SHEFFIELD CITY COUNCIL

Cabinet Report

Report of:	Executive Director, Communities Executive Director, Place Executive Director, Resources
Report to:	Cabinet
Date:	15th January 2014
Subject:	Housing Revenue Account (HRA) Business Plan update report, HRA Budget and Rent Increase 2014/15
Author of Report:	Liam Duggan

Summary:

This report provides the 2014/15 update to the Housing Revenue Account (HRA) Business Plan. It includes proposals to:

- make full use of the HRA to increase the delivery of new and additional council homes;
- provide increased support and advice for tenants impacted by welfare reform;
- expand the communal area refurbishment programme; and,
- establish a planned replacement programme of kitchens, bathrooms, windows and doors (following the anticipated end of the Decent Homes programme)

This report also presents a 2014/15 revenue budget for the HRA.

A separate report on the Capital Programme, which includes the Council Housing Investment programme 2014/15, will be discussed by Cabinet on 19 February 2014. This will include details of the Council's funded capital investment plan for council housing. The service and financial plans for the HRA in this report complement the Council Housing Investment programme.

Rent increases for 2014/15 continue in line with the Government's National Social Rent Policy. Government have recently redrafted the policy guidance with

the effect that the 2014/15 increase will be the last increase under the current rent restructuring arrangements.

Reasons for Recommendations:

To maximise the financial resources to deliver outcomes on key services in the context of a self-financing funding regime.

To contribute to making neighbourhoods a great place to live by ensuring continued investment into Sheffield's council housing.

To continue to plan for the long term sustainability of services whilst taking every opportunity to introduce service improvements.

Recommendations:

It is recommended that:

1. The HRA Business Plan update report for 2014/15 is approved
2. The HRA Revenue Budget for 2014/15 as set out in Appendix B to this report is approved
3. Rents for Council dwellings are increased by an average of 6.2% from April 2014
4. Rents for Council dwellings are set at target rent, when re-let following vacancy, from April 2014
5. Annual rents for garages and garage sites are increased by an average of 6.2% from April 2014
6. Community heating charges increase by 3% in 2014/15
7. Cabinet notes that it may be necessary to amend the sheltered housing service charge, in the event of a review of the service, if the Supported Housing Subsidy changes as part of the Council's wider budget setting process
8. Charges for furnished accommodation and temporary accommodation are not increased
9. The Director of Commissioning, Communities be granted delegated authority to amend the burglar alarm charge in 2014/15 in line with the costs incurred under the new contract. Until the contract is in place and the charges are known the burglar alarm charge will remain unchanged
10. The Director of Commissioning, Communities and the Director of Finance, in consultation with the Cabinet Member for Homes and Neighbourhoods, be granted delegated authority to authorise prudential borrowing as allowed under current government guidelines

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Background Papers:

Report to Cabinet, *Housing Revenue Account (HRA) Business Plan Update, HRA Budget and Rent Increase 2013/14*, 16th January 2013

http://meetings.sheffield.gov.uk/council-meetings/cabinet/agendas-2013/agenda-16th-january-2013

Report to Cabinet, *Housing Revenue Account Business Plan 2012-17*, 25th January 2012

http://meetings.sheffield.gov.uk/council-meetings/cabinet/agendas-2012/agenda-25th-january-2012

Category of Report: OPEN

Statutory and Council Policy Checklist

Financial Implications
YES/~~NO~~ Cleared by: Karen Jones
Legal Implications
YES/~~NO~~ Cleared by: Andrea Simpson
Equality of Opportunity Implications
YES/~~NO~~ Cleared by: Phil Reid
Tackling Health Inequalities Implications
~~YES~~/**NO**
Human rights Implications
~~YES~~/**NO**
Environmental and Sustainability implications
~~YES~~/**NO**
Economic impact
~~YES~~/**NO**
Community safety implications
~~YES~~/**NO**
Human resources implications
YES/~~NO~~
Property implications
~~YES~~/**NO**
Area(s) affected
All areas
Relevant Cabinet Portfolio Leader
Cabinet Member for Homes and Neighbourhoods Cabinet Member for Finance and Resources
Relevant Scrutiny Committee if decision called in
Safer and Stronger Communities Scrutiny Committee
Is the item a matter which is reserved for approval by the City Council?
YES
Press release
YES

Report to Cabinet

HOUSING REVENUE ACCOUNT (HRA) BUSINESS PLAN, REVENUE BUDGET AND RENT INCREASE 2014/15

1.0 SUMMARY

1.1 This report provides the 2014/15 update to the Housing Revenue Account (HRA) Business Plan. It includes proposals to make full use of the capacity of the HRA to increase delivery of new/ additional council homes, provide further support for tenants impacted by welfare reform, expand the communal area refurbishment programme and establish a planned replacement programme of kitchens, bathrooms, windows and doors following the anticipated end of the Decent Homes programme.

1.2 This report also presents a 2014/15 revenue budget for the HRA.

1.3 A separate report on the Capital Programme, which includes the Council Housing Investment programme 2014/15, will be discussed by Cabinet on 19 February 2014. This will include details of the Council's funded capital investment plan for council housing. The service and financial plans for the HRA in this report complement the Council Housing Investment programme.

1.4 Rent increases for 2014/15 continue in line with the Government's national social rent policy which changes in April 2015 with the effect that the 2014/15 increase becomes the last increase under the current rent restructuring arrangements.

2.0 WHAT DOES THIS MEAN FOR SHEFFIELD PEOPLE

2.1 The Council owns approximately 41,000 homes that are home to around 48,000 people as tenants. In addition, approximately 2,200 leaseholders also receive housing services from the Council. The HRA is a statutory account that includes the resources that provide council housing services to tenants. It will be the Council's current tenants and future tenants who will be affected by the on-going choices that are made in the HRA Business Plan.

2.2 One of the aims of the business plan update is to assure the long term sustainability of council housing as a vital service for Sheffield people. The foundation of the HRA Business Plan is to ensure that council homes are occupied because letting homes generates the rental income which funds all aspects of council housing.

2.3 The rent increase arising from the implementation of the Government's National Social Rent Policy will affect council tenants. In line with the current formula, annual rents will increase by an average of 6.2% in 2014/15 (as illustrated at Appendix D). All vacant properties will then be re-let at the target rent level.

2.4 The tenants occupying the 7,700 homes with a Council burglar alarm will receive an amended charge for the service in 2014/15 following the appointment of a new contractor. The charge will be amended in line with costs incurred once these costs are known.

2.5 Around 600 new council homes delivered over the next 6 years will provide new and existing tenants with greater choice and availability of high demand and affordable social housing.

2.6 Expansion of the communal areas refurbishment programme will mean communal areas for all 12,000 low rise flats will now be to standard by 2018 making flats more attractive and sustainable.

2.7 New or transferring tenants to properties omitted from the Decent Homes programme will in future be advised of a programme of works to their home to bring it up to standard within 12 months.

3.0 OUTCOME AND SUSTAINABILITY

3.1 The proposals in this report are aimed at maximising financial resources to deliver outcomes to council tenants in the context of the a self-financing funding regime, developments to national policy (Social Rent Policy, Right to Buy and Welfare Reform), the current economic climate and reductions in government funding.

3.2 The HRA is the 'landlord account' that covers the day to day housing management, investment and repairs services for council tenants. It includes the rental income and other income from tenants and all related expenditure.

3.3 The financial challenges which have characterised the HRA Business Plan in its early years are:

- the need to delay investment to homes from the early to the later years of the plan in order to make it affordable
- a number of items which could not be funded so were not built into the plan e.g. refurbishment of communal areas
- an inability to make provision for the repayment of debt in full over 30 years

3.4 The Council must ensure that as a self-financing entity council housing in Sheffield has a sustainable future. The purpose of the HRA Business Plan update report for 2014/15 is to ensure that the cost of council housing including investment in homes, services to tenants, the servicing of debt and overheads, can be met by the income raised in the HRA.

3.5 The proposals in 2014/15 to deliver around 600 new council homes over the next six years will see full use made of the HRA's capacity to deliver the maximum number of units possible whilst ensuring no financial detriment to the plan. It will also allow Council Housing in Sheffield to retain any additional receipts generated in Sheffield as a result of the Government's 'reinvigoration' of the Right to Buy policy. However these additions will not be sufficient to fully offset a reduction in stock through Right to Buy sales.

3.6 The investment in communal areas and the proposals for a planned replacement programme of kitchens, bathrooms, windows and doors will make council homes more attractive and more sustainable.

3.7 A number of factors have contributed to a weakening in the 30 year outlook for the plan in 2014/15 including changes by the Government to the National Social Rent Policy, reducing stock numbers, welfare reform forecasts and cost pressures including insurance, pensions and council tax liability. The cumulative impact of these changes is that the plan no longer has the capacity to repay debt in full over a 30 year planning horizon. The proposals set out in this report are made with this in mind and seek to offset these impacts and put the plan on a more secure footing for the future.

4.0 THE HRA BUSINESS PLAN

4.1 The objectives of the City Council's first business plan for the HRA under the new self-financing arrangements in 2012/13 were;

- Create balanced budgets for next five years, and
- Prioritise investment that will reduce costs over the long term and allow the Council to begin funding activity that is currently unaffordable.

4.2 This plan set out the main areas of investment in the early years, aimed at reducing costs overall:

- Tackling the investment backlog early with top priority being completion of the Decent Homes forward programme by March 2014 and second priority being investment in heating systems
- Activity to mitigate the impact of welfare reform
- Making the best use of council homes by improving the rehousing process and supporting tenants to sustain their tenancy
- Invest to save projects on estate services

4.3 For 2013/14, the first annual update reported that as a result of new savings and resources arising from the Future of Council Housing decision and savings made from lower than forecast interest rates, new investment activity was able to be factored into the business plan:

- A new build programme of 75 new council homes over 3 years
- Additional resources to mitigate the potential impacts of welfare reform
- A programme of refurbishment to some communal areas to low rise flats, with an emphasis on door security, new flooring and windows

5.0 REVIEWING THE BUSINESS PLAN FOR 2014/15

5.1 This year's review of the HRA Business Plan has been undertaken during the second year of 'self-financing'. The overall structure of the business plan and the key themes within it are retained from previous years.

5.2 During the second year of the business plan, tenants have been informed and consulted on the overall business plan via:-

- City Wide Forum (19th September & 21st November 2013)
- The Annual Residents Conference (4th October 2013)
- Interim Sheffield Council Housing Board (23rd May, 22nd August, 24th October and 28th November)

5.3 The City Wide Forum in September provided an opportunity to review the existing business plan and the strategic choices taken as part of the 2013/14 update.

5.4 The Annual Residents Conference highlighted the likelihood that additional Right to Buy receipts would be available to the business plan for delivering new affordable housing and asked tenants for their view on potential new investment priorities:

- Stock increase
- Communal areas
- Welfare Reform support
- Garages
- Other priorities

5.5 The potential to increase the delivery of new/ additional council housing through the HRA has become an emerging priority for the business plan this year in part because of an increase, since January, in forecasted 'additional' Right to Buy receipts which are ring-fenced by the Government for the delivery of new affordable units.

5.6 Also the subject of targeted consultation in 2013 has been additional support to tenants impacted by welfare reform which continues to be a high priority for tenants, works to the communal areas of all low rise flats (for which only part funding was made available last year) and investment in garages which has been a tenant priority in recent years.

5.7 Feedback from the conference indicated tenants were in favour of an increase in council housing stock, predominately via acquisition. The support of tenants through welfare reform also remained a high priority for tenants. The lowest ranking of the proposals was investment in garages. The feedback from tenants at the Annual Residents Conference was fed back to the City Wide Forum in November together with an update on the review of the business plan for 2014/15.

5.8 Following on from the integration of Sheffield Homes with the Council, eight service design groups involving tenants and officers were established from April 2013 to develop vision statements which would help inform the development of the council housing offer. Proposals in the 2014/15 business plan update resulting directly from this feedback include the ongoing use of the 'Successful Tenancies' project to trial a 'Housing Plus' model of housing management and the proposal that new or transferring tenants to properties omitted from the Decent Homes programme will in future be advised of a programme of works to their home to bring it up to standard within 12 months.

