support costs' of Sheffield Homes and the Council. The target was for a reduction in costs of £784k from Sheffield Homes and of £619k from the City Council by 2015/16. By 2014/15 these savings were achieved.

8.2 The original business plan also set a target of realising 2% savings on the repairs contract post 2014 following procurement. These savings are now being realised.

8.3 In 2013/14 £1.2m efficiency savings were built into the business plan following the decision to integrate the ALMO Sheffield Homes with the Council. By January 2015 it was reported that £1.1m of these savings had been secured.

9.0 Social housing rent reductions

9.1 In the Queens speech on 27th May and the Government's Summer Budget of the 8th July there were major developments for social housing. These items included a change to national social housing rent policy.

9.2 From April 2016, registered providers of social housing will have a statutory obligation to reduce rents by 1% each year for four years. These reductions equate to around a 13% reduction in income over the life of the business plan. This results in two issues for the business plan;

- Business Plan viability (costs) over 30 years
- Potential cash flow issue in the early years of the plan

10.0 Objective for the 2016/17 Business Plan

- 10.1 The Council must respond to the Summer Budget by making savings to its 30 year cost base and by addressing cash flow issues which are particularly pressing in the first 5 years of the plan.
- 10.2 Reducing costs in the business plan by the total amount required may not be achieved for the 2016/17 update because of the scale of saving required. It is therefore proposed that the objective for the 2016/17 review should be to identify and approve savings and slippage options which are sufficient to move the plan to a fundable position for the next five years. Non-specific savings targets will then be applied to the business plan over the longer term to bring the plan to a viable state.
- 10.3 The priority over the coming years would be to implement the approved savings and then put in place a plan for meeting the required large scale savings over the medium- longer term.

11.0 Savings options for the 2016/17 update

- 11.1 It will be necessary to reduce costs over the next 5 years through budget reductions and by delaying activity into the later years. And because the reduced resource envelop might be expected to continue for the long term and because delaying investment activity is generally poor value for the plan, then the emphasis should be on budget reductions (or income generation) where possible.
- 11.2 The following table describes the HRA budgets for 2015/16.

INCOME	NET INCOME DWELLINGS	-149,427,412
	OTHER INCOME	-6,134,332
		-155,561,744
EXPENDITURE	INVESTMENT PROGRAMME FUNDING	49,877,917
	REPAIRS & MAINTENANCE	31,871,355
	TENANT SERVICES	59,922,336
	INTEREST REPAYMENTS	14,579,341
		156,250,949

- 11.3 The following section of the report sets out the current services offered under each of these headings. It is proposed that each section is considered for its potential to deliver savings to the HRA.
- 11.4 Income - Current planning assumptions

NET INCOME DWELLINGS	<ul style="list-style-type: none"> • Rent – set in line with national formula • Vacant rent loss <ul style="list-style-type: none"> ○ based on around 10% turnover and re-let time of around 40 days ○ includes 25 concessionary lets
OTHER INCOME	<ul style="list-style-type: none"> • Garage Rent - frozen from 2015/16 while investment takes place, then reviewed • Tenant Charges <ul style="list-style-type: none"> ○ Burglar Alarms – recovers cost ○ Furnished – operated as a trading account ○ Sheltered – new charge to be implemented • Leaseholder charges – cover caretaking,

	communal cleaning, communal lighting, grounds maintenance to communal gardens <ul style="list-style-type: none"> • Other income e.g. HRA Community Building income, General Fund contributions (grounds maintenance etc)
--	---

11.5 Investment programme - Current assumptions

ELEMENTAL REPLACEMENTS	<ul style="list-style-type: none"> • Kitchens and bathrooms replaced every 20 years • Windows replaced every 30 years • Doors replaced every 25 years • Boilers every 15 years, full system every 30 years • Roofs- pitched generally every 55 years, flat every 20 years
------------------------	--

OTHER INVESTMENT	<ul style="list-style-type: none"> • Adaptations & Access • Plastering, Internal doors • Communal areas • Environmentals (boundaries, steps, paths, hardstanding, drives etc) • Externals (canopies, render etc) • District heating
------------------	---

11.6 Repairs - Current assumptions

RESPONSIVE REPAIRS	<ul style="list-style-type: none"> • Dwelling repair <ul style="list-style-type: none"> - Emergency 4h: burst pipes, gas leaks etc - Urgent 24h: heating loss, door locks etc - Appointable 25d: loose doors, leaking gutter etc - Planned 55d: plastering etc • Handyperson: minor works, problem solving, target hardening • Other 'repair' – boiler houses, emergency lighting/ fire alarms, gas servicing etc • Enhanced Maintenance Allowance for area teams
--------------------	--

**analysis for 16/17 now forecasts reductions based on roofs and other elemental investment*

VACANT REPAIRS	<ul style="list-style-type: none"> • Around £2k per vacant, 10% turnover • Vacant standard (Sheff std achieved after tenancy)
----------------	---

OTHER BUDGETS	<ul style="list-style-type: none"> • Facilities Management • Painting – communal painting every 5 years • Repairs call centre
---------------	--

11.7 Tenant Services - Current assumptions

NEIGHBOURHOOD SERVICES	<ul style="list-style-type: none"> • Area Teams – Central, East, North, NW, SE & SW • Community Engagement • Going Local/ Community Fund • Communal lighting
------------------------	--

CITYWIDE HOUSING SERVICE	<ul style="list-style-type: none"> • Temporary Accommodation, Furnished Acc, High Support • Access to Housing– rehousing, lettings policy etc • Sheltered and Older People's Living • Other - Digital Inclusion, City wide care alarms
--------------------------	--

INVESTMENT & REPAIRS	<ul style="list-style-type: none"> • Estate management - waste management (tipping, bulkies, drystores etc), green space maintenance, garden service, block cleaning • Repairs / partnership services • Asset Management Team • Vacant Management (incl C Tax on vacants) • Housing Employability (Apprenticeships etc) • Leaseholder Services
NEIGHBOURHOOD INTERVENTION & TENANT SUPPORT	<ul style="list-style-type: none"> • Income Management– arrears collection, levy collection, financial inclusion and prevention • Tenancy Management and Enforcement (ASB) • Home ownership (Right to Buy)
OTHER MANAGEMENT, SUPPORT ETC	<ul style="list-style-type: none"> • Housing Plus project / implementation • Repairs insourcing project/ implementation • Housing ICT Systems • Office accommodation • Executive • Housing Performance and Planning
BUSINESS PLANNING	<ul style="list-style-type: none"> • Other Council teams/ costs (HR, Finance etc) • Insurance • Pensions

11.8 Interest on debt - Interest payable on debt is a product of the debt carried by the HRA. Treasury Management decisions are made on an ongoing basis by the Council to maintain a loan portfolio which balances low borrowing costs with long term stability.

12.0 5 Year HRA Business Plan Cash-flow

12.1 As set out in section 9 of this report there may be a need not just to reduce costs in the business plan but also to address any cash flow pressures which emerge as a result of the rent reductions and the debt cap.

12.2 Cash flow pressures can be addressed by delaying planned activity from the five year investment programme into the later years of the plan.

13.0 Future risks

13.1 The key risks to the business plan in the coming years include;

Risk	Cause
Rent reductions	A significant reduction in income to the business plan caused by the Government's rent reductions for social housing must be managed in such a way as to mitigate the impact on essential repair and services.
Welfare reforms	The introduction of Universal Credit from 2016 is expected to have a significant impact on the ability of the Council to collect rent. Other reforms posing a risk to rent collection include the bedroom tax, reduction to the benefit cap and the freezing of some benefits, tax credits etc
Pay to Stay	The additional administrative burden, increased right to buy sales and voids which may result from the Government's proposed 'Pay

	to Stay' policy (further detail expected in Housing Bill) could have a significant impact on the plan.
Extension of Right to Buy	The extension of Right to Buy to Housing Association tenants and the funding of the policy through the sale of vacant council dwellings will reduce the supply of social housing in the city.
Review of security of tenure	A new government policy limiting the use of lifetime tenancies could increase voids and reduce the sustainability of social housing estates in the City.
Further changes to rent policy	National rent policy has been changed twice in 2 years. Further changes would damage the plan further whilst reducing the capacity of the Council to plan effectively for the long term.

14.0 What does this mean for the people of Sheffield?

- 14.1 The Council owns approximately 40,700 homes that are home to around 47,400 people as tenants. In addition around 2,250 leaseholders also receive housing services from the Council. It is the Council's current and future tenants and leaseholders who are impacted most by the decisions made through the HRA business planning process.
- 14.2 Investment made through the Housing Revenue Account is also significant to the economy of Sheffield. The current investment programme is estimated to secure or create around 350 jobs in Sheffield with procurement strategies designed to optimise engagement with local contractors. Schemes which attract subsidy, such as the installation of photo-voltaic panels, bring new investment into the City and the Council as landlord employees around 1,000 people directly.

15.0 Consultation timeline

- 15.1 The Council's immediate response to the rent reductions in the Summer Budget will be through the 2016/17 Business Plan update report. The tenant, resident and leaseholder consultation approach to be adopted this year is the product of a steer from the Housing and Neighbourhoods Advisory Panel with input from the Local Area Housing Forums.
- 15.2 Dedicated working groups meeting twice during the autumn have been established for tenant and leaseholders to consider the implications of, and the Council response to, the rent reductions. These sessions were advertised to Local Area Housing Forums, the Sheltered Forum, the Leaseholder Forum and to individual TARAs (by letter) in August and volunteers were sought. One Local Area Housing Forum requested a dedicated group for their area; others put forward nominations to mixed groups. Currently three groups are established.

DATE		EVENT	PURPOSE
Sept	24 th Sept- 5 th Oct	Tenant Working Group #1 (x3)	Consultation
Oct	8 th	Scrutiny Committee	Consultation
	22 nd	Tenant Conference	Consultation
	23 rd Oct- 2 nd Nov	Tenant Working Group #2 (x3)	Consultation
Nov/ Dec	Consideration and review		
Jan	7 th	City Wide Forum	Information/ feedback
	13 th	Cabinet	Decision recommendation
Feb	3 rd	Council	Approval

- 15.3 Tenant working groups are being supported by a wider communication to tenants to provide information on the Summer Budget implications and to give an opportunity to provide views to the Council.
- 15.4 Further consultation will be undertaken in 2016/17 and beyond as savings options are developed and brought forward.
- 15.5 A separate conversation with tenants on the Council's response to proposals in the Housing Bill will be planned when the detail from these proposals is known.

16.0 Recommendation

- 15.1 The Committee is asked to give views on the response to be taken by the Council to the national social housing rent reductions as set out in the Chancellor's 'Summer Budget'.
- 15.2 The Committee receives an update on the detail of the Housing Bill when this is made public this autumn and receives further updates in the New Year as the implications of the Bill and the response of the Council to the rent reductions are worked through in more detail.

This page is intentionally left blank