**Author/Lead Officer of Report:** Louise Cassin, Housing Business Plan Officer

**Tel:** 0114 2930240

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| **Report of:** | Laraine Manley |
| **Report to:** | Cabinet |
| **Date of Decision:** | 18 January 2017 |
| **Subject:** | Housing Revenue Account (HRA) Business Plan and HRA Budget 2017/18 |

Is this a Key Decision? If Yes, reason Key Decision:- Yes [x] No [ ]

- Expenditure and/or savings over £500,000 [x]
- Affects 2 or more Wards [x]

Which Cabinet Member Portfolio does this relate to? Housing

Which Scrutiny and Policy Development Committee does this relate to? Safer and Stronger Communities

Has an Equality Impact Assessment (EIA) been undertaken? Yes [x] No [ ]

If YES, what EIA reference number has it been given? 1033

Does the report contain confidential or exempt information? Yes [ ] No [x]

**Purpose of Report:**

The report provides the 2017/18 update of the Housing Revenue Account (HRA) Business Plan. It includes proposals to:

- Continue with our commitment of 1,000 new/replacement council homes, with a switch of focus from acquisitions to new build with no overall increase in the cost of the programme. A higher percentage of new builds within the programme will help us to build the mix of housing that we need
- Continue to deliver, as planned, improvements to our tenants' homes to make sure they continue to be well maintained over the next 5 years
- To change garage rents to a single rate for garage plots and a single rate for garage sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been

made to existing sites and plots

- Prepare to implement new government housing policies when legislation comes into force, ensuring we work with our affected tenants to make sure they are fully supported

- Explore potential savings to the HRA allowing time to consult on options in order to help mitigate against anticipated future financial pressures to the HRA

**Recommendations:**

It is recommended that Cabinet recommends to the meeting of the City Council on 1 February 2017 that:

1. The HRA Business Plan report for 2017/18 as set out in appendix A to this report is approved
2. The HRA Revenue Budget 2017/18 as set out in appendix B to this report is approved
3. Rents for council dwellings including temporary accommodation are reduced by 1% from April 2017 in line with the requirements in the Welfare Reform and Work Act 2016
4. From 2017/18, garage rents will change to a single rate for garage plots and a single rate for garage sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots
5. The community heating unit charge for tenants who receive metered heating is reduced by 10% from April 2017. Community heating charges for those tenants receiving unmetered heating will remain unchanged from April 2017
6. Following the review of sheltered housing service charges in 2015, as approved by the Cabinet Member for Housing, and work undertaken on future charging for communal heating in sheltered schemes as reported to the Cabinet Member, the existing weekly charge of £14.89 will be amended to £15.54 to recover the cost for communal heating in sheltered schemes.
7. Burglar alarm charges are to remain unchanged from April 2017
8. Charges for furnished accommodation are to remain unchanged from April 2017
9. The Director of Housing and Neighbourhoods and Director of Finance, in consultation with the Director of Legal and Governance and the Cabinet Member for Housing, be granted delegated authority to authorise prudential borrowing as allowed under current government guidelines

**Background Papers:**

*Equalities Impact Assessment* (appendix F)

| Lead Officer to complete:- | | |
|---|---|---|
| 1 | I have consulted the relevant departments in respect of any relevant implications indicated on the Statutory and Council Policy Checklist, and comments have been incorporated / additional forms completed / EIA completed, where required. | Finance: Karen Jones |
| | | Legal: Andrea Simpson |
| | | Equalities: Louise Nunn |
| | *Legal, financial/commercial and equalities implications must be included within the report and the name of the officer consulted must be included above.* | |
| 2 | **EMT member who approved submission:** | Jayne Ludlam |
| 3 | **Cabinet Member consulted:** | Councillor Jayne Dunn |
| 4 | I confirm that all necessary approval has been obtained in respect of the implications indicated on the Statutory and Council Policy Checklist and that the report has been approved for submission to the Decision Maker by the EMT member indicated at 2. In addition, any additional forms have been completed and signed off as required at 1. | |
| | **Lead Officer Name:**<br>*Louise Cassin* | **Job Title:**<br>*Housing Business Plan Officer* |
| | **Date:** *09.01.17* | |

## 1. PROPOSAL

1.1 Summary

1.1.1 The report provides the 2017/18 update of the Housing Revenue Account (HRA) Business Plan. Section 1.5.1 lists the key proposals.

1.1.2 This report also presents a 2017/18 revenue budget for the HRA.

1.1.3 A separate report on the Capital Programme, which includes the council housing investment programme 2017/18, will be considered by Cabinet on 15 February 2017. This will include details of the council's funded capital investment plan for council housing which complements the service and financial plans for the HRA in this report.

1.2 The HRA Business Plan

1.2.1 The HRA Business Plan sets out how all aspects of council housing will be funded from income (predominately rents) the local authority is able to generate in its capacity as landlord. It sets budgets for the coming year and provides a 5 year plan in the context of a 30 year affordability profile.

1.2.2 Each year the HRA Business Plan is reviewed and updated to set budgets and charges for the year ahead and to provide an updated 5 year plan in the context of a 30 year affordability profile. Some of the key achievements of the HRA Business Plan over the last 5 years are listed in appendix A to this report.

1.3 The HRA Ring-fence

1.3.1 The HRA is the financial account of the council as landlord. It is ring-fenced in law for income and expenditure in respect of council housing and housing land and certain activities in connection with the provision of council housing only. Other council services are funded through council tax and central government support which benefits all citizens of Sheffield regardless of tenure.

1.4 Summary of Key Changes for 2017/18

1.4.1 The HRA report to Cabinet in February 2016 set out some of the key policy changes contained in the forthcoming Housing and Planning Bill which it was envisaged would have a significant and detrimental impact to the HRA Business Plan. These included Pay to Stay, the extension of Right to Buy to housing association tenants (to be funded nationally through payments by local housing authorities to the government based on estimated receipts from the sale of higher value council homes as they fall vacant) and the implementation of fixed term tenancies.

1.4.2 The Housing and Planning Act 2016 received royal assent in May 2016 although most of the social housing provisions are not yet in force. The government announced in the Autumn Statement (November 2016) and in correspondence to local housing authorities that there would be a number of changes to these original proposals. This included:-

- No longer proceeding with the compulsory Pay to Stay proposals
- The extension of Right to Buy to housing association tenants is to continue. There will be a large scale regional pilot on Right to Buy extension which the government will fund
- No higher value asset payments from local authorities in 2017/18
- The implementation of fixed term tenancies policy is still to be introduced, however government are yet to announce any timescales for this

1.4.3 Tenants have been kept up to date throughout the year on the latest developments and have been reassured that the Director of Housing and Neighbourhoods and the Cabinet Member for Housing have been working closely with central Government on these issues to ensure the best outcome for Sheffield and to minimise the risk to tenants.