5.9 In 2013 tenants have also made a contribution to individual areas of the business plan through Partnership Groups, Challenge for Change, the Area Boards, and Local Housing Forums and consultation events.

5.10 As well as the strategic choices already set out, all existing planning assumptions and targets in the plan have been reviewed and where necessary updated for 2014/15

5.11 In March 2014 a report on the HRA Business Plan will be presented to the Safer and Stronger Communities Scrutiny Committee. The committee will be invited to provide feedback on the business plan, challenge assumptions and inform future development.

5.12 This report to Cabinet will be discussed with tenant representatives at the City Wide Forum on 9th January 2014. Comments made and views expressed will be reported verbally to Cabinet.

6.0 SUMMARY OF KEY CHANGES FOR 2014/15

6.1 A number of significant factors have changed since the business plan update 2013/14.These are described below;

6.2 Factors ***influencing*** the strategic direction of the plan

- Forecasts of sales resulting from the Government "re-invigoration" of the Right to Buy policy are higher than previously forecast

6.3 Factors ***improving*** the financial outlook of the plan:

- Investment programme costs lower than forecast as a result of Decent Homes underspend and following a review of other investment need
- Lower than forecast borrowing costs

6.4 Factors ***negatively impacting*** the financial outlook of the plan

- Changes to the national social rent policy and reducing stock numbers mean less rental income than previously forecast
- The Council's developing understanding of the likely impact of welfare reform is resulting in higher forecasts of arrears
- Emerging costs including pension contributions, insurance, council tax liability

6.5 The net impact of these changes is that the forecasted long term financial health of the business plan has weakened since last year's review. This weakening represents a return by the business plan to its status in 2012/13 when it did not have the capacity to repay debt in full over a 30 year planning horizon. Capacity to repay debt is a long term indicator of health and not having this capacity in full represents an increased exposure to interest rate risk over the 30 years of the plan.

All such long term forecasts are the product of a series of assumptions based on information available at a point in time. They can only ever serve as an indicative guide which must be subject to regular review. However, the Council must note this change, understand the assumptions which underpin it and ensure continued prudent financial decision making to return the plan to full vigour over time.

In response to this forecast it is proposed to remain true to existing commitments, to adopt a more cautious approach to investment but to continue to invest in key aspects of the business in order to make the plan more sustainable over the long term.

6.6 The key strategic choices for the HRA Business Plan 2014/15 are:-

- A rent increase in line with the National Social Rent Policy which supports the delivery of planned activity over the long term
- Making full use of the HRA's capacity to deliver the maximum possible number of new council houses under the current borrowing rules whilst ensuring all schemes are cost neutral or financially beneficial to the plan. This will offset some of the stock losses from Right to Buy
- To commence a planned replacement programme of kitchens, bathrooms, double glazing and door renewal to homes that have not had this work undertaken over the last 10 years including a commitment that all properties which received no works through the Decent Homes programme at all will be tackled by 2017 and from 2015 any home which missed any work will be addressed within 12 months of a new tenant taking on the property. The programme will address approximately 7,000 of the 12,790 properties still requiring some work by 2018 and will be funded from existing resources in the programme, supplemented by an anticipated underspend from the concluding Decent Homes programme
- Further support will be offered to tenants affected by welfare reform. This will benefit tenants impacted by the under occupancy rules and will result in savings to the plan through reduced arrears, eviction and court costs
- A commitment to extend the refurbishment of communal areas to all 12,000 low rise flats and begin feasibility and design work on the communal areas to the 3,000 maisonettes. This will make flats more sustainable and a more attractive proposition to residents wishing to downsize and this will be funded by making a slower start to some lower priority elements of the investment programme over the next 5 years

7.0 INCOME AND RESOURCES

7.1 It is proposed that in line with government policy, rents for dwellings be increased by an average of 6.2%, equivalent to an average of £4.31 per week. Appendix D sets out the average rents per house size in Sheffield.

7.2 Rent restructuring (or “convergence”) was put in place to ensure that rent for similar sized property in a similar area has the same rental value regardless of whether it is owned by the Local Authority or a housing association. The Government previously expected the sector to reach target rents by 2015/16. Changes to the Government’s National Social Rent Policy for social housing from April 2015 mean that the rent increase for 2014/15 becomes the last increase under the current rent restructuring arrangements. Ending convergence early means many properties in Sheffield will not now reach the target level by 2015/16 as planned. Following the 2014/15 rent increase rents will be on average £1.09 from target.

7.3 Rents to council properties declared for demolition continue to be exempt from the annual rent increase in recognition that these properties are no longer subject to the same investment standards as other properties. Such properties excluded from the 2014/15 rent increase are the remaining tenanted properties in the following schemes:-

- SWaN
- Parkhill
- Sweeney House
- Arbourthorne Fields 2a

Rents at Arbourthorne Fields phase 2b will also be held with no increase in 2014/15 subject to it being declared for demolition by the Director of Development and Regeneration Services before April 2014.

7.4 In view of the changes by Government to the National Social Rent Policy, the early termination of rent convergence and the subsequent need to make rents equitable by other means, all vacant properties will be re-let at target rent from April 2014.

7.5 It is recommended that the charges for garages and garage sites are increased by 6.2% in line with the average annual rent increase for dwellings. All garage charges would be subject to review following the approval of a garage strategy in 2014.

7.6 The Sheltered Housing Service Charge will not be increased in 2014/15. However, any changes to Supported Housing subsidy as a result of the Council’s wider budget setting process would impact on the charge payable by some tenants. In this event tenants would be consulted on ways the service could be remodelled in order to minimise the financial impact on tenants.

7.7 It is recommended that the Community Heating service charge will increase by 3% in 2014/15. This reflects a continuation of the Council's medium term strategy for incrementally addressing the difference between the charge passed to tenants and the current cost of energy. Any accumulated balances on the community heating account are retained to smooth the impact of future price rises. The proposed charges including the initial charges under the new heat metering schemes are set out in Appendix D to this report.

7.8 The current contract to supply and install burglar alarms expires 31st March 2014 and the preference is for a new contract to be in place from 1st April 2014. The charge will be amended in line with costs once the new contract prices are known and affected tenants will be advised individually. Until then charges will continue as before.

7.9 Charges for furnished accommodation and temporary accommodation will not be increased in 2014/15.

7.10 Detail in the HRA Business Plan 2014/15 report, section 3 summarises the key changes for Income and Resources.

8.0 HOMES

8.1 The aim of the investment programme has been to create an affordable plan to match expected resources, to address as much of the higher risk investment backlog elements as possible in order to minimise costs overall and to start bringing forward the delivery of new homes.

8.2 The key priorities for the investment programme in 2013/14 have been the completion of the Decent Homes forward programme by March 2014, a programme of heating system renewal, the start of roof and electrical system replacement programmes and a new build council housing programme.

8.3 No changes have been made to these existing investment priorities although delays in agreeing delivery priorities with tenants, leaseholders and elected members has resulted in the need to reprofile the delivery of some aspects of the investment programme to reflect the anticipated delivery timetable. The 5 year programme has also been adjusted to reflect updated cost estimates and investment need.

8.4 In addition to the existing programme new priorities have been identified from 2014/15. The HRA's capacity will be optimised to deliver around 600 new council housing units over the next 6 years.

8.5 Following the anticipated completion of the Decent Homes programme in March 2014 a kitchen and bathroom programme (£24m) and a doors and windows programme (£10m) will commence in 2015 in order to address those homes which have not had this work undertaken over the past 10 years through the Decent Homes programme.

8.6 Resource was allocated in 2013/14 for the refurbishment of communal areas to 2,600 council low-rise flats. This budget is supplemented by an additional £15.5m over 5 years from existing resources within the programme to enable refurbishment of communal areas to all 12,200 council low-rise flats. The impact of this is a slower start to lower priority aspects of the programme over the next 5 years.

8.7 In order to maintain a 5 year planning horizon, planning figures for 2018/19 have been added to the programme consistent with the priorities set out in previous years i.e. prioritisation of the backlog with the first priority being heating then roofing and electrical works.

8.8 Detail in the HRA Business Plan update report (Appendix A), section 4 summarises the key changes for Homes.

9.0 TENANT SERVICES

9.1 With the introduction of the under occupancy rules and the benefits cap in 2013/14, the Government's welfare reform has begun to make its first real impacts on the business plan via the income management unit and other affected service areas such as rehousing and tenancy management. Key priorities for 2014/15 are to continue the on-going work preparing tenants for the phased introduction of Universal Credit and to support tenants to downsize if they need to in order to sustain tenancies and optimise income into the HRA.

9.2 In 2014/15 it is proposed to increase the size of the hardship fund available to eligible tenants adversely impacted by the Housing Benefit under occupancy rules and to make provision for the development of a texting service to improve collection rates once Universal Credit is introduced. The capability to text tenants to remind them when their rent is due to be paid is a facility advocated by housing providers involved in the direct payment demonstration projects but is not currently supported by the Housing Management ICT system used by the Council Housing Service in Sheffield.

9.3 The Lettings Policy review concluded in 2012/13 and Cabinet approved the new Policy on 20th March 2013. Some changes to Lettings Policy were implemented in 2013/14. However, given the complexity of the changes full implementation of the new policy will take longer to achieve and will take place in stages with expected completion during 2014/15.

9.4 The 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. Three 'Joined Up Services' pilots are now established to establish closer working links across housing, other council and partner agencies for this purpose and it is intended that the learning from these pilots will inform a future 'Housing Plus' model of housing management. The 2014/15 budget includes provision for a Housing Plus project team, subject to the development of a business case and its approval by Cabinet.

9.5 If as a result of the council's wider budget setting process the level of Supported Housing Subsidy funding for the High Support service is reduced, it is proposed the HRA would meet the £100k funding shortfall in 2014/15 in order that the service to council tenants can continue as part of the HRA's wider strategy for sustaining tenancies. The longer term arrangements for High Support would be subject to review in 2014/15.

9.6 The business plan contains 10% efficiency targets for Green and Open Space management on council housing land. A review of the delivery arrangements of estate services began in 2012/13 testing integrated working between Council Housing Estate Officers and Parks staff. The Future of Council Housing service design group 'Clean and Attractive Neighbourhoods' has subsequently developed and delivered a vision statement in 2013 which sets out the need for a value for money service with clear standards and a collaborative working approach to green and open spaces. Work is now underway to learn from the pilot and deliver the vision. It is unlikely that new ways of working will be in place for 2014/15 so it is proposed to delay the planned efficiencies by a further 12 months.

9.7 Savings from changes to the bulky waste service in 2012/13 have been higher than expected and these have been used as planned to invest in a coordinated approach to the prevention of fly tipping through education and enforcement measures. Early indications are the initial interventions are being successful and are popular with residents. Savings on tipping charges in 2012/13 were greater than forecast but this cannot be attributed solely to the interventions as the incidence of fly tipping was reduced across most housing areas and not just those areas implementing education and enforcement activity early.

9.8 In 2013/14 £200k of the £400k Going Local budget was ring-fenced to investment in communal areas because in 2012/13 £225k was spent on communal area security and refurbishment and reserving this allocation for communal areas helps deliver the strategic objective and provide better value for money. This approach will be rolled forward to 2014/15 and reviewed with tenants for 2015/16.

9.9 A budget to support the digital inclusion of council tenants is made from 2014/15.

9.10 Detail in the HRA Business Plan update report, section 5 summarises the key changes for Tenant Services.

10.0 DEBT AND TREASURY MANAGEMENT

10.1 Since the transition to self-financing in 2012 the overall debt strategy of the HRA has been to externalise its internal borrowing by taking fixed-rate loans to mitigate some of the interest-rate risk inherent in the HRA portfolio.

10.2 In 2013/14 this externalisation of debt was temporarily delayed in favour of ongoing internal borrowing in order to support the HRA (by delivering cash savings) and the authority's overall position (by mitigating counterparty risk). The overriding issues driving these decisions were sustained historically low borrowing costs and sustained high cash balances for the authority as a whole.

10.3 However in the second half of 2013/14 with borrowing costs starting to increase and the wider Authority moving to a cash deficit position the externalisation of debt recommenced in order to allow the HRA de-risk a sizeable amount of its loan portfolio, and to allow the authority to move away from a cash deficit position.

10.4 Loans are being taken at a rate that is budgeted for within the HRA Business Plan, and with maturities that provide the HRA with the flexibility it needs to make financing choices to support its wider plans. This means the business plan is establishing a sound borrowing platform on which to make long term investment decisions at the expense of short term interest rates savings.

10.5 Detail in the HRA Business Plan update report, section 6 summarises the key changes for Debt and Treasury Management.

11.0 VALUE FOR MONEY

11.1 The original targets in the business plan to achieve efficiency savings of 10% in 2012/13 and 7.5% in 2013/14 on Council Housing support costs are being delivered as planned.

11.2 The business plan assumed a target of £1.2m annual savings resulting from the Future of Council Housing project from 2014/15. It is expected that around £600k savings will be delivered in 2013/14 with further plans in place to meet the target as planned.

11.3 An original business plan priority from 2012 is for a value for money repairs and maintenance service ready for 2014. In April 2013, Cabinet approved that the HRA Repairs and Maintenance service be procured on the open market and in November 2013 the Council announced that it had selected Kier Services as preferred bidder for the social housing repairs and maintenance contract. It is expected that the efficiency targets built into the HRA Business Plan will be met as planned.

11.4 An actuarial review has been undertaken in 2013 on the Council's overall pension liabilities with the result that contributions will increase from 2014/15. The final position for 2014/15 has yet to be determined as discussions are still ongoing with the pensions Authority.

11.5 A fund exists within the HRA to fund the Council Housing Service's exposure to insurance liabilities. Based on a revised claims forecast and the need for the HRA to be fully funded, additional resources need to be allocated to the fund. Also adding pressure to budgets are the changed billing criteria for vacant properties in respect of council tax charges.

11.6 Detail in the HRA Business Plan update report, section 7 summarises the key changes for Value for Money.

12.0 BUSINESS PLAN GOVERNANCE

12.1 The governance of the HRA Business Plan includes tenant governance and scrutiny, political governance and officer structure.

12.2 Tenants and residents continue to be involved in the evolution of the business plan via the established governance and engagement structures such as the Interim Sheffield Council Housing Board, the Area Boards, Citywide Forum, the Annual Tenant Conference and Local Housing Forums.

12.3 Work has been undertaken in 2013/14 to establish an independent federation of tenants and residents for Sheffield and there is an ambition to have a fully constituted body in place by April 2014. An effective federation will strengthen the voice of tenants and represent their interests, and has the potential to make an impact on the way tenants are involved with the business plan. Subject to the group's establishment, the production of a robust business plan and progress being made, a commitment is given by the Council to provide financial support via the HRA until it can become self-financing and fully independent.

12.4 Following the decision to bring delivery of council housing in house from April 2013, the service design group 'The opportunity to have my say' was established to take the lead in developing a vision for the future shape of engagement and governance structures for council housing.

13.0 RISK MANAGEMENT

13.1 The risk management plan is the basis of the Council's risk management strategy for the HRA Business Plan.

13.2 The reduced capacity of the plan to repay debt in full over a 30 year planning horizon represents an increased exposure to interest rate risk. This will be mitigated by a more cautious approach to the allocation of resources to the investment programme, treasury management decisions taken by the Council to de-risk the HRA's loan portfolio and on-going prudent financial planning to rebuild capacity in the plan over the coming months and years.

13.3 Following an assessment of the risks to the HRA in the coming 5 years such as welfare reform and interest rate changes it is proposed that the risk based reserve is maintained at £10m.

14.0 FINANCIAL ASSUMPTIONS IN THE HRA BUSINESS PLAN

14.1 In 2014/15 £600k Future of Council Housing savings will be applied to back office budgets (in addition to the £600k already applied to senior management budgets). Support cost efficiencies of 5% will continue to be pursued in line with previous years' proposals. Base staff budgets are uplifted by 1% in 2014/15 to reflect the expected cost of living increase for 2014/15.

14.2 The total repairs service budget for 2014/15 is £37.0m. This incorporates the new repairs contract prices and year 1 restructuring costs. Budgets for years 2-5 are not finalised and will be the subject of further adjustment.

14.3 Detail in Appendix E summarises the key financial assumptions.

15.0 FORECAST OUTTURN 2013/14

15.1 Regular revenue budget monitoring reports have been brought during the year to Cabinet. These have shown a more favourable outturn compared with the original budget.

15.2 The position for the HRA as at the end of October 2013 was a projected in-year surplus of £9.9m compared with a budgeted surplus of £5.9m. This is an improvement of £4.0m.

15.3 Further monitoring reports updating the 2013/14 position will be presented in accordance with the Council's budget monitoring timetables.

16.0 HRA BUDGET PROPOSALS FOR 2014/15

16.1 The HRA Business Plan report 2014/15 (at Appendix A) sets out the proposals for 2014/15 and includes the key changes described in the Income, Homes, Tenant Services and Value for Money sections above.

17.0 RECOMMENDED HRA BUDGET 2014/15

17.1 The 2014/15 HRA revenue budget is set out in Appendix B. The HRA opening reserve for 2014/15 will be £10.0m.

17.2 The 2014/15 budget is based on an assumed in year surplus of £7.4m which will be used to fund the capital programme.

17.3

Summary Recommended Budget 2014/15	HRA revenue (£m)
Opening revenue reserve April 2014	10.0
Net Surplus/(Deficit) for year	7.4
Transfer to the Capital Programme	-7.4
Closing revenue reserve March 2015 (excluding community heating)	10.0
Closing Community heating balance 31st March 2015	1.5

17.4 It is proposed to retain a community heating reserve of £1.5m to smooth out the impact of expected future energy price increases and possible changes in demand resulting from the roll out of heat metering.

18.0 FINANCIAL IMPLICATIONS

18.1 The 2014/15 budget is the third annual budget set under the self-financing system. It follows the principles set out in the original business plan and allows for a continuation of services to tenants, revenue repairs to properties and also financial support for the Council Housing Investment programme by means of a contribution from revenue.

18.2 In addition, any annual revenue surpluses on the account are planned to provide further funding for capital investment.

18.3 The Council Housing Capital programme will require the HRA to undertake further borrowing as allowed under the current government guidelines. In these early years of self-financing the debt strategy for the HRA will continue to be reviewed and developed in accordance with the Council's delegated treasury management policy.

18.4 Further details on the Council Housing Capital programme will be set out in the report to Cabinet on 19 February 2014.

18.5 Appendix B details the initial five-year projections for the HRA income and expenditure account. These are based on current assumptions and will be reviewed during 2014/15 in the light of any known changes.

19.0 LEGAL IMPLICATIONS

19.1 The duty to keep a Housing Revenue Account and prevent a debit balance on it and restrictions as to what may be credited or debited to the account (the "ring-fence") are governed by Part VI of the Local Government and Housing Act 1989. This has included provision for annual HRA subsidy paid by central Government to local housing authorities, as determined by the Secretary of State.

19.2 The housing finance provisions of the Localism Act, amended Part VI of the 1989 Act by abolishing HRA subsidy but providing for the Secretary of State to make a determination providing for the calculation of a settlement payment to or from each local housing authority. This settlement and its implications for the self-financing HRA have informed the HRA Business Plan.

20.0 HUMAN RESOURCES IMPLICATIONS

20.1 Some of the financial efficiency targets in the Tenant Services section of this report may have implications for some teams.

20.2 The Future of Council Housing savings in the Value for Money section of the report will result from the integration of back office functions across both the Council and former Sheffield Homes teams.

20.3 Potential Human Resource implications arising from the repairs and maintenance contract were reported to Cabinet in April 2013 when the procurement was approved.

20.4 Where any proposal does impact on teams the Council's Achieving Change and Managing Employee Reductions (MER) procedures will be followed.

21.0 ENVIRONMENTAL & SUSTAINABILITY IMPLICATIONS

21.1 Any environmental and sustainability issues arising from the Council Housing Investment programme within this report will be dealt with the Capital Programme report to Cabinet in February 2014.

22.0 EQUALITY OF OPPORTUNITY IMPLICATIONS

22.1 Consideration has been given to equalities relating to the HRA budget and business plan options and a full Equalities Impact Assessment (EIA) has been completed. Issues raised will be addressed through regular monitoring against actions in the EIA.

22.2 The Capital Programme report to Cabinet on 19 February 2014 will deal with any equalities considerations relating to the Council Housing Investment programme.

22.3 Any in-year proposed change in policy or service provision will require an individual Equality Impact Assessment.

23.0 PROPERTY IMPLICATIONS

23.1 There are no additional property implications for the Council arising from the recommendations in this report.

24.0 ALTERNATIVE OPTIONS CONSIDERED

24.1 To increase rents for Council dwellings by less than the Government formula – The Government's self-financing debt settlement of 2012 assumed an amount of rental income over 30 years which was in line with the National Social Rent Policy and was deemed sufficient to support the debt allocated to council housing in Sheffield and the delivery of council housing in the long term. Although the social rent policy is changing, the level of debt to be supported has not and so a reduction in income has a direct impact on the capacity of the plan.

24.2 Not to prioritise a council housing stock increase programme – the reinvigoration of the Government's Right to Buy policy means that if the council is to retain any 'additional' receipts generated by the increased sales discounts now available to tenants, the receipt must be used as a contribution (30% maximum) to new affordable housing. Forecasts in 2013 suggest the level of such receipts will be significant in the coming years. The alternative to retaining these receipts would be to pass the receipts to a registered provider such as a housing association. Retaining the receipt in the HRA allows the council to invest in new council housing units to offset Right to Buy losses in a way which is beneficial to the plan, tenants and potential council tenants over the long term.

25.0 REASONS FOR RECOMMENDATIONS

25.1 To maximise the financial resources to deliver outcomes on key services in the context of a self-financing funding regime.

25.2 To contribute to making neighbourhoods a great place to live by ensuring continued investment into Sheffield's council housing.

25.3 To continue to plan for the long term sustainability of services whilst taking every opportunity to introduce service improvements.

26.0 RECOMMENDATIONS

26.1 It is recommended that:

1. The HRA Business Plan update report for 2014/15 is approved
2. The HRA Revenue Budget for 2014/15 as set out in Appendix B to this report is approved
3. Rents for Council dwellings are increased by an average of 6.2% from April 2014
4. Rents for Council dwellings are set at target rent, when re-let following vacancy, from April 2014

5. Annual rents for garages and garage sites are increased by an average of 6.2% from April 2014
6. Community heating charges increase by 3% in 2014/15
7. Cabinet notes that it may be necessary to amend the sheltered housing service charge, in the event of a review of the service, if the Supported Housing Subsidy changes as part of the Council's wider budget setting process
8. Charges for furnished accommodation and temporary accommodation are not increased
9. The Director of Commissioning, Communities be granted delegated authority to amend the burglar alarm charge in 2014/15 in line with the costs incurred under the new contract. Until the contract is in place and the charges are known the burglar alarm charge will remain unchanged
10. The Director of Commissioning, Communities and the Director of Finance, in consultation with the Cabinet Member for Homes and Neighbourhoods, be granted delegated authority to authorise prudential borrowing as allowed under current government guidelines

Richard Webb, Executive Director - Communities Portfolio
Simon Green, Executive Director – Place Portfolio
Laraine Manley, Executive Director - Resources Portfolio

Appendix A

Sheffield City Council Housing Revenue Account (HRA) Business Plan 2014/15 Update Report

1. INTRODUCTION

a) Purpose of this Report

This is the Housing Revenue Account (HRA) Business Plan update report for 2014/15. It:-

- Proposes HRA rents and charges for 2014/15
- Proposes budgets for 2014/15
- Reports on progress and sets out new policy choices
- Refreshes the 5 year planning budgets and where appropriate updates the long term planning assumptions
- Provides a 30 year affordability profile based on the updated planning financial assumptions in the report.

This is the HRA Business Plan's second annual review since the first publication of the business plan under self-financing in January 2012.

b) Report Structure

The HRA Business Plan chapters are:-

1. Introduction
2. Governance
3. Income and Resources
4. Homes
5. Tenant Services
6. Debt and Treasury Management
7. Value for Money

c) Background

In 2012, Sheffield City Council approved its first business plan for council housing under the new self-financing arrangements. The key themes in the business plan were efficiencies where possible and investment which reduced costs or optimised income over the long term. The headline priorities from that first business plan were:

- Tackling the investment backlog early with top priority being completion of the Decent Homes forward programme by March 2014 and second priority being investment in heating systems
- Activity to mitigate the impact of welfare reform
- Making the best use of the homes we have by improving the rehousing process and supporting tenants to sustain their tenancy
- Invest to save projects on estate services

In 2013, the HRA Business Plan's first annual update reported that as a result of new savings and resources arising from the Future of Council Housing decision and savings made from lower than forecast interest rates, new investment activity was able to be factored into the business plan:

- A new build programme of 75 new council homes over 3 years
- Additional resources to mitigate the potential impacts of welfare reform
- A programme of refurbishment to communal areas will begin with an emphasis on door security, new flooring and windows

d) Summary of Key Changes to Planning Assumptions 2014/15

There have been a number of developments in 2013 that will impact on the business plan for 2014/15 and beyond. These factors and their impacts are summarised below.

Factors ***influencing*** the strategic direction of the plan

- Forecasts of sales resulting from the Government "re-invigoration" of the Right to Buy policy are higher than previously forecast

Factors ***positively*** impacting the financial outlook of the plan

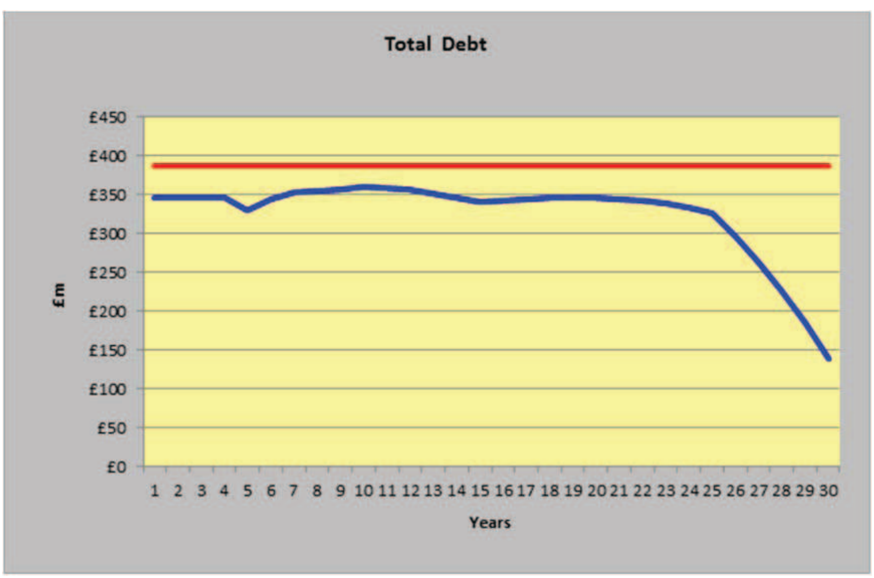
- Investment programme costs are lower than forecast as a result of an anticipated Decent Homes underspend and following a review of other investment need
- Lower than forecast borrowing costs

Factors ***negatively*** impacting the financial outlook of the plan

- Changes by Government to the National Social Rent Policy together with reducing stock numbers mean less rental income than previously forecast
- The Council's developing understanding of the likely impact of Welfare Reform is resulting in higher forecasts of arrears
- Emerging costs including pension contributions, insurance and council tax liability

e) Revised 30 year Financial Profile

The net impact of these changes is that the forecasted long term financial health of the business plan has weakened since last year's review.



This weakening represents a return by the business plan to its status in 2012/13 when it did not have the capacity to repay debt in full over a 30 year planning horizon. Capacity to repay debt is a long term indicator of health and not having this capacity in full represents an increased exposure to interest rate risk over the 30 years of the plan.

All such long term forecasts are the product of a series of assumptions based on information available at a point in time. They can only ever serve as an indicative guide which must be subject to regular review. However, the Council must note this change, understand the assumptions which underpin it and ensure continued prudent financial decision making to return the plan to full vigour over time.

In response to this forecast it is proposed to remain true to existing commitments, to adopt a more cautious approach to investment but to continue to invest in key aspects of the business in order to make the plan more sustainable over the long term.

f) Strategic Choices

The strategic choices for the HRA Business Plan 2014/15 are:-

- A rent increase in line with the national social rent policy which supports the delivery of planned activity over the long term
- Making full use of the HRA's capacity to deliver the maximum possible number of new council houses under the current borrowing rules whilst ensuring all schemes are cost neutral or financially beneficial to the plan. This will offset some of the stock losses from Right to Buy
- To commence a planned replacement programme of kitchens, bathrooms, double glazing and door renewal to homes that have not had this work undertaken over the last 10 years including a commitment that all properties which received no works through the Decent Homes programme at all will be tackled by 2017 and from 2015 any home which missed any work will be addressed within 12 months of a new tenant taking on the property. The programme will address approximately 7,000 of the 12,790 properties still requiring some work by 2018 and will be funded from existing resources in the programme, supplemented by an anticipated underspend from the concluding Decent Homes programme
- Further support will be offered to tenants affected by the Welfare Reform. This will benefit tenants impacted by the under occupancy rules and will benefit the plan through reduced arrears, eviction and court costs
- A commitment to extend the refurbishment of communal areas to all 12,000 low rise flats and begin feasibility and design work on the communal areas to the 3,000 maisonettes. This will make flats more sustainable and a more attractive proposition to residents wishing to downsize and will be funded by making a slower start to some lower priority elements of the investment programme over the next 5 years

g) Summary and next steps

The first priority in the coming years will be to return the business plan to full vigour. Because the financial strength of the business plan has weakened in the last 12 months the Council must be cautious when allocating additional resources to the investment programme, exemplified by the funding of communal areas, a high priority with tenants and of high importance for the sustainability of flats, from existing resources.

As a result of this caution and from slippage to the capital programme the business plan has some capacity in the coming years for investment on an invest-to-save basis, such as for the delivery of self-financing (viable) schemes for new/ additional council housing. When this capacity is considered alongside the £40m borrowing capacity within the HRA a sizeable investment fund becomes available for such stock increase schemes.

This investment fund has to be used prudently for the security of the business plan and in order to deliver viable stock increase schemes match funding is required to supplement HRA resources. Currently just under £20m match funding (mostly ring-fenced Right to Buy receipt) is forecast to be available to the HRA over the next 6 years for this purpose. This can be matched with the HRA 'investment fund' to deliver a stock increase programme of around 600 new homes and this has been factored into the plan.

However the plan still has capacity in the form of borrowing headroom for additional development. The emphasis of the plan in the coming months and years (alongside improving its long term financial health) will be to source match funding which unlocks this borrowing capacity so that more homes, in addition to the 600 already factored in, can be delivered.

2. GOVERNANCE

a) Overview

Governance of the HRA Business Plan includes three key structures; tenant governance and scrutiny, political governance and the officer structure. This section of the business plan sets out the current governance arrangements of the business plan and how these will be further developed in partnership with tenants and stakeholders.

b) Tenant and Resident Involvement and Scrutiny

Tenants and residents continue to be involved in the evolution of the business plan via the established governance and engagement structures such as the Interim Sheffield Council Housing Board, the Area Boards, Citywide Forum, the Annual Tenant Conference and Local Housing Forums.

Work has been undertaken in 2013/14 to establish an independent federation of tenants and residents for Sheffield and there is an ambition to have a fully constituted body in place by April 2014. An effective federation will strengthen the voice of tenants and represent their interests, and has the potential to make an impact on the way tenants are involved with the business plan. Subject to the group's establishment, the production of a robust business plan and progress being made, a commitment is given by the Council to provide financial support via the HRA until it can become self-financing and fully independent.

c) Elected Member Governance

Elected members have a role in relation to the business plan through decision making by the Cabinet Member, the Cabinet and Full Council. Cabinet and Full Council have a role in approving the annual HRA budget. Cabinet then receives a formal finance report each month which includes revenue and capital aspects of the plan.

The Cabinet Member and Cabinet Advisor also attend the Interim Sheffield Council Housing Board which runs for a fixed-term of twelve months until March 2014. The Board acts as a consultation and discussion forum for the Council Housing Service, provides scrutiny and challenge around services delivered to tenants and oversees the delivery of the Future of Council Housing (FoCH) Programme. It also reviews the delivery of the Housing Revenue Account Business Plan.

d) Officer Governance

The HRA Business Plan board has responsibility for monitoring performance against the business plan and coordinating the annual review of the business plan. The membership of the board has a role in ensuring the business plan is aligned with the Council's strategic outcomes.

e) The Future of Council Housing

Following the decision to bring delivery of council housing in house from April 2013, the service design group 'The opportunity to have my say' was established to take the lead in developing a vision for the future shape of engagement and governance structures for council housing.

In 2013/14 the group developed this vision which along with the other vision statements will feed into the development of a new delivery model for council housing.

3. INCOME AND RESOURCES

a) Overview

This section of the business plan is concerned with income into the HRA. It includes rent setting and charges payable by tenants to the Council as landlord.

b) Risks

<u>i. Welfare Reform</u>

The key risk to income and the single biggest policy risk to the business plan overall continues to be welfare reform which will be phased in nationally by 2017/18. The risks associated with each element of welfare reform are regularly analysed, resulting in updated calculations on their possible impact on arrears.

The restriction of housing benefit to under-occupying social housing tenants was introduced in April 2013. Arrears resulting from the new under-occupancy rule will be higher than assumed in the 2013/14 update report. However, the number of households affected is reducing with 4,261 council households affected in October 2013, down from 5,130 in April 2013. There is also a risk that these rules will start to impact on the popularity of some property types thereby impacting rent loss.

The benefit cap was introduced in Sheffield during August 2013 and affects around 48 households in council housing accommodation. This is unlikely to have a significant impact on arrears.

Universal Credit is expected to be introduced from April 2015 in Sheffield and the national direct payment Demonstration Projects are being monitored closely to understand the possible impact of this change.

The analysis of the Council to quantify the risk posed by the welfare reforms has resulted in a significant increase in forecasted arrears compared with the same forecast made last year. Welfare reform will also continue to affect other HRA costs such as transaction costs, payment card costs and eviction costs.

<u>ii. Right to Buy</u>

The Government's Right to Buy policy remains a key risk to business plan income. The Government 'reinvigorated' the policy in April 2012 by increasing the discounts to tenants and changes are anticipated in 2014/15 which could stimulate sales further.

Updated assumptions for the HRA Business Plan

- Right to Buy sales are assumed to be 624 higher from 2013/14 to 2017/18 than previously forecast
- There will be a reduction in rental income as a result of increased sales, which will be partly offset by savings in repairs, depreciation and interest costs
- It is assumed that the reinvigoration of Right to Buy will lead to additional sales to 2017/18 beyond which forecasting with any confidence becomes impossible.
- It is assumed the current three year agreement with Government to retain additional receipts will be extended to finish after six years (2017/18) and will then return to the old system of pooling 25% receipts back to government

iii. Supported Housing Subsidy

A Council decision was made as part of the 2013/14 General Fund budget setting process that the charging options for people receiving subsidised services via Supported Housing Subsidy (previously Supporting People) would be reviewed. This led to a decision on 22nd February 2013 to increase the sheltered housing service charge with the result that all sheltered tenants, including those receiving Housing Benefit, were required to pay an additional £1.66 per week toward the cost of the community alarm service from April 2013.

Any change to Supported Housing Subsidy in 2014/15 as a result of the Council's wider budget setting process in relation to Sheltered Housing, High Support or Temporary Accommodation would require charges to be reviewed and/or services remodelled in order to minimise the financial impact on tenants.

c) Key Developments

i. National Social Rent Policy

The National Social Rent Policy is currently that rents in the council housing sector should converge with those charged by housing associations by 2015-16. This was to be done by raising Housing Association rents each year by RPI + ½ and Council Housing rents by RPI + ½ + up to £2 (as required) until 2015/16. On this basis it had been understood there would be two more rent increases remaining (April 2014 and April 2015) through which target rents would be reached.

In June 2013, as part of the Government's spending review, it was announced that, subject to consultation, the National Social Rent Policy would be changed from 2015/16. The main change being proposed is to move from an annual limit on weekly rent increases of RPI +0.5 percentage points + up to £2, to a limit of CPI +1 percentage point.

This has two implications. Firstly, the business plan's cost inflation assumptions must be linked to CPI rather than RPI. As CPI+1 is on average likely to be lower than RPI+½, the costs of the business plan will be limited to a lower rate of inflation over the longer term. If cost inflation can be constrained this will not adversely affect the plan. The risk is that where cost inflation is beyond the control of the council then pressures may emerge.

The second implication is more significant as it means that instead of having two rent increases to get rents to target rent level there is now only have one (in April 2014) and any remaining properties which are still not at target rent can only be brought to target rent via re-lets when properties become vacant. This means that many properties in Sheffield will not now reach the target level by 2015/16 as planned and this too reduces the level of income into the plan over the long term.

ii. Rent increase

Rents for 2014/15 continue in line with the current national social rent policy (RPI+ ½% + up to £2) and because of the changes to the national policy from 2015/16 this increase becomes the last rent increase under the current rent restructuring arrangements. On this basis rents for 2014/15 increase by an average 6.2%, equivalent to an average increase of £4.31 per week.

The Council ran a consultation with tenants and future tenants in 2012 to understand the potential for re-letting vacant homes at ‘target rent’ before 2015/16. The outcome of the consultation showed a mixed response with no majority in favour or against, due to the number of “not sure” responses that were received. However Government policy has shifted fundamentally since that consultation and the convergence process is ending early. In view of this and the need to make rents equitable by means other than through rent increases, all vacant properties will be re-let at target rent from April 2014.

The difference between actual rent and target rent was an average of £3.74 in 2012/13, £2.71 in 2013/14 and will be £1.09 following the 2014/15 rent increase.

As in previous years rents will be held at current levels with no increase on council property which is declared for demolition. This is in recognition that these properties are no longer subject to the same investment standards as other properties.

iii. Charges

Garage rent will continue to increase in line with rent for dwellings (6.2%). Garage rents will be reviewed in 2014/15 following implementation of a garage strategy.

The Community Heating service charge will increase by 3% in 2014/15. This reflects a continuation of the Council’s medium term strategy for incrementally addressing the difference between the charge passed to tenants and the current cost of energy. Any accumulated balances on the community heating account are retained to smooth the impact of future price rises.

The current contract to supply and install burglar alarms expires 31 March 2014 and the preference is to have a new contract in place from April 1st. It is hoped that the procurement will deliver efficiencies which can be passed to tenants. The charge will be amended in line with the costs incurred under the new contract when the new prices are known. Affected tenants will be advised individually.

The Sheltered Housing Service Charge will not be increased in 2014/15. However, any changes to Supported Housing subsidy as a result of the Council’s wider budget setting process would impact on the charge payable by some tenants. In this event tenants would be consulted on ways the service could be remodelled in order to minimise the financial impact on tenants.

Charges for furnished accommodation and temporary accommodation will remain unchanged in 2014/15.

iv. Service Charge De-pooling

A commitment exists in the business plan to consult with tenants about whether to de-pool service charges from rent in order to make costs more transparent. A consultation will be proposed when it is clearer how rents and service charges will be regulated following welfare reform.

v. Capital Grant Income

CESP grant income of £2.6m is now factored into the HRA Capital Programme as reported to Cabinet in May.

HCA grant of £500k was secured in early 2013 to help fund the purchase by the HRA of long term empty properties in order to bring them into use as social housing. A condition of this grant funding was that the new homes were let at Affordable (as opposed to Social) Rent.

4. HOMES

a) Overview

This part of the business plan is concerned with the physical condition of the homes and environment. It includes capital investment in the homes such as new kitchens, bathrooms, boilers etc and also the revenue repairs which can be either planned such as gas servicing or responsive e.g. where a tenant reports a repair.

b) Risks

1. Investment Backlog

The investment backlog is investment to homes which is now due. It is a combination of:
- All elemental work that was not included in the Decent Homes Programme and which emerged as the Decent Homes Programme was stretched from 2010 to 2014
- Picking up all of the backtrack properties, omits and refusals that have built up since 2004/05

Work element	Investment backlog (as at end 2013/14)
Bathrooms, Kitchens, Windows, Doors	£31,195,652
Full & Partial Decent Homes Omissions	£29,551,387
Heating	£27,649,000
Roofs	£90,652,457
Electrics	£18,283,478
Total	£197,331,974

The investment backlog is a key risk because any delay to the work increases the final cost of this work as it will trigger a responsive repair which is more expensive than the same work undertaken through a planned programme. The later the backlog is tackled, the higher the overall cost of the business plan, and the greater the risk.

2. Unfunded / Unaffordable items

Because of a long term funding shortfall, the original (2012/13) business plan was not able to factor in various 'unaffordable items' into the 30 year plan. It was hoped that these items would become affordable in time. These included:
- Refurbishment of communal areas
- New build / acquisition
- Environmental improvements (other than where commitments have been made)
- Investment in homes to meet sustainable homes code 4/5 standard

In 2013/14 funding was put in place to bring forward activity in relation to the first two items.

Also in 2013/14 work has begun to quantify the implications for the HRA on the Streets Ahead scheme and the potential need to provide for complimentary investment in housing assets to ensure comparable standards across different land ownerships. This work is ongoing.

c) Key Developments – 5 year investment programme

The aim of the investment programme has been to create an affordable plan to match expected resources, to try and address as much of the higher risk investment backlog elements as possible in order to minimise costs overall and to start bringing forward the delivery of new homes.

Key priorities	Rationale	Progress
Completion of the Decent Homes forward programme.	To meet a commitment made to tenants	On track to complete the Decent Homes programme by March 2014 with forecast underspend of £8m subject to exit costs. This follows ongoing work with Kier to deliver efficiencies and lower than expected investment need at forward addresses. It is proposed these savings are used to accelerate investment to properties which were omitted from the Decent Homes programme.
Prioritising the remainder of in the investment backlog with the top priority being investment in obsolete heating systems and boilers.	To alleviate fuel poverty as well as reducing the high repair costs associated with boiler breakdowns	On track to tackle around 90% existing and emerging heating backlog by March 2016.
Next priority from the investment backlog to be roofs and externals	Homes which are not watertight can have health implications for tenants as well as being expensive to repair due to water damage	Procurement strategy agreed. Procurement process began in November 2013. All roofs with a higher priority to be tackled by 2018/19.
New priority in 2013/14 was for 75 new build council houses	To make use of Right to Buy receipts ring-fenced for new affordable housing	Decision made in 2013 to buy 30 properties from Sheffield Housing Company. Proposals for delivering the remaining 45 to be considered by Cabinet in early 2014.

Delays in agreeing priorities with tenants, leaseholders and elected members has resulted in the need to reprofile the delivery of some aspects of the investment programme and slippage of £20m activity (predominantly roofing) from 2017/18 to 2018/19 to reflect anticipated delivery timetable. However, progress has been made on all elements of the Investment Programme that have member and tenant approval.

The five year programme has also been adjusted to reflect updated cost estimates and investment need. This has had the impact of reducing the size of the programme by around £5m, £3m of which is a result of changed assumptions for Arbourthorne.

i. Tackling the investment backlog

Following the anticipated completion of the Decent Homes forward programme in March 2014, consideration needs to be given to tackling the backtrack properties, omits and refusals which built up during the programme.

- **Full omits** 1,690 homes
- **Partial omits** 7,688 homes
- **Other DH fails** 3,412 homes

The 11th vision statement emerging from the Well Maintained Homes and Neighbourhoods (Future of Council Housing) service design group is, "*Vacant properties will be brought up to a lettable standard quickly, including the gardens. We will advise new tenants when any missed Decent Homes work will be completed to their homes.*"

The proposal is to commence a planned replacement programme of kitchens, bathrooms double glazing and door renewal to homes that have not had this work undertaken over the last 10 years. Currently this backlog of work is estimated at £60m.

The proposal is to commit **£34m** to undertake this work through two main programmes. A kitchen and bathroom replacement programme (£24m) and a door and window programme (£10m). This would be funded in part by the anticipated underspend from the Decent Homes programme and works would be prioritised in the following order:

Stage 1 2015/16 to 2016/17 £10.6m

- Complete work to the 1,690 homes that had no work during the Decent Homes programme *and*
- Agree with new & transferring tenants in homes not meeting the Sheffield Decency standard (including those omitted from the Decent Homes programme) a programme of elemental works to bring the home to standard within 12 months of the start of the tenancy

Stage 2 2017/2018 to 2018/19 £23.3m

- Complete elemental work to approximately 5,000 homes that had partial works during the Decent Homes programme and are likely to fall out of decency in the next 5 years *and*
- Agree with new & transferring tenants in homes not meeting the Sheffield Decency standard (including those omitted from the Decent Homes programme) a programme of elemental works to bring the home to standard within 12 months of the start of the tenancy

Including the vacants that may occur in the above three year period to end of 2018/19 it is estimated that this expenditure of £34m would mean approximately 7,000 of the 12,790 homes in the backlog and all of those with the greatest need would have received improvements.

ii. New Investment Activity 2014/15

- **New/ Additional Council Housing**

In the 2013/14 business plan update report a commitment was made for 75 new build family sized council houses over the next 3 years. Since this report the City Council's Housing Strategy and the Strategic Housing Market Assessment have both articulated the need for more affordable housing in the City. These strategic drivers coupled with an increase in the level of forecast 'additional' Right to Buy receipts (those ring-fenced for use on delivering new affordable units) makes the delivery of new council housing through the HRA an emerging priority for 2014/15 and beyond.

In line with this the Council will make full use of the capacity of the HRA to deliver the maximum number of new/ additional council homes possible under the current borrowing rules. In order to make the schemes viable, and so as not to compromise existing investment priorities and the wider business plan, all new units must be self-financing over the long term.

Consequently and where this is consistent with Government guidance many new units and all additional new build units will be let at Affordable Rent. However where circumstances permit, for example for more cheaply acquired property (such as former council homes) purchased using RTB receipt, a Social Rent can and will be charged.

Also schemes will only be brought forward when there is sufficient match funding to make them viable. Initially around 600 units (plus the 30 already delivered in 2013) are forecast in the coming 6 years. This is the maximum number which might be delivered with current forecasts of match funding (mostly ring-fenced Right to Buy receipt). This number will be updated as forecasts of match funding develop.

New units will be predominantly acquisitions as this is how the Council can deliver the most additional council houses for the money, but new build will also be brought forward as sites are identified in order to deliver the types of housing which are not available to purchase. Initially a commitment is made to increase the number of new build units from 75 to 120 but with the intention of adding to this as more sites are identified including through the garage site review.

And whilst the location of new build will be driven by the availability of land, the type and location of acquisition and the type of new build unit will be determined by what is needed most in that particular area.

On 10th April 2013 a Cabinet Decision was made to approve a Purchase and Repair Scheme, part funded by HCA Grant to bring 31 Long Term Empty (LTE) properties into use as council housing let at Affordable Rent. The Council is exploring the potential to extend this scheme and this is factored into the investment programme but will be subject to a separate approval.

- **Communal Area refurbishment**

In 2013/14 a commitment was made to refurbish the communal areas to 2,600 of the Council's 12,200 low rise flats. The Well Maintained Homes and Neighbourhoods service design group set as one of its vision statements that investment in communal areas in and around block of flats would continue. The expected additional cost for completing the communal areas of all low rise flats is £15.5m. Because of the urgency and importance of this work this is now factored into the plan with the intention that works are concluded by March 2018. As a result of this a slower start will be made to other lower priority aspects of the investment programme over the next 5 years.

Feasibility and design work will be undertaken to communal areas of the Council's 3,000 maisonette dwellings to determine the cost of investment required to bring all maisonettes to this standard too.

- **Garage Strategy**

The condition of council garages has deteriorated over the years as a result of a lack of investment and the long term sustainability and income of garages will be at risk if investment is not made.

A consultation on the future of the council's garage stock has taken place in recent months with presentations to tenants on proposals at Local Housing Forums from July to Sept 2013. A draft strategy outlining an investment need of around £4m has been developed through this process and is expected to be available for consideration in early 2014. If the strategy is approved resources would need to be added to the investment programme such that works could begin from 2015/16.

d) Other Developments

<u>i. Regeneration</u>

A Cabinet decision was made on 8th May to proceed with the Arbourthorne Fields Redevelopment scheme. These changes have now been factored into the business plan including a reduction in stock numbers, a corresponding reduction in rental income partly offset by reductions in revenue maintenance costs and capital investment, reduced scheme costs to reflect demolition and reduced capital funding to reflect the use of Right to Buy receipts to part fund the scheme.

<u>ii. Community Heating</u>

The roll-out of city wide heat metering to Community Heating (District Heating) systems will start in 2014. Around 2,300 dwellings will have meters fitted in 2014/15 including replacements to all existing metered schemes. This investment will mean that households are able to regulate their heat and directly benefit from any savings. It will take around 3 years to fit all meters throughout the city.

<u>iii. Revenue Repairs</u>

The total repairs service budget for 2014/15 now incorporates the new repairs contract prices for 2014/15 including year 1 restructuring costs. Budgets for years 2-5 are not finalised and will be the subject of further adjustment. Over the life of the contract the efficiency savings targeted in the 2012 business plan are expected to be realised.

e) Financial Summary

The table below sets out the proposed capital programme over the five years of the business plan. It adds a new year 5 resource allocation.

The table format has been adjusted this year to reflect changes to the programme:

- In line with the anticipated end of the Decent Homes programme in March 2014 the Decent Homes line is renamed Area Investment Environmentals and Heat Metering costs are moved to heating and boilers
- 'Other Planned Elementals' line is renamed 'kitchen bathrooms, windows and doors' and activity not matching this description is moved to other headings (mainly roofs and externals)
- The capital programme is now divided into investment activity and stock increase activity

The key changes to budgets include:

- £5m activity removed from the investment programme reflecting the decision to proceed with the demolition of Arbourthorne Fields, plus some savings and work no longer required in relation to smaller projects
- Some reprofiling of resources including an additional £5m moved to roofing and £15.5m moved to Communal areas in order to fully fund these programmes, and £20m roofing activity slipped into 2018/19 to reflect planned delivery timetable
- An expected underspend on the Decent Homes programme of £8m (now added to 'Kitchens, bathrooms, windows and doors' to accelerate delivery of future elemental works)

HRA Capital Programme	2013-14 Expected outturn £m	2014-15 £m	2015-16 £m	2016-17 £m	2017-18 £m	2018-19 £m	2014-19 5 year total £m
Essential work (H&S, fire safety etc)	1.609	3.191	3.547	2.326	1.663	0.800	11.527
Adaptations & Access	2.204	2.305	2.225	2.225	2.300	2.200	11.255
Regeneration	1.585	3.270	1.340	1.012	0.000	0.000	5.622
Waste	0.090	0.490	2.006	0.911	0.000	0.000	3.407
Other (community heating, programme mgt)	0.722	1.466	2.505	1.805	1.255	0.605	7.636
Area Investment Enviromentals	21.790	2.665	1.008	0.000	0.000	0.000	3.673
Heating & boilers	6.880	11.312	11.080	9.651	4.598	6.000	42.642
Roofs & externals	0.072	13.172	26.727	27.926	25.184	28.989	121.998
Communal areas	0.000	0.500	4.500	4.900	5.000	3.500	18.400
Electrics	0.000	0.030	4.500	4.500	4.970	5.000	19.000
Kitchens, Windows, Bathrooms & Doors	0.000	0.250	6.654	10.025	9.217	7.970	34.116
Other planned elementals	0.301	0.300	0.000	0.000	0.000	5.000	5.300
Sub total	**35.253**	**38.951**	**66.092**	**65.281**	**54.187**	**60.064**	**284.575**
75 New build	2.310	3.597	3.810	0.000	0.000	0.000	7.407
Long Term Empty Acquisitions	0.681	2.414	0.000	0.000	0.000	0.000	2.414
New stock increase	0.000	1.800	10.881	10.736	19.153	11.270	53.840
Total HRA Expenditure	**38.244**	**46.762**	**80.783**	**76.017**	**73.340**	**71.334**	**348.236**

The following table shows the budget for the revenue repairs service. Year 1 represents a full year outturn, year 2 is the anticipated current year outturn and year 3 is the budget proposal for next year. Indicative figures are shown for years 4- 7 in order to maintain a 5 year figure horizon. The numbers from last year's review are shown in grey.

Repairs	Yr1 1 12/13 £m	Yr2 13/14 £m	Yr3 14/15 £m	Yr4 15/16 £m	Yr5 16/17 £m	Yr6 17/18 £m	Yr7 18/19 £m
Revenue repairs budget	31.8	33.0	37.0	32.0	31.7	34.8	35.7
	32.7	33.1	33.1	33.9	34.8	35.4	-

5. TENANT SERVICES

a) Overview

This section of the business plan is concerned with services provided to tenants. It includes services such as tenancy management, income management and re-housing services together with tenancy enforcement (ASB), supported housing, estate services and governance and involvement.

b) Risks

The main risk facing this aspect of the business plan will remain the gearing up of services to mitigate the impact of welfare reform.

c) Key Developments

i. Ensure all income owed is collected

A key priority for the business plan has been to provide support to tenants affected by welfare reform and mitigate the impact of welfare reform on the business plan.

Much of the activity in 2013 has been focused on proactively visiting tenants affected by the new under-occupancy rules (8,511 attempted proactive visits as of November 2013 has resulted in 52% affected tenants being offered support and advice), encouraging tenants to make best use of Discretionary Housing Payments (£425k into HRA since April 2013) and supporting them to downsize as appropriate (450 tenants have expressed the need to move urgently; 127 tenants have downsized into council properties and 10 tenants into Housing Association properties since April 2013). It is now important to ensure that efforts are also made to prepare tenants for the implementation of Universal Credit.

Budget provision for service enhancements in 2014/15 are proposed as follows:

Activity	2014/15 Budget	Purpose	Update
Additional staff	£455k	Preventative & arrears work- preparing tenants for welfare reform changes. £190k approved in 2012.	Staffing to increase by a further £265k in 2014/15.
Debt advice	£80k	Specialist debt workers based at Citizens Advice Bureau	To fund 250 referrals per year
Smart Move	£70k	Previously grant funded	Function integrated into the Access to Housing team
Hardship Fund	£500k	Selective write off of debt (rent arrears) for tenants at severe risk of eviction, particularly under occupiers.	Budget to be increased from £50k to support tenants affected by the underoccupancy rules.
Payment methods	£46k	Costs for administering jam jar accounts and direct debits	Low numbers of jam jar accounts make unit costs higher at this stage. Also difficult to predict take up.
Texting	£20k	To offer a text messaging service to remind tenants to make payment (as per learning from demonstration projects)	New proposal for 2014/15. Will be used to fund the development of the Housing Management ICT System.
Downsizing support	£14k	More practical support with moving home (van, utilities, carpets etc)	Scheme delivered through Furnished Accommodation Service.

In line with the 'Making The Most Of Our Available Income' service design vision statements from 2013 the Council is also evaluating the benefits of more closely aligning rent collection with council tax collection so that tenants with debt to the council have a single point of contact and a single repayment plan.

ii. Make Best Use of Homes

The business plan made a commitment in 2012 to make the re-housing process more effective and efficient by reviewing Lettings Policy and introducing a new ICT System for the bidding process.

The Lettings Policy review concluded in 2012/13 and Cabinet approved the new Policy on 20th March 2013. Some changes to Lettings Policy were implemented in 2013/14. However, given the complexity of the changes full implementation of the new policy will take longer to achieve and will take place in stages with expected completion during 2014/15. A review of the cost of implementation and efficiencies that can be achieved as a result of implementing the new policy have now been incorporated into the business plan and these will be reviewed on a regular basis as the policy changes are implemented.

The Lettings ICT system was implemented in October 2013. The cost of the project in 2012/13 was £376k. This was part funded by £225k rolled forward by the ALMO from its (pre self-financing) 2011/12 budget resulting in a business plan cost in 2012/13 of £151k against a budget of £100k. The cost of the project in 2013/14 is expected to be around £660k.

The reasons for the increased costs are –

- Scoping and configuration proved more intensive and time consuming than initially envisaged
- Increased development time required due to complexity and size of Sheffield system
- Unforeseen delays and costs in liaising between IT suppliers/contractors and securing sign off of work required. This has included costs incurred because the existing housing management software could not be upgraded to the current version as soon as expected
- Increase project team costs due to longer than expected lead in time caused by IT delays
- Unforeseen costs for development of the interface between the housing management software and the lettings ICT system

The anticipated financial benefits of the new ICT system have also been reassessed and uplifted to £200k per annum.

The 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 2012/13 the Future of Council Housing 'Joined Up Services' project group was established to look at this area in detail. Following the delivery of this group's vision statements three 'Joined Up Services' pilots were established in November 2013 each with a focus on specific customer groups (young people in Gleadless Valley; Families in Foxhill and Brushes/ Wincobank). These pilots will foster closer working links across housing, other council and partner agencies in order to better support households to sustain tenancies. It is intended that the learning from these pilots will inform a future 'Housing Plus' model of housing management which incorporates the wider feedback from the Future of Council Housing consultation and Service Design process and which will be the subject of a separate Cabinet decision in 2014. The 2014/15 and 2015/16 budgets include provision for a Housing Plus project team, subject to the development of a business case and its approval by Cabinet.

The Council's High Support Service is an intensive family intervention project which supports whole families who are at risk of losing their home for causing antisocial behaviour by tackling the root causes of such behaviour. If as a result of the council's wider budget setting process the level of Housing Related Support funding for the High Support service is reduced, it is proposed the HRA would meet the resulting £100k funding shortfall in 2014/15 in order that the service to council tenants can continue as part of the HRA's wider strategy for sustaining tenancies. The longer term arrangements for High Support would be subject to review in 2014/15.

iii. Attractive Neighbourhoods

A key aim for the business plan is to reduce the high cost of estate services whilst ensuring neighbourhoods continue to be attractive and pleasant places to live. This is to be achieved in two ways.

a) Taking a coordinated approach to the prevention of fly tipping through investment in education and enforcement. This was to be funded through savings made on bulky waste.

- Savings from changes to the bulky waste service in 2012/13 were higher than anticipated and forecast savings targets have been upgraded accordingly.
- A programme of education and enforcement has begun with delivery in Central and East areas making use of the' Love Where You Live' approach. Early indications are that these will be successful and very popular with residents.
- Savings on tipping charges in 2012/13 were greater than forecast. However the incidence of tipping was reduced across all housing areas suggesting these savings cannot be attributed entirely to the Education and Enforcement activity. Analysis shows staff time spent dealing with fly tipping remained the same in 2012/13.

b) Reviewing green and open space management on council housing land, including a 10% efficiency target for Council Housing Service and Parks staff in relation to the work they undertake on council housing land.

- Work began on a North East pilot (complementing a long running pilot in the South east) in November 2012 to test integrated working between Council Housing Service Estate Officers and Parks staff and whether this might offer financial efficiencies as well as a more joined up service for the customer.
- The Future of Council Housing 'Clean, Attractive Neighbourhoods' service design has delivered its vision statement which sets out the need for a value for money service with clear standards, improved monitoring and a joined up, collaborative approach to green and open space maintenance.
- Work is now underway to learn from the pilot and deliver the vision. It is unlikely that any new ways of working resulting from this vision will be in place for 2014/15 so it is proposed to delay the planned efficiencies by a further 12 months.

d) Other Updates

i. Going Local

In 2013/14 £200k of the £400k Going Local budget was reserved for investment in communal areas. This was because in 2012/13 £225k of the budget was spent on communal security and refurbishment and committing at least £200k to communal areas safeguards the use of these funds for this strategic objective and ensures procurement can be optimised to deliver improved value for money. It is proposed this approach continues into 2014/15 but is reviewed with tenants in 2014/15 for implementation in 2015/16.

iii. Cornhill Flats

In 2013 the current office has been relocated from two converted flats, thereby freeing these properties so they can be converted back to residential accommodation. There is now a 24 hour staffing presence (porter) at the Cornhill temporary accommodation scheme. The capital delivery costs (previously estimated to be £121k) are now expected to be around £212k and are factored into the investment programme in section 2. Income from the new dwellings will partially offset the cost of a porter.

iv. Digital inclusion

The 2013/14 business plan made no financial provision for digital inclusion beyond the £30k funding in 2012/13 for the Digital Region project. However, digital inclusion is a significant emerging priority for the City and in 2013 the ‘Easy Access to Services’ Service Design group highlighted digital inclusion in two of its twelve vision statements for a future council housing service. In 2013 a digital pilot project was established with a budget of £30k and from 2014/15 to 2018/19 a budget of £45k/annum is proposed to support council housing tenants and their families to get online. This activity will deliver targeted community interventions to support digital inclusion activity across the city based on the findings from the digital pilot project.

v. Other

The City Stewardship contract ends in March 2014. Proposals for a new training and employment scheme are currently being developed.

e) Financial Summary

The tables below set out the investment and efficiency savings expected during the next 5 years of the business plan. Each figure represents a one-off saving (negative numbers) or cost (positive numbers) compared with the 2011/12 budgets and does not take account of inflation.

Year 1 represents a full year outturn, year 2 is the anticipated current year outturn and year 3 is the budget proposal for next year. Indicative figures are shown for years 4- 7 in order to maintain a 5 year figure horizon. The numbers from last year’s review are shown in grey underneath.

	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7
activity to mitigate welfare reform (2012/13)	**12/13 £000**	**13/14 £000**	**14/15 £000**	**15/16 £000**	**16/17 £000**	**17/18 £000**	**18/19 £000**
Smartmove	70	70	70	70	70	70	70
	70	70	70	70	70	70	-
Debt Advice Worker	40	40	40	40	40	40	40
	40	40	40	40	40	40	-
Additional IMU staff – preventative & arrears work	25	190	190	190	190	190	190
	50	190	190	190	190	190	-

additional activity to mitigate welfare reform (2013/14)	**Yr1 1** **12/13** **£000**	**Yr2** **13/14** **£000**	**Yr3** **14/15** **£000**	**Yr4** **15/16** **£000**	**Yr5** **16/17** **£000**	**Yr6** **17/18** **£000**	**Yr7** **18/19** **£000**
Visiting affected tenants	55	0	0	0	0	0	0
	90	0	0	0	0	0	-
Training on Welfare Benefits	0	5	0	1	0	1	0
	0	5	0	1	0	1	-
Support for under-occupying customers who want to move	0	27	14	14	5	5	0
	14	27	14	14	0	0	-
Payment methods – jam jar	0	6	21	37	37	37	37
	0	0	37	37	37	37	-
Hardship Fund	0	50	500	250	125	75	50
	0	50	50	50	50	50	-
Payment methods – direct debit	0	0	25	25	25	25	25
	0	0	25	25	25	25	-
Increased funding to CAB for another Debt Worker	0	0	40	40	40	40	40
	0	40	40	40	40	40	-

additional activity to mitigate welfare reform (2014/15)	**Yr1 1** **12/13** **£000**	**Yr2** **13/14** **£000**	**Yr3** **14/15** **£000**	**Yr4** **15/16** **£000**	**Yr5** **16/17** **£000**	**Yr6** **17/18** **£000**	**Yr7** **18/19** **£000**
Additional staff	-	155	265	219	219	219	219
Texting	-	-	20	10	10	10	10

Allocations Policy and CBL	**Yr1 1** **12/13** **£000**	**Yr2** **13/14** **£000**	**Yr3** **14/15** **£000**	**Yr4** **15/16** **£000**	**Yr5** **16/17** **£000**	**Yr6** **17/18** **£000**	**Yr7** **18/19** **£000**
Lettings Policy review implementation & efficiencies	102	55	220	18	-50	-50	-50
	185	140	-50	-50	-50	-50	-
Lettings ICT system (CBL) implementation costs	151	662	0	0	0	0	0
	100	75	0	0	0	0	-
Lettings ICT system (CBL) - efficiencies (Rehousing)	0	-50	-100	-100	-100	-100	-100
	0	-40	-50	-50	-50	-50	-
Lettings ICT system (CBL) - efficiencies (Rent Loss)	0	-25	-50	-50	-50	-50	-50
		-17	-25	-25	-25	-25	-
Lettings ICT system (CBL) - efficiencies (Vacant Mgt)	0	-25	-50	-50	-50	-50	-50
	0	-18	-25	-25	-25	-25	-

Invest to save on Estate Services – fly tipping costs	**Yr1 1** **12/13** **£000**	**Yr2** **13/14** **£000**	**Yr3** **14/15** **£000**	**Yr4** **15/16** **£000**	**Yr5** **16/17** **£000**	**Yr6** **17/18** **£000**	**Yr7** **18/19** **£000**
Savings from limiting bulky waste collections to one collection per year	-239	-190	-190	-190	-190	-190	-190
	-145	-145	-145	-145	-145	-145	-
Education and enforcement spend	20	100	100	100	100	70	40
	70	150	150	120	100	70	-
Savings on tipping charges	-138	-59	-97	-133	-169	-169	-169
	-20	-59	-97	-133	-169	-169	-

Savings on staff costs from collecting black bags /fly tipping and chute clearances	0	-78	-128	-177	-225	-225	-225
	-26	-78	-128	-177	-225	-225	-

Invest to save on Estate Services – fly tipping costs	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7
	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000
Savings from dry stores as a result of closure on H&S grounds	0	-27	-54	-54	-54	-54	-54

Open Space Maintenance	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7
	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000
Savings on staff costs from undertaking less ground maintenance work	0	0	0	-40	-80	-80	-80
	0	0	-40	-80	-80	-80	-80
Open space maintenance SLA (10% saving)	-48	0	0	-110	-220	-220	-220
	0	0	-110	-220	-220	-220	-220
Block cleaning - service improvements.	0	0	0	50	75	100	150
	0	50	75	100	125	150	-
Cleared Sites	0	-50	-100	-150	-200	-250	-250
	0	-50	-100	-150	-200	-250	-250

Other on-going investment priorities	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7
	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000
Digital Inclusion	30	30	45	45	45	45	45
	30	0	0	0	0	0	-
Cornhill concierge **capital**	12	200	0	0	0	0	0
	121	0	0	0	0	0	-
Cornhill concierge revenue spend (porter)	0	31	75	75	75	75	75
	0	75	75	75	75	75	-
City Stewardship	0	-50	0	0	0	0	0
	0	0	0	0	0	0	-
Cornhill concierge revenue income (rents)	0	8	20	20	20	20	20
	0	20	20	20	20	20	-

Successful Tenancies (including indicative housing plus project costs)	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6	Yr7
	12/13 £000	13/14 £000	14/15 £000	15/16 £000	16/17 £000	17/18 £000	18/19 £000
Project costs total	0	54	350	200	0	0	0
	50	250	250	250	250	250	-
Efficiencies (rent loss)	0	0	0	-100	-125	-125	-125
Efficiencies (vacant repairs)	0	0	0	-100	-125	-125	-125
Efficiencies total	0	0	0	200	-250	-250	-250
	0	60	120	250	500	500	500
Net position	0	54	350	0	-250	-250	-250
	50	190	130	0	-250	-250	-250

6. DEBT AND TREASURY MANAGEMENT

a) Overview

This section of the business plan is concerned with how we ensure the risks and opportunities associated with borrowing are optimised for the benefit of the HRA.

b) Risk

The key risk to this element of the business plan is interest rate risk. The HRA supports around £350m borrowing and no additional debt has been taken on since the debt settlement which signalled the transfer to self-financing in March 2012. Debt costs around £17m in interest payments each year (12% turnover). Each loan is like a mortgage in that after a fixed period it matures and has to be repaid. As each loan matures the council can choose to repay it either from rental income, or by taking out a new loan (refinancing). If the council chooses to repay through refinancing the new loan may either be cheaper or more expensive than the original, depending on interest rates at the time. In order to mitigate the risk of having to take on new debt at high interest rates it is preferable to ensure the council can always afford to *choose* whether to pay off newly maturing debt from rent or refinancing and is never held to ransom by high interest rates.

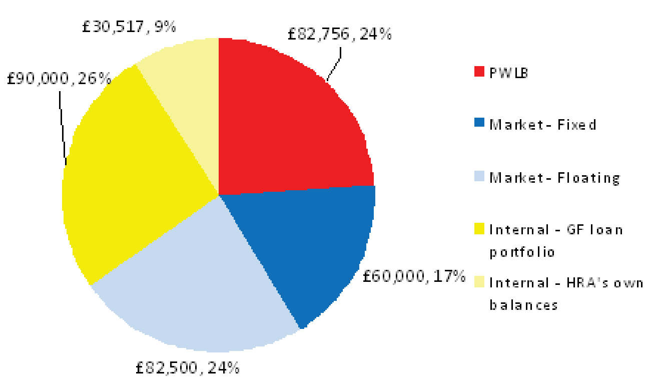
c) Key Developments

At the start of ‘self-financing’ the HRA had a significant amount of internal borrowing. This represents the Council’s use of cash reserves from the General Fund and from the HRA to finance capital expenditure.

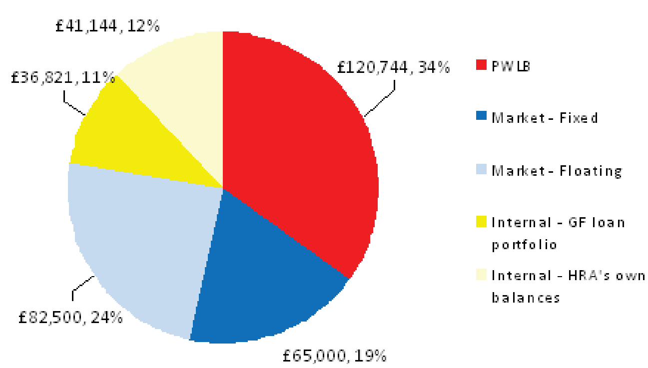
During 2012/13 £48.5m of low cost fixed-rate loans were taken out to allow the HRA to repay General Fund for cash it had borrowed in prior years. This externalisation of debt by taking fixed-rate loans, and thus acquiring cost certainty, allows the HRA to mitigate a large proportion of the interest-rate risk inherent in its loan portfolio. Moving away from a portfolio heavily exposed to interest-rate risk brings increased cost certainty, and will assist the HRA in creating a stable and accurate business plan.

The following charts show the debt composition of the HRA as at the start of self-financing in comparison to the start of 2013/14

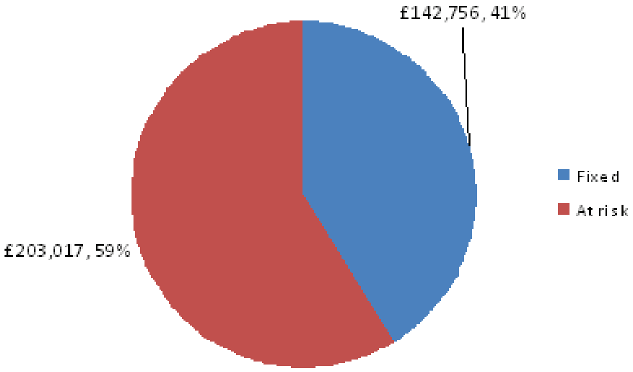
1st April 2012

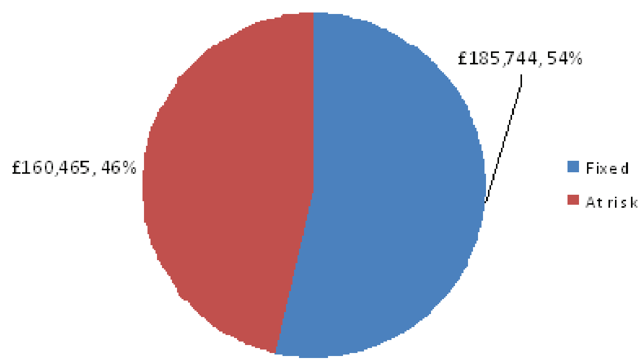


1st April 2013



The following charts show that the amount of the HRA's loan portfolio at risk from interest rate rises has reduced substantially from 59% to 46%:





During 2012/13 treasury management decisions were taken by the Council's Director of Finance to slow this process down and in May 2013 a change in approach was adopted to support the HRA and the Authority's overall position by halting the externalisation of debt in favour of ongoing internal borrowing. The overriding issues driving these decisions were sustained historically low borrowing costs and sustained high cash balances for the authority as a whole. Whilst the continuation of internal borrowing could only ever be a short term position it did allow further savings to be generated in 2013/14 from lower than forecast borrowing costs.

However by September 2013 the environment had changed again:

- Borrowing costs have increased and rates are set to increase further
- The Authority has moved into a cash deficit position.
- The Council was developing plans to make use of borrowing headroom to deliver new council housing units

With this in mind the externalisation of debt recommenced in order that the HRA de-risk a sizeable amount of its loan portfolio, and allowed the authority to move away from a cash deficit position.

Loans are now being taken at a rate that is budgeted for within the HRA business plan, and with maturities that provide the HRA with the flexibility it needs to make financing choices to support its wider plans. This means the business plan is establishing a sound borrowing platform on which to make long term investment decisions at the expense of shorter term interest savings.

7. VALUE FOR MONEY

a) Overview

The value for money section underpins all aspects of the business plan. This section also reviews overheads and support costs such as management costs, accommodation costs and Service Level Agreement (SLA) costs.

b) Risks

The risk to this section of the business plan is that efficiency targets built into the plan do not materialise. The business plan has high value savings factored in both for the new Repairs and Maintenance contract and the Future of Council Housing efficiencies. Failure to achieve these would therefore have significant implications for the plan.

c) Key Developments

i. Back Office Efficiencies

The original target in the business plan was to achieve efficiency savings of 10% in 2012/13 and 7.5% in 2013/14 on Sheffield City Council and Sheffield Homes support costs. These targets are being delivered as planned and it is proposed they remain.

ii. Future of Council Housing Efficiencies

The business plan assumed a target of £1.2m annual savings resulting from the Future of Council Housing project from 2014/15. It is expected that around £600k savings will be delivered in 2013/14 with further plans in place to meet the target as planned. From 2014/15 the Future of Council Housing Project costs transfer to the Tenant Services section of the plan in order to deliver phase 3 of the project: Housing Plus (subject to separate Cabinet decision).

iii. Repairs and Maintenance Service Re-design

An original business plan priority is for a value for money repairs and maintenance service ready for 2014: “The HRA Business Plan assumes an efficiency saving of 2% (£665k) on the repairs and maintenance service post 2014 but this is dependent on the procurement”. As well as this efficiency target £300k procurement costs for 2012- 2014 were factored into the plan.

On 10th April 2013, Cabinet approved that the HRA Repairs and Maintenance service be procured on the open market to seek a contractor to deliver this service post April 2014. In November 2013 the Council announced that it had selected Kier Services as preferred bidder for the social housing repairs and maintenance contract. The contract will be for the next three years (2014 -17) with an option to extend this by a further two years. It is expected the efficiency targets built into the HRA Business Plan will be met although a reprofiling of the savings between years will be necessary once known.

iv. Cost Pressures

An actuarial review was undertaken in 2013 on the Council’s overall pension liabilities with the result that contributions will increase. The impact on the HRA is likely to be around £1.4m per year compared with 2013/14 but the final position will not be known until discussions have concluded with the Pensions Authority.

A fund exists within the HRA to fund the council housing service's exposure to insurance liabilities. Based on revised claims forecasts and the need for the HRA to be fully funded, additional resources need to be allocated to the fund. Also adding pressure to budgets are the changed billing criteria for vacant properties in respect of council tax charges.

Staffing budgets are uplifted by 1% in 2014/15 to take account of the expected cost of living increase. Cost inflation for 2014/15 has been assumed at 2.75% and then CPI+0.5% thereafter.

d) Financial Summary

Support cost efficiencies	**Yr1 1**	**Yr2**	**Yr3**	**Yr4**	**Yr5**	**Yr6**	**Yr7**
	12/13 £000	**13/14 £000**	**14/15 £000**	**15/16 £000**	**16/17 £000**	**17/18 £000**	**18/19 £000**
SCC efficiencies (non-council housing service)	-225	-394	-506	-619	-619	-619	-619
	-225	-394	-506	-619	-619	-619	-
Sheffield Homes/ Council Housing Service efficiencies	-448	-784	-784	-784	-784	-784	-784
	-448	-784	-784	-784	-784	-784	-

FoCH (integration) efficiencies	**Yr1 1**	**Yr2**	**Yr3**	**Yr4**	**Yr5**	**Yr6**	**Yr7**
	12/13 £000	**13/14 £000**	**14/15 £000**	**15/16 £000**	**16/17 £000**	**17/18 £000**	**18/19 £000**
Future of Council Housing project costs	190	196	0	0	0	0	0
	196	196	0	0	0	0	-
Future of Council Housing implementation costs	103	216	0	0	0	0	0
	200	500	0	0	0	0	-
Future of Council Housing project efficiencies	-345	-616	-1200	-1200	-1200	-1200	-1200
	-225	-900	-1200	-1200	-1200	-1200	-

Repairs and maintenance procurement	**Yr1 1**	**Yr2**	**Yr3**	**Yr4**	**Yr5**	**Yr6**	**Yr7**
	12/13 £000	**13/14 £000**	**14/15 £000**	**15/16 £000**	**16/17 £000**	**17/18 £000**	**18/19 £000**
Repairs & maintenance procurement & post 2014 efficiencies	100	300	-665	-665	-665	-665	-665
	200	100	-665	-665	-665	-665	-

Cost pressures	**Yr1 1**	**Yr2**	**Yr3**	**Yr4**	**Yr5**	**Yr6**	**Yr7**
	12/13 £000	**13/14 £000**	**14/15 £000**	**15/16 £000**	**16/17 £000**	**17/18 £000**	**18/19 £000**
Impact of actuarial review on pensions	-755	-755	645	645	645	645	645
	-755	-755	-755	-755	-755	-755	-
Insurance costs	150	300	1,500	2,000	500	500	200
	-	-	-	-	-	-	-
Council tax on vacants	0	100	100	100	100	100	100
	-	-	-	-	-	-	-

Housing Revenue Account 2014/15 Budget and 5-Year Projections

Revenue Account	*2013.14 Outturn*	*2014.15*	*2015.16*	*2016.17*	*2017.18*	*2018.19*	*Total 14-19*
INCOME							
Income from Rents	-141.1	-147.7	-152.4	-157.1	-161.9	-166.8	**-785.9**
Other Income	-6.3	-5.9	-6.0	-6.2	-6.2	-6.5	**-30.8**
Total	**-147.4**	**-153.6**	**-158.4**	**-163.3**	**-168.1**	**-173.3**	**-816.7**

EXPENDITURE							
Homes - Revenue Repairs	33.0	37.0	32.0	31.7	34.8	35.7	**171.2**
Homes - funding for Capital Programme (Depreciation)	37.1	38.0	38.8	39.7	40.6	41.6	**198.7**
Tenants Services (including management)	51.0	53.7	55.0	54.1	55.6	57.1	**275.5**
Interest on Debt	15.0	15.3	15.9	16.2	17.7	18.2	**83.3**
Other Costs	1.4	2.2	1.9	2.1	3.3	1.6	**11.1**
Total	**137.5**	**146.2**	**143.6**	**143.8**	**152.0**	**154.2**	**739.8**

Surplus(-) or deficit	**-9.9**	**-7.4**	**-14.8**	**-19.5**	**-16.1**	**-19.1**	**-76.9**

Opening Revenue Reserve	-28.9	-10.0	-10.0	-10.0	-10.0	-10.0	
Surplus (-) or deficit	-9.9	-7.4	-14.8	-19.5	-16.1	-19.1	
Transfer to Capital Reserves	28.8	7.4	14.8	19.5	16.1	19.1	
Closing Revenue Reserve	-10.0	-10.0	-10.0	-10.0	-10.0	-10.0	

Capital Account - 5-Year Projections

Capital Account	*2013.14 Outturn*	*2014.15*	*2015.16*	*2016.17*	*2017.18*	*2018.19*	*Total 14-19*
EXPENDITURE							
	38.2	46.8	80.8	76.0	73.3	71.3	**348.2**

FUNDED BY							
Major Repairs Reserve	34.3	43.7	74.6	71.0	54.0	56.7	**300.0**
Additional Borrowing	0.0	0.0	0.0	0.0	12.9	9.2	**22.1**
RTB Receipts	0.0	0.0	1.4	1.4	1.5	1.8	**6.1**
Additional RTB Receipts	0.6	1.1	3.4	2.2	4.7	3.4	**14.8**
Other capital contributions	3.3	2.0	1.4	1.4	0.2	0.2	**5.2**
Total Funding	**38.2**	**46.8**	**80.8**	**76.0**	**73.3**	**71.3**	**348.2**

City Wide average weekly rent by bedsize

Bedsize	Average weekly rent		Increase	
	2013/14	2014/15		
Bedsit	£54.80	£57.97	£3.17	5.78%
1 bed	£61.99	£65.81	£3.82	6.16%
2 bed	£70.31	£74.69	£4.38	6.23%
3 bed	£78.90	£83.71	£4.81	6.10%
4 bed	£85.36	£90.41	£5.05	5.92%
Total (all bedrooms average)	£69.99	£74.30	£4.31	6.16%

Note: The above rents are for illustrative purposes only as they are based on city wide averages. Actual individual property rents will vary from these figures. Both years' averages are of restructured rents calculated using 2013/14 stock numbers to enable comparison.

Proposed Community Heating Charges from April 2014

1. Unmetered Heat

	Full heating		Partial heating	
Bedsize	**Current Prices £/week**	**Prices April 2014 £/week**	**Current Prices £/week**	**Prices April 2014 £/week**
Heating & hot water				
Bedsit	11.05	**11.38**	10.21	**10.52**
1 Bedroom	11.47	**11.82**	10.50	**10.82**
2 Bedroom	14.23	**14.66**	13.22	**13.62**
3/4 Bedroom	15.32	**15.78**	14.23	**14.66**
Heating only				
Bedsit	8.13	**8.38**	7.53	**7.76**
1 Bedroom	8.33	**8.58**	n/a	**n/a**
2 Bedroom	10.50	**10.82**	9.73	**10.03**

Note: For sheltered schemes the above prices are split into dwelling heating and communal heating. The communal element of charges will be a fixed £3.03 per dwelling per week in 2014/15.

2. Metered Heat

	Charge		Prices from April 14	
Existing schemes				
Leverton/ Hanover/ Netherthorpe	Unit charge Standing charge	pence per kwh £ per week	**4.38** **3.68**	(i.e 100 kwh heat ticket is £4.38)
Hillside	Unit charge Standing charge	pence per kwh £ per week	**3.04** **3.14**	(i.e 100 kwh heat ticket is £3.04)
Balfour House	Unit charge Standing charge	pence per kwh £ per week	**3.40** **4.63**	(i.e 100 kwh heat ticket is £3.40)
New schemes				
Standard price	Unit charge Standing charge	pence per kwh £ per week	**3.38** **4.00**	

HRA Financial Assumptions

The detailed financial model behind the HRA Business Plan includes a number of assumptions we have used to understand what resources will be available for council housing over the next five years in the context of the next thirty years. These baseline assumptions are listed below.

Revenue assumptions	Assumption
Homes – opening number of homes in 2014/15	40,698
Homes - dwellings by 2043/44	35,808
Number of RTBs 2014/15	265
Total number of RTBs by 2043/44	4,935
Rents	CPI + 1% from 2015/16
Consumer Prices Index (CPI) of inflation	Based on average of independent forecasts to 2017 and 2.2% thereafter
Convergence date	2014/15
Bad Debts	Average of 1.1% of debt
Void rate	1.36%
Repairs	Increased by contractual inflation
HRA reserves are maintained in accordance with risk based reserves strategy	£10m in 2014/15

Debt assumptions	Assumption
Opening HRA Borrowing requirement on 1st April 2014	£349m
HRA borrowing limit	£391m
Interest rates on HRA debt	Approx. rates 4.0% to 5.2%

Capital assumptions	Assumption
Capital receipts	£RTB receipts credited to HRA from 2015/16. Additional receipts used towards new affordable housing.
Capital delivery (council housing investment)	£3.7 million per annum 2014/15
Capital costs (council housing investment)	£0.605 million per annum 2014/15

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