1.5 <u>Headlines</u>

1.5.1 The key headlines for the HRA Business Plan are:-

- Continue with our commitment of 1,000 new/replacement council homes, with a switch of focus from acquisitions to new build with no overall increase in the cost of the programme. A higher percentage of new builds within the programme will help us to build the mix of housing that we need

- Continue to deliver, as planned, improvements to our tenants' homes to make sure they continue to be well maintained over the next 5 years

- To change garage rents to a single rate for garage plots and a single rate for garage sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots

- Prepare to implement new government housing policies when legislation comes into force, ensuring we work with our affected tenants to make sure they are fully supported

- Explore potential savings to the HRA allowing time to consult on options in order to help mitigate against anticipated future financial pressures to the HRA

1.5.2 The financial viability of the HRA Business Plan is measured by its ability to repay debt over 30 years. In last year's update, mitigations as a result of the 1% rent reduction were factored into the 30 year business plan such as extending investment lifecycles, to ensure the plan was financially viable and secure over the 30 year life of the plan.

1.5.3 These mitigations remain factored into the plan for 2017/18.

1.6 Income and Resources

1.6.1 Dwelling rents for 2017/18 including temporary accommodation are to reduce by 1% in line with the Welfare Reform and Work Act 2016. This will be the second year of rent reductions as part of the Act. The 1% decrease is equivalent to an average reduction of £0.76 per week. Appendix D sets out the average rents per house size in Sheffield.

1.6.2 The process of making all council housing rents equitable over time by letting vacant properties at the target rent level will continue. Currently the average rent is £0.90 less than 'target' compared with a difference of £0.96 last year.

1.6.3 It is proposed from 2017/18 that garage rents will change to a single rate for garage plots and a single rate for garage sites. Charges for garage plots and sites vary across the city; therefore a change to a single rate will provide a simpler and fairer charging mechanism for both garage plots and sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots. All garage tenants will be given notification of any change to their existing garage rent rate.

1.6.4 The community heating unit kilowatt hour (kWh) charge will reduce by 10% from 3.38 pence to 3.04 pence per kWh for 2017/18. This will apply to all tenants who receive a metered heat supply. This reduction reflects reducing commercial gas prices meaning there has been scope to reduce the pence per kWh rate. The 10% reduction also applies to the weekly hot water charge which covers unmetered hot water used in customer's dwellings (in certain sheltered schemes). This reduces the weekly charge from £0.70 to £0.63 per week.

The weekly standing charge levied on heat metered properties remains unchanged and will remain at £4.00 per week for the third consecutive year.

For a small number of tenants who still receive an unmetered heat supply, their charge will be held at 2016/17 rates. It is envisaged that these will be converted to a metered heating supply early in 2017/18 in accordance with the provisions of the Heat Network (Meter and Billing) Regulations 2014.

A full breakdown of all community heating service charges is set out in appendix D to this report.

1.6.5 Following the review of sheltered housing service charges in 2015, as approved by the Cabinet Member for Housing, and work undertaken on future charging for communal heating in sheltered schemes as reported to the Cabinet Member, the existing weekly charge of £14.89 will be amended to £15.54 to recover the cost for communal heating in sheltered schemes. This is a result of the installation of heat meters in sheltered housing schemes during 2016/17, as required by the Heat Network (Meter and Billing) Regulations 2014, so that tenants pay individually for the heat supplied to their homes rather than through a community heating charge. The £0.65 increase per week will be an eligible charge for housing benefit.

1.6.6 The procurement for the installation and maintenance of burglar alarms has completed resulting in the burglar alarm charge remaining unchanged for 2017/18.

1.6.7 The furnished accommodation charge will remain unchanged for 2017/18.

1.6.8 Further detail on Income and Resources is available in the HRA Business Plan 2017/18 appendix A.

1.7 <u>Homes</u>

1.7.1 The aim of the investment programme has been to create an affordable plan to match expected resources and to address as much of the higher risk backlog elements quickly in order to minimise costs overall.

1.7.2 In 2011, when the first business plan was drafted, the investment backlog was estimated to be around £257m. By March 2017 the backlog is expected to have reduced to £101m.

1.7.3 A number of fully and partially unfunded investment areas still remain in the business plan. Each year as the business plan is reviewed efforts are made to incorporate elements of the unfunded items into the 5 year programme.

1.7.4 The 5 year investment programme will continue to prioritise and deliver, as planned, improvements to people's homes (kitchens, bathrooms, windows, doors, roofs, boilers, communal areas etc) to make sure homes continue to be well maintained.

1.7.5 The commitment to optimising the number of new/replacement council homes continues to be a high priority despite pressures. The current stock increase programme is made up of a mix of acquired properties and new build properties. It is proposed that in 2017/18 the stock increase programme continues to work to a target of 1,000 new/replacement homes, with a higher proportion of new build units in order to provide the mix of properties we want to achieve. It is expected that the overall cost of the programme will remain the same.

1.7.6 A repairs strategy that will help to develop new and more efficient ways of working is continuing to be developed. The Housing Repairs and Maintenance Service will be insourced in April 2017, as approved by Cabinet in March 2015.

1.7.7 Further detail on Homes is available in the HRA Business Plan 2017/18 appendix A

1.8 Tenant Services

1.8.1 Universal Credit was rolled out in Sheffield on 18 January 2016 for single new benefit claimants. The roll out to couples and families will take place in two tranches, July 2018 for the Bailey and Cavendish Court Jobcentres and September 2018 for the Eastern Avenue, Hillsborough and Woodhouse Jobcentres, with migration of existing claimants in Sheffield expected to take place between 2019 and 2022. Supporting tenants through this transition to Universal Credit as well as supporting tenants affected by other welfare reform changes such as the reduction to the benefits cap will continue to be a key priority for the business plan in 2017/18 and beyond. This will be of importance to those tenants identified as vulnerable and those tenants who may be affected by several welfare reform changes.

1.8.2 'Housing+' was implemented citywide on 3 October 2016 as a major change in the way that housing services are delivered across the city. Housing+ adopts a patch-based approach meaning there is much more emphasis on face to face contact with tenants. As well as delivering front-line services, the teams will work with other providers and local people to help strengthen the local community. By providing advice and low-level preventative work in ways of working outside the 'traditional' housing boundaries, neighbourhood officers will help tenants maintain their tenancy and reduce their need for more costly interventions. This will in turn achieve savings for the HRA and incidental benefits for other council services.

1.8.3 On 1 May 2015, the delivery of a housing grounds maintenance single service was implemented and involved the transfer of housing estate officers to the Parks and Public Realm service. Savings factored into the HRA Business Plan last year as a result of the integrated service remain profiled for 2017/18. It is proposed that the current standards of delivery and service level agreement (SLA) arrangements continue to be monitored and reviewed in 2017/18.

1.8.4 Further detail on Tenant Services is available in the HRA Business Plan 2017/18 appendix A.

1.9 Debt and Treasury Management

1.9.1 The HRA funds a large investment programme which will continue in the next few years.

1.9.2 In order to accommodate the investment programme, the HRA will need to support further borrowing but it will be a question of when this debt is taken and at what rate. This is closely monitored by active treasury management activity throughout the year.

1.9.3 The key considerations that shape these decisions are:

- The interest rate environment
- The HRA's cash requirements for investment and debt management
- Affordability in the context of the overall 30 year HRA business plan

1.9.4 Further detail on Debt & Treasury Management is available in the HRA Business Plan 2017/18 appendix A.

1.10 Forecast Outturn 2016/17

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

1.10.2 Early indications suggest an improved full-year outturn position. This will continue to support the 30-year business plan in line with the HRA's financial strategy.

1.10.3 Further monitoring reports updating the 2016/17 position will be presented in accordance with the Council's budget monitoring timetables.

1.11 HRA Budget 2017/18

1.11.1 The HRA Business Plan 2017/18 (at appendix A) sets out the recommended budget for 2017/18 and includes the key changes described in the Income and Resources, Homes, Tenant Services and Debt & Treasury Management sections above.

## 2. HOW DOES THIS DECISION CONTRIBUTE?

2.1 The proposals in this report are aimed at maximising financial resources to deliver outcomes to council tenants in the context of a self-financing funding regime, developments in national policy, the current economic climate and reductions in government funding. They will contribute towards the Corporate Plan priorities of Thriving Neighbourhoods and Communities, Tackling Inequalities and being an In-touch Organisation.

2.2 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 report for 2017/18 is to ensure the cost of council housing - including investment in homes, services to tenants, the servicing of debt and overheads - can continue to be met by the income raised in the HRA.

2.3 The foundation of the HRA Business Plan is ensuring council homes are occupied because letting homes generates the rental income which funds all aspects of council housing.

## 3. HAS THERE BEEN ANY CONSULTATION?

3.1 Tenants have been kept informed of progress in relation to the Housing and Planning Act 2016 via a number of communications. This has included the Housing and Neighbourhoods Panel (HANAP), an update on the council housing web page, an article in ‘In Touch’ magazine that is delivered to all tenants and an article in ‘The Bridge’ magazine that is delivered to all Tenants and Residents Associations (TARAs) and Citywide Forum. Tenants will continue to be kept informed once any further updates are provided from government and any Regulations affecting how change is to be implemented have been published.

3.2 This report will be discussed with tenant representatives at the Citywide Forum on 12 January 2017. Comments and views expressed will be offered verbally to the Cabinet meeting.

## 4. RISK ANALYSIS AND IMPLICATIONS OF THE DECISION

4.1 <u>Equality of Opportunity Implications</u>

4.1.1 Consideration has been given to equalities relating to HRA budgets 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.

4.1.2 The Capital Programme report to Cabinet on 15 February 2017 will deal with any equalities considerations relating to the council housing investment programme.

4.1.3 Any in-year proposed change in policy or service provision will require an individual EIA.

4.2 Financial and Commercial Implications

4.2.1 The 2017/18 budget is the sixth 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.

4.2.2 Any annual revenue surpluses on the account will continue to support the 30-year business plan.

4.2.3 The council housing capital programme will require the HRA to support 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 treasury management policy.

4.2.4 Further details on the council housing capital programme will be set out in the report to Cabinet on 15 February 2017.

4.2.5 Appendix B details the initial 5 year projections for the HRA income and expenditure account. These are based on current assumptions and will be reviewed during 2017/18 in the light of any known changes.

4.3 Legal Implications

4.3.1 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 ringfence") are governed by Part VI of the Local Government and Housing Act 1989 (the 1989 Act). This formerly included provision for annual HRA subsidy paid by central Government to local housing authorities, as determined by the Secretary of State. HRA subsidy was abolished by the Localism Act 2011, which provided 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 continue to inform the HRA Business Plan.

4.3.2 The HRA provisions in the 1989 Act include the duty in January or February each year to formulate proposals relating to HRA income and expenditure. Those proposals are contained in this report.

These proposals must be made on the best assumptions possible at the time as to all matters which may affect the amounts to be credited and debited to the account, and the best estimates possible as to those amounts.

4.3.3 By section 24 of the Housing Act 1985 (the 1985 Act) the Council has a broad discretion in setting such reasonable rents and other charges as it may determine and must from time to time review rents and make such changes as circumstances may require. Such circumstances will of course include other statutory requirements such as those described in this report. The duty to review rents and make changes is itself subject to the requirements for notice of a variation set out in Section 103 of the 1985 Act. The notice must specify the variation and the date on which it takes effect which must be at least four weeks after the date of service. To implement the rent variation recommended in this report notice of the variation must be sent to all tenants within the first week of March at the latest.

4.3.4 The HRA report to Cabinet in February 2016 set out a number of anticipated legislative changes as a result of the impending Housing and Planning Act and Welfare Reform and Work Act, both of which were then bills before parliament but have since been passed, and other welfare reforms. These are set out below, updated to reflect progress or any changes to government policy since then.

Change to Rent Policy
An annual 1% reduction in social housing rents (whether social or affordable rent) for 4 years is set out in the Welfare Reform and Work Act 2016 and has been implemented with effect from April 2016. The reduction is calculated by reference to the applicable rent on 8 July 2015 and significantly reduces funding for council housing.

Extension of the *Right to Buy* to Housing Association tenants
The extension of the *Right to Buy* to Housing Association tenants is enabled by the Housing and Planning Act 2016. Though the legislation does not expressly make the link, this is to be funded nationally through payments by local housing authorities to the government based on the estimated receipts from the sale of ‘high value’ council homes as they fall vacant. The government has now confirmed that initially there will be an expanded regional pilot of housing association Right to Buy which will be funded by government, and no Higher Value Asset payments will be required from local authorities in 2017/18.

‘Pay to Stay’ – Higher Rents for Higher Earners
The Housing and Planning Act also provided for social landlords to be required to charge a market or near market rent to tenants whose household income exceeded £31,000, with local authorities paying the resulting additional income to the Treasury for deficit reduction.

This had been anticipated to come into force from April 2017 but the government has now confirmed that it will not proceed with the policy.

The Implementation of Fixed Term Tenancies
The Housing and Planning Act includes provisions so that in future, except in circumstances to be specified by the Secretary of State, secure tenancies may only be granted for a fixed term of between 2 and 10 years (or until the 19th birthday of the youngest child in the household if that is longer). Also, a successor to an existing secure tenancy who is not a partner succeeds to a tenancy automatically converted to a fixed term of 5 years. Shortly before the end of the fixed term the landlord must carry out a review and decide whether to (1) offer to grant a new (fixed term) tenancy of the dwelling, (2) seek possession of the dwelling but grant a tenancy of another dwelling instead or (3) seek possession of the dwelling without offering a tenancy of another dwelling. There has been no formal announcement of the timetable for implementing the changes and the relevant provisions are not yet in force but the anticipated date is April 2017. The government has confirmed that it still intends to proceed with the policy and has indicated that a tenancy should not be renewed on review if a change of circumstances mean that the family is now ‘higher income’.

Further Welfare Reforms

- The benefits cap has been reduced to £20,000 from £26,000 as a result of the Welfare Reform and Work Act 2016.
- The 2015 Summer Budget included an announcement that from April 2017 those out of work aged 18-21 making new claims to Universal Credit (UC) would no longer be automatically entitled to the housing element although there would be some exceptions. This has now been clarified. It will apply to 18-21 year olds who make a new claim for UC after the full roll out, so from July or September 2018 in Sheffield depending on which Jobcentre is involved. It will not apply to those already in receipt of HB or the housing element of UC before that date and there will be exemptions including those young people who do not have a parental home in which they can reasonably live.

The 2015 Autumn Statement set out a proposal that from 2018 the Government proposes to limit HB (or the housing element of UC) for claimants in social rented housing who started their tenancy after April 2016 to the relevant Local Housing Allowance (LHA) rates. This will include the Shared Accommodation Rate for single claimants aged under 35 without dependent children. This has also been clarified recently in a ministerial written statement to the House of Commons. The LHA limitation will commence in April 2019. For HB claimants it will apply to tenancies that began in or after April 2016; for UC claimants it will apply to **all** tenancies, whenever they began. There will be transitional protection arrangements for claimants who move from HB to UC after April 2019 and claimants who move from UC to HB on reaching state pension age and whose tenancies began before April 2016 will be protected.

4.4 Risk Management

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

4.4.2 The key risks to the business plan have been identified and are listed in section J of the appendix report.

4.4.3 Following an assessment of the risks to the HRA in the coming 5 years it is proposed for 2017/18 for a reserve level of £5m.

4.4.4 The main viability test for the business plan is its capacity to repay debt over the life of the business plan. Having this capacity provides cover for interest rate rises and mitigates the need to refinance borrowing in times of high interest rates.

4.4.5 The long term viability of the plan is dependent on the delivery of additional savings that will be required in the coming years.

4.5 Other Implications

4.5.1 Any environmental and sustainability issues arising from the council housing investment programme within this report will be dealt with in the Capital Programme report to Cabinet on 15 February 2017.

## 5. ALTERNATIVE OPTIONS CONSIDERED

5.1 The stock increase programme as agreed in last year's business plan is a combination of new/replacement council housing with an emphasis on acquisitions. The option to continue with a profile geared towards acquisitions was considered but rejected as it no longer provides the mix of housing that we need.

## 6. REASONS FOR RECOMMENDATIONS

6.1 To optimise the number of good quality affordable council homes in the city;

6.2 To maximise the financial resources to deliver key outcomes for tenants and the city in the context of a self-financing funding regime;

6.3 To ensure that tenants' homes continue to be well maintained and to optimise investment in estates; and

6.4 To assure the long term sustainability of council housing in Sheffield.

**Sheffield City Council Housing Revenue Account (HRA)
Business Plan 2017/18**

## 1. INTRODUCTION

### a) Purpose of this Report

This is the Housing Revenue Account (HRA) Business Plan report for 2017/18. This report:-

- Proposes HRA rents and charges for 2017/18
- Proposes budgets for 2017/18
- Reports on progress and sets out new policy choices for 2017/18
- Refreshes the 5 year planning budgets and where appropriate updates long term planning assumptions
- Provides a 30 year affordability profile based on updated financial assumptions

### b) Report and Structure

The HRA Business Plan 2017/18 report is presented in the following structure:-

1. Introduction
2. Income and Resources
3. Homes
4. Tenant Services
5. Debt and Treasury Management

### c) Background

In England the HRA operates using a self-financing funding model which means that each local housing authority has to fund its council housing from the income it is able to generate from rents and other charges. There is therefore a limit to what can be afforded by the business plan in order that forecasted spend does not exceed income.

The HRA Business Plan 2017/18 report is the fifth annual update since the approval of the original plan in 2012 which marked the start of the self-financing arrangements.

### d) The HRA Ring-fence

The HRA is the financial account of the Council *as* landlord. It is ring-fenced in law for income and expenditure in respect of council housing and housing land and certain activities in connection with the provision of council housing only.

Other council services are funded through council tax and central government support which benefits all citizens of Sheffield regardless of tenure.

Certain traditional housing management functions including rent collection, repairs, rehousing and tenancy management through tenancy conditions (including responding to anti-social behaviour) are essential for the housing service to function and to meet the landlords' contractual and statutory obligations and must, therefore, be funded by the HRA.

It should also be recognised that although the HRA through the ring-fence can only be invested in council housing services, these services can result in wider benefits that can have a positive impact to other council services.

**e) Impact of Policy Changes to the HRA Business Plan**

In 2015, the government announced as part of its summer budget, a change to national rent policy for social housing. This was included within the Welfare Reform and Work Act 2016, and in April 2016 the first of a statutory 1% reduction in social rents for 4 years was applied and included as part of last year's business plan update. This had a significant impact to the business plan with a reduction in the plan's forecast income. Mitigations were factored into the business plan last year which included:-

- Extending lifecycles for investment items such as bathrooms, windows and heating systems
- Reductions to repairs budgets
- Applying savings from local policy changes
- Updating longer term forecasts where we have a better understanding of probable costs
- Back-office savings

In addition to the 1% rent reduction, a number of major changes for social housing were announced, some of which were included in the Housing and Planning Act 2016 that received royal assent on 12 May 2016 although most of the provisions are not yet in force.

It was originally envisaged that some of the key policy changes contained in the Housing and Planning Act 2016 would have a significant and detrimental impact to the HRA Business Plan. This included:-

- **Pay to Stay** - a mandatory scheme whereby local authorities would have to charge up to a market rent to tenants whose household income exceeds a proposed £31,000 per year (£40,000 in London).

- **The Extension of Right to Buy to Housing Association Tenants** – a scheme involving the government reimbursing housing associations in relation to the discounts made available to their tenants exercising their Right to Buy as part of the voluntary agreement. This is to be funded nationally through payments by local housing authorities to the government based on estimated receipts from the sale of higher value council homes as they fall vacant.

- **Implementation of Fixed Term Tenancies** - councils will be required to offer fixed term tenancies of between 2 -10 years to new tenants (or until the 19th birthday of the youngest child in the household if that is longer).

Since the enactment of the Housing and Planning Act 2016, the government announced in the Autumn Statement (November 2016) a number of changes to these original proposals. These included:

- No longer proceeding with the compulsory Pay to Stay proposals
- The extension of Right to Buy to housing association tenants is to continue. There will be a large scale regional pilot on Right to Buy extension which the government will fund
- No higher value asset payments from local authorities in 2017/18
- The implementation of fixed term tenancies policy is still to be introduced, however government are yet to announce any timescales for this

**f) Responding to the Housing and Planning Act 2016**

In response to the Housing and Planning Act 2016, work has been on-going in order to determine the impacts of the policies.

Tenants have been kept informed of progress in relation to the Housing and Planning Act 2016 via a number of communications including the Housing and Neighbourhoods Panel (HANAP), Citywide Forum, an update on the council housing web page, an article in 'In Touch' magazine that is delivered to all tenants and an article in 'The Bridge' magazine that is delivered to all Tenants and Residents Associations (TARAs).

The Director of Housing and Neighbourhoods and the Cabinet Member for Housing have also been working closely with central government on these issues to ensure the best outcome for Sheffield is achieved to minimise the risk to tenants.

**g) HRA Business Plan Achievements**

This is the fifth update of the HRA Business Plan and since 2012 the HRA Business Plan has accomplished a number of achievements. These achievements have helped to benefit our tenants and the council housing services we are able to provide.

Some of our key achievements over the last 5 years are illustrated on the following page.

**800** properties
New kitchens & bathrooms

**800** properties
New doors & windows

**1,276** Networked fire alarms

Fire Safety improvement to low rise flats & maisonettes completed

**250** Flats & maisonettes now have a recycling facility

**Heating & Warmth**

**1,335** Further individually metered communal heating systems (completed programme)

**35%** *average* reduction in heating costs to customers with meters

**1,700** council homes fitted with new efficient central heating systems

**1,400** Flat roofs this year (completed programme)

**5,500** Pitched roofing & roofline works

Improvements to communal areas to nearly **800** blocks of flats

**100%** Of tenants to benefit from a Housing+ Patch Officer

**Help with money**

**75** Cases referred to advice worker in 15/16

..and of these cases...

Income increased by **£680** per year on average

Debt decreased by **£979** per case on average

**44 Credit Union bank accounts** opened.
Hardship Fund helped **375** people in 15/16 and mitigated **£164,000** in arrears, helping them to avoid further legal action and sustain their tenancies. The fund estimated to have saved the HRA **£364,000** by offsetting rent arrears.
**1,414** tenants assisted to claim **£653,000** discretionary housing payments to offset the bedroom tax.

**Stock Increase Programme**

**286** Properties purchased so far (Dec 2016)

**1,000** Target for 1,000 properties by 2020/2021

**h) HRA Business Plan Headlines for 2017/18**

The key headlines for the HRA Business Plan 2017/18 are:

- Continue with our commitment of 1,000 new/replacement council homes, with a switch of focus from acquisitions to new build with no overall increase in the cost of the programme. A higher percentage of new builds within the programme will help us to build the mix of housing that we need

- Continue to deliver, as planned, improvements to our tenants' homes to make sure they continue to be well maintained over the next 5 years

- To change garage rents to a single rate for garage plots and a single rate for garage sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots

- Prepare to implement new government housing policies when legislation comes into force, ensuring we work with our affected tenants to make sure they are fully supported

- Explore potential savings to the HRA allowing time to consult on options in order to help mitigate against anticipated future financial pressures to the HRA

**i) 30 Year Affordability and Future Savings Options**

The financial viability of the HRA Business Plan is measured by its ability to repay debt over 30 years. In last year's update, mitigations as a result of the 1% rent reduction were factored into the 30 year business plan such as extending investment lifecycles, to ensure the plan was financially viable and secure over the 30 year life of the plan.

These mitigations remain factored into the plan for 2017/18.

**j) Summary of Risks**

The key risks to the HRA Business Plan for 2017/18 include:

- Welfare Reform
- Right to Buy
- Rent loss from vacant properties
- Investment backlog
- Unfunded items
- Implementation of fixed term tenancies
- Interest rate risk

Further details on the key risks to the business plan are contained within chapters 2-5 in this report.

A risk based reserve has been established in order to mitigate the risks listed above. It is proposed for 2017/18 for a reserve level of £5m.

## 2. INCOME AND RESOURCES

### a) Overview

This section of the HRA 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

i. Welfare Reform

The government's welfare reform continues to be a significant risk to the business plan. Universal Credit was rolled out in Sheffield on 18 January 2016 for single new benefit claimants. The roll out to couples and families is confirmed in 2 phases, July 2018, and September 2018, with migration of existing claimants in Sheffield expected to take place between 2019-2022.

Total arrears at the end of 2015/16 had reduced from £10.81m to £10.67m. This is mainly due to a number of mitigations in place to help support tenants affected by welfare reform such as funding additional officers to manage additional impacts of welfare reforms, Hardship Fund payments and Discretionary Housing Payments (DHPs). As well as helping to reduce arrears, these mitigations have also helped tenants to sustain their tenancies. Arrears collection will however become increasingly difficult as Universal Credit continues to be rolled out and other welfare reforms such as the benefit cap are introduced.

Welfare reform impact on arrears is expected to peak in 2023/24, mainly due to additional arrears arising from Universal Credit.

Other impacts to arrears will include a reduction to the benefit cap from £26,000 to £20,000. This has been applied from November 2016 to tenants who had an existing cap, tenants who are newly capped as a result of a reduction in the threshold will have their benefits capped from January 2017. It is too early at this stage to see what the actual impacts have been, however additional arrears are expected, with arrears due to the benefit cap expected to peak in 2017/18.

From April 2017 those out of work aged 18-21 making new claims for Universal Credit after the full roll out in the area (so from July 2018 or September 2018 in Sheffield) will no longer be automatically entitled to the housing element although there will be some exceptions.

From April 2019, the government proposes to limit Housing Benefit for claimants in social rented housing who started their tenancy after April 2016 to the relevant Local Housing Allowance (LHA) rates. For tenants receiving Universal Credit, the LHA rates will apply to all new and existing tenancies.

There will be transitional protection arrangements for claimants who move from Housing Benefit to Universal Credit after April 2019. Claimants who move from Universal Credit to Housing Benefit on reaching state pension age and whose tenancies began before April 2016 will be protected.

ii. Right to Buy

Right to Buy sales are forecasted to continue to peak in 2017/18 at around 350 sales expected. Increased sales in Right to Buy creates implications for the HRA as the stock profile is reduced, meaning less rental income into HRA as a result.

iii. Rent Loss from Vacant Properties

Rent loss from vacant properties continues to be a risk for the HRA. The vacant rent loss target has been set at 1.5% for 2017/18 and beyond. Further pressures to vacant rent loss are likely as a result of Housing and Planning Act 2016 policy changes that are likely to increase tenancy turnover.

**c) Key Developments**

i. Rents

- Dwellings

Social rents will reduce by 1% for 2017/18 equivalent to an average reduction of £0.76 per week. This is in-line with the national social housing rent policy included in the Welfare Reform and Work Act 2016 that social rents reduce by 1% for four years. This will be the second 1% rent reduction.

Vacant properties will continue to be re-let at the ‘target’ (formula) rent in order to continue the process of making council rents equitable over time following the ending of the national ‘rent convergence’ policy by government one year early. Target rents will also reduce by 1% in April.

The Council has a small but increasing number of properties that are let at an Affordable Rent (up to 80% of market rent). These are predominately new build properties and properties acquired as part of the stock increase programme. The 1% annual reduction applies to all social housing rents so properties let at an Affordable Rent will also be reduced.

- Garages

Garage rents have been frozen since 2014/15. It is proposed from 2017/18 that garage rents will change to a single rate for garage plots and a single rate for garage sites. Charges for garage plots and sites vary across the city; therefore a change to a single rate will provide a simpler and fairer charging mechanism for both garage plots and sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots. All garage tenants will be given notification of any change to their existing garage rent rate.

ii. Other Charges

- Community Heating

The new heat metering installation programme has been underway and other than a small number of properties where access has been denied, it is planned that almost 6,000 new meters will have been installed by the end of March 2017. Having meters fitted means that our customers have a greater choice on the amount of heat they consume and therefore the amount they pay for their heating.

The community heating kilowatt hour (kWh) unit charge will reduce by 10% from 3.38 pence per kWh to 3.04 pence per kWh for 2017/18. This will apply to all tenants who receive a metered heat supply. This reduction reflects reducing commercial gas prices meaning there has been scope to reduce the pence per kWh rate. The 10% reduction also applies to the weekly hot water charge which covers unmetered hot water used in customers' dwellings (in certain sheltered schemes). This reduces the weekly charge from £0.70 to £0.63 per week.

The weekly standing charge levied on heat metered properties remains unchanged and will remain at £4.00 per week for the third consecutive year.

For a small number of tenants who still receive an unmetered heat supply, their charge will be held at 2016/17 rates. It is envisaged that these will be converted to a metered heating supply early in 2017/18.

Once all 6,000 properties are connected to heat metering and we have complete data across all seasons, we will be in a better position to fully understand the annual trading position on the community heating account. Until we reach this point it would be prudent to keep prices relatively stable. Relative price stability in the energy market over recent years and the incremental utilisation of reserves have made it possible for us to keep our community heating prices stable for our customers. We know our customers do not want to see spikes in prices, and longer term price stability is very important to them. At present and also moving forward we are well placed to deliver this price stability.

It is proposed to retain a community heating reserve of £1.9m. This is to enable the Council to absorb risks such as significant future increases in gas prices and in doing so avoid the need to implement sharp/reactive price increases for tenants.

- Sheltered Housing

Following the review of sheltered housing service charges in 2015, as approved by the Cabinet Member for Housing, and work undertaken on future charging for communal heating in sheltered schemes as reported to the Cabinet Member, the existing weekly charge of £14.89 will be amended to £15.54 to recover the cost for communal heating in sheltered schemes. This is a result of the installation of heat meters in Sheltered Housing schemes during 2016/17, as required by the

Heat Network (Meter and Billing) Regulations 2014, so that tenants pay individually for the heat supplied to their homes rather than through a community heating charge. The £0.65 increase per week will be an eligible charge for housing benefit.

- Furnished Accommodation

The furnished accommodation charge will remain unchanged for 2017/18.

- Burglar Alarms

The procurement for the installation and maintenance of burglar alarms has completed resulting in the burglar alarm charge remaining unchanged for 2017/18.

## 3. HOMES

### a) Overview

This section of the HRA Business Plan is interested in the physical condition of council homes and estates. This section includes the capital investment into homes such as new kitchens, bathrooms and boilers as well as repairs.

### b) Risks

i. Investment Backlog

The investment backlog is investment to homes which is due now. The investment backlog is a key risk to the plan because delaying investment work increases the likelihood of responsive repairs being required in the interim. Responsive repairs are by their nature more expensive than planned works and so the later in the plan the backlog is tackled, the higher the overall cost of the business plan.

| Work Element | Investment Backlog (forecasted as at end 2016/17) |
|---|---|
| Bathrooms, Kitchens, Windows, Doors | £8.5m |
| Full & Partial Decent Homes Omissions | £14.3m |
| Heating | £4.7m |
| Roofs | £47.2m |
| Electrics | £26.3m |
| **Total** | **£101.0m** |

In 2011, when the first business plan was drafted, the investment backlog was estimated to be around £257m. By March 2017 this is expected to have reduced to £101m.

ii. Partially or Unfunded Items

These are investment items which were deemed unaffordable when the first business plan was developed in 2011 and so were not factored into the 30 year investment programme at all.

Each year as the business plan is reviewed efforts are made to incorporate elements of this into the five year programme. The following table provides an update on work being undertaken to include these items into the ongoing investment plan:

| Investment Area | Current Position |
|---|---|
| Communal areas of maisonettes | Scoping work has begun on the investment needed in the communal areas of maisonettes. Detailed business cases will be brought forward following the conclusion of surveying and |

| | |
|---|---|
| | analysis. It has been estimated a total in the region of £15m will be required, all of which has been factored into 2019/20 and 2020/21. |
| Externals – canopies, pointing and render | The estimated funding required for this work has increased to £12m |
| Work to complement Streets Ahead – communal drives, street lighting etc | In the 2015/16 update a £4m provision was made for 2019/20 and this remains. Total costs for this works are estimated to be around £35m |
| Additional environmental works – drying areas, steps, paths, handrails, walls etc | In conjunction with the maisonettes, work has begun to scope out the options for improving the external environment. This includes any work not picked up through the Highways PFI. This is a significant piece of surveying work that will take some time to conclude. Approximately £14m allocated to this project has been slipped from the 5 year programme following a review of savings. |
| Plastering and internal doors | The provision to deal with the emerging issue of plastering has been increased within the 5 year programme to £6m. There is still no provision for internal doors in the 5 year programme or in the longer term business plan. |
| Non-dwelling assets | A small provision of £800k has now been added to the programme in 2021/22 |

**c) Key Developments**

i. 5 Year Investment Programme

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

The 5 year investment programme will continue to prioritise and deliver as planned, improvements to people's homes (kitchens, bathrooms, windows, doors, roofs, boilers, communal areas etc) to make sure homes continue to be well maintained.

| Key Commitment | Progress Update |
|---|---|
| Addressing 90% of the 2012 heating backlog by March 2017 | The obsolete heating programme which began in 2009 completed at the end of 2015/16. There is still a significant number of systems that could not be completed due to access/refusals. These will be completed when access can be gained. The future programme will move to concentrate on replacing boilers on a 15 year age cycle. |
| All higher priority roofs to be addressed by March 2019 | All roofing projects have been procured and are progressing quickly. The initial flat roofing programme has been completed which is earlier than expected. |
| Replacement kitchens, bathrooms, windows and doors for 7,000 of 12,800 homes still needing some work by March 2019 | The kitchen, bathroom, windows & doors projects have been awarded to contractors and work has begun on site. Less work is being found within |

| | |
|---|---|
| | properties than was originally forecast which is expected to result in a saving to the HRA. |
| Electrical backlog to be addressed after Decent Homes, heating and roofs | Work set out in the electrical strategy to make improvements and to ensure electrics are maintained in line with the latest safety requirements and to modernise properties to bring them to a standard fit for the future is to be approved. |
| Refurbishment of communal areas to all 12,000 low rise flats by March 2019 | The communal area programme is now procured and making good progress on site. |
| Energy Efficiency work | Business cases will be developed during 2016/17 for an external wall insulation programme which will support the targets set out in the energy strategy to improve the thermal comfort to the most poorly performing dwellings. |
| Garage Strategy | Garage demolition work was agreed in June 2016 and work to deliver this started in November 2016. Further garage improvement works is to be developed and expected to be agreed later in 2016/17. |

The table below sets out the proposed indicative capital programme over the next 5 years of the business plan. It adds a new 'year 5' resource allocation for 2021/22 and the 2016/17 column shows the anticipated outturn.

| HRA Programme | *2016/17 Outturn* | *2017/18* | *2018/19* | *2019/20* | *2020/21* | *2021/22* | *2017-22 Total* |
|---|---|---|---|---|---|---|---|
| **EXPENDITURE (In £millions)** | | | | | | | |
| Essential investment work (health & safety, etc) | 3.3 | 1.2 | 1.5 | 1.2 | 0.9 | 3.0 | **7.8** |
| Adaptations & Access | 1.8 | 1.9 | 2.0 | 2.2 | 2.5 | 2.5 | **11.1** |
| Regeneration | 1.1 | - | - | - | - | 8.0 | **8.0** |
| Garages Capital | 0.4 | 2.4 | 0.8 | - | - | 0.2 | **3.4** |
| Waste | 0.5 | 1.2 | 1.4 | - | - | - | **2.6** |
| Community Heating | - | - | 2.4 | 1.2 | 1.4 | 0.9 | **5.9** |
| Area Investment Environmentals | 0.2 | 0.1 | - | - | - | - | **0.1** |
| Heating & Insulation | 6.1 | 2.2 | 6.5 | 6.9 | 7.2 | 1.7 | **24.5** |
| Roofs & externals | 26.6 | 22.8 | 25.5 | 14.3 | 14.1 | 19.2 | **95.9** |
| Communal areas investment | 5.8 | 8.5 | 3.4 | 5.2 | 5.0 | 5.0 | **27.1** |
| Electrics | - | 7.9 | 7.7 | 6.9 | 4.7 | 4.0 | **31.2** |
| Kitchens, Windows, Bathrooms & Doors | 7.6 | 12.2 | 7.3 | 7.8 | 7.0 | 5.0 | **39.3** |
| Other planned elementals | - | 2.3 | 2.0 | 2.0 | 2.3 | 2.8 | **11.4** |
| **Sub-Total Core Investment Programme** | **53.4** | **62.7** | **60.5** | **47.7** | **45.1** | **52.3** | **268.3** |
| Capital management fee | 3.2 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | **15.0** |
| LTE Purchase & Repair (CHS) | 1.4 | 0.2 | - | - | - | - | **0.2** |
| Acquisitions (CHS) | 0.9 | 0.5 | 0.6 | 0.6 | 0.6 | - | **2.3** |
| **Total Capital Programme** | **58.9** | **66.4** | **64.1** | **51.3** | **48.7** | **55.3** | **285.8** |
| Stock increase programme | 11.1 | 9.7 | 15.4 | 14.0 | 29.2 | - | **68.3** |
| **Overall Total HRA Programme** | **70.0** | **76.1** | **79.5** | **65.3** | **77.9** | **55.3** | **354.1** |

The 2016/17 programme is profiled in line with expected procurement and delivery timescales.

ii. <u>Stock Increase Programme</u>

The commitment to optimising the number of new/replacement council homes continues to be a high priority.

The stock increase programme includes a mix of acquisitions and new build, working to a target of 1,000 new/replacement homes. The makeup of the previously agreed programme comprised of a higher proportion of acquisitions compared to new builds. To date (December 2016) the programme has achieved 285 acquisitions and 89 general needs new build properties which are near to completion.

A review of the current programme, which included the types and locations of properties which were acquired and potential design and unit price of new build units, has taken place. It is proposed from 2017/18, a higher proportion of new build units are included within the programme in order to provide the mix of properties we want to achieve. A higher proportion of new builds will also allow us more flexibility in design specification and present opportunities for us to provide purpose build housing such as older persons living and supported living accommodation.

Acquisitions of properties for sale on the open market in Sheffield remain important to the programme as the purchase of these units is generally faster and therefore enables us use funding when required.

The council housing stock increase programme is a key part to achieving the council's wider Housing Strategy and contributes to delivering affordable homes to support growth in the city.

The Council will continue to make residual contributions to past social housing projects.

iii. <u>Repairs</u>

The HRA Business Plan 2017/18 continues to factor in efficiencies relating to fewer repairs as a result of planned investment works made to roofs, kitchens, bathrooms and boilers etc.

The changes in the Housing and Planning Act 2016 are likely to present some extra pressures on the repairs budget such as anticipated increases in tenancy turnover as a result of the implementation of fixed-term tenancies. Once this has been implemented and we have a better understanding of the impacts, this will help to determine a future position.

The Housing Repairs and Maintenance Service will transfer into the Council on 1 April 2017. Work is in progress to prepare for an in-house service. There may be a period of stabilisation following the transfer. A review will take place to ensure the service is fully integrated with the housing service and with other essential functions in the council.

A repairs strategy that will help to develop new and more efficient ways of working is continuing to be developed. Efficiencies in the Housing Repairs & Maintenance Service originally approved by Cabinet in March 2015 are being assumed at this stage; however the insourcing of the service from April 2017 may have an impact on future repairs budget provision.

## 4. 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, and estate services.

### b) Risks

i. Implementation of Fixed Term Tenancies

The implementation of fixed term tenancies for new council housing tenancies may have implications for other council housing policies such as housing allocations and tenancy conditions, however it is not known at the time of writing this report when this policy is to be implemented.

### c) Key Developments

i. Income Management

Supporting tenants through welfare reform and investing in activity to mitigate the impacts has been a key commitment since the first HRA Business Plan in 2012. This has included visiting affecting tenants, recruiting additional staff including specialist debt workers, support for tenants to downsize, training staff on welfare benefits and alternative payment methods such as helping tenants to set up jam-jar accounts and direct debits.

A Hardship Fund was set up in 2013/14 to help tenants impacted by the ‘bedroom tax’. The fund has been successful and in 2015/16 saved the HRA a minimum of £365,000 and helped 375 tenants sustain their tenancies.

The council housing service will continue to support tenants through welfare reform and the HRA Business Plan 2017/18 will continue to fund these provisions, especially with expansion to families and couples of Universal Credit in 2018.

ii. Housing+

Housing+ was rolled out citywide on 3 October 2016 and is a major change in the way that housing and other council services are delivered across the city. The service adopts a patch-based approach meaning there is much more emphasis on face to face contact with tenants. There will be an emphasis on more contact with customers in their own homes and all households will be offered an annual visit to discuss their tenancy, and support or advice will be drawn-in from the relevant specialists for those households who need it. There will be 7 neighbourhood teams, based on electoral ward boundaries. As well as delivering front-line services, the teams will work with other providers and local people to help strengthen the local community. By providing advice and low-level preventative work in ways of working outside the 'traditional' housing boundaries, neighbourhood officers will help tenants maintain their tenancy and reduce their need for more costly interventions. This will in turn achieve savings for the HRA and incidental benefits for other council services.

iii. Attractive Neighbourhoods

- Green and Open Space Management

On 1 May 2015, the delivery of a housing grounds maintenance single service was implemented and involved the transfer of housing estate officers to the Parks and Public Realm service. Savings factored into the HRA Business Plan last year as a result of the integrated service remain profiled for 2017/18. It is proposed that the current standards of delivery and service level agreement (SLA) arrangements continue to be monitored and reviewed in 2017/18.

- Waste Management

A number of waste management initiatives with the purpose of making efficiencies and reducing the costs of fly-tipping were factored into the original business plan. Work continues with such initiatives with efficiencies as a result factored into the business plan.

Waste management initiatives include:

- Closure of dry stores
- Education and enforcement programme
- Removal of bulky waste

## 5. DEBT & TREASURY MANAGEMENT

### a) Overview

This section of the HRA Business Plan concerns the management of housing debt. The HRA has a large investment programme which will continue in the next few years.

In order to accommodate the investment programme, the HRA will need to borrow but it will be a question of when this debt is taken and at what rate. This is closely monitored by active treasury management activity throughout the year.

The key considerations that shape these decisions are:

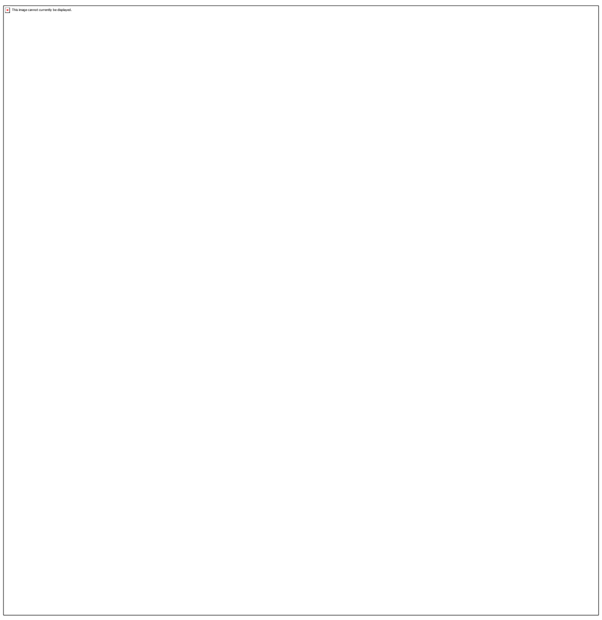
- The interest rate environment
- The HRA's cash requirements for investment and debt management
- Affordability in the context of the overall 30 year HRA business plan

### b) Risks

The HRA currently supports a Capital Financing Requirement of £346m of which around 31% is exposed to interest rate variations. Part of the role of treasury management is to manage the HRA's exposure to interest rate fluctuation which is a key risk to the HRA Business Plan. However, it is also important to retain a degree of flexibility to take advantage of borrowing at low interest levels should opportunities arise.

### c) Key Developments

i. <u>Loan Portfolio</u>



n n **Fixed**

The HRA's fixed borrowing portfolio is made up of n 28% market loans (including LOBOs not yet in their call period) and n 41% Public Works Loan Board (PWLB) loans.

Lender Option Borrower Option (LOBOs) loans are loans that are generally very long term that incorporate two linked options; the lender option – for the lender to set revised interest rates at predetermined set periods, and the borrower option – once the lender has exercised their option, for the borrower to pay the revised interest rate or to repay that loan and refinance the borrowing elsewhere.

PWLB loans are taken out from UK Debt Management Office (part of HM Treasury) and are generally longer term loans with fixed interest rates.

n **Internal borrowing**

Currently internal borrowing represents 16% of the total HRA capital financing requirement (CFR). Using cash reserves instead of externalising borrowing saves the HRA costs it would otherwise incur in interest payments and avoids the need to invest cash with counterparties to earn low returns.

However, this only represents a temporary position because the HRA will need to replace the cash as soon as they are required for activity such as funding capital expenditure. This means that the HRA will need to externalise its internal borrowing as and when the cash is needed.

n **Variable**

15% of the HRA's loan portfolio is treated as variable rate borrowing (as the LOBO loans are in their call period) and as such these loans are at risk from any fluctuations in interest rates due to external economic factors.

Moving away from a portfolio heavily exposed to interest rate risks brings increased cost certainty, and would assist the HRA in producing a stable and accurate business plan.

Overall, the proportion of the portfolio exposed to interest rate risk (n internal borrowing and n variable loans) is now 31% which is down from 40% last year. This significant reduction is partly due to the reclassification by the lender of certain LOBO loans into fixed rate loans.

ii. <u>Business Plan Viability</u>

The main viability test for the business plan is its capacity to repay debt over the life of the business plan. Having this capacity provides cover for interest rate rises and mitigates the need to refinance borrowing in times of high interest rates. It should be noted that the HRA currently has some loans that mature beyond 30 years but has limited options to replace this borrowing within the 30 year timeframe due to the cost involved.

## Revenue Account

| | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2017-22 |
|---|---|---|---|---|---|---|---|
| | *Outturn* | | | | | | *Total* |
| **INCOME (in £millions)** | | | | | | | |
| Net income dwellings | 147.1 | 144.4 | 141.9 | 139.9 | 143.8 | 147.0 | 717.0 |
| Other income | 6.3 | 6.1 | 6.2 | 6.4 | 6.6 | 6.7 | 32.0 |
| **Total** | **153.4** | **150.5** | **148.1** | **146.3** | **150.4** | **153.7** | **749.0** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **EXPENDITURE (in £millions)** | | | | | | | |
| Homes - Repairs and maintenance | 32.4 | 32.3 | 32.1 | 32.0 | 31.5 | 32.2 | **160.1** |
| Homes - funding for Capital Programme | 56.5 | 50.5 | 47.2 | 46.1 | 49.6 | 50.8 | **244.2** |
| Tenant Services - Including Management | 50.0 | 52.4 | 52.7 | 53.0 | 53.9 | 55.2 | **267.2** |
| Interest on Borrowing | 14.5 | 15.3 | 16.1 | 15.2 | 15.4 | 15.5 | **77.5** |
| **Total** | **153.4** | **150.5** | **148.1** | **146.3** | **150.4** | **153.7** | **749.0** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Required Revenue Reserve | 5.3 | 5.0 | 5.1 | 5.2 | 5.3 | 5.3 | |

**Appendix C**

| Capital Account | *2016/17* *Outturn* | *2017/18* | *2018/19* | *2019/20* | *2020/21* | *2021/22* | *2017-22* *Total* |
|---|---|---|---|---|---|---|---|
| **EXPENDITURE (In £millions)** | | | | | | | |
| Total | **70.0** | **76.1** | **79.5** | **65.3** | **77.9** | **55.3** | **354.1** |
| | | | | | | | |
| **FUNDED BY (In £millions)** | | | | | | | |
| Revenue Funding & Capital Reserve | 64.3 | 68.4 | 68.7 | 55.1 | 61.8 | 50.8 | **304.8** |
| Additional Borrowing | 0.0 | 0.0 | 0.0 | 0.0 | 6.7 | 0.6 | **7.3** |
| Right to Buy Receipts | 4.2 | 6.0 | 9.9 | 9.1 | 9.0 | 3.5 | **37.5** |
| Other capital contributions | 1.5 | 1.7 | 0.9 | 1.1 | 0.4 | 0.4 | **4.5** |
| **Total Funding** | **70.0** | **76.1** | **79.5** | **65.3** | **77.9** | **55.3** | **354.1** |

**Appendix D**

## City Wide average weekly rent by bedsize

| Bedsize | Average weekly rent 2016/17 | Average weekly rent 2017/18 | Decrease | |
|---|---|---|---|---|
| Bedsit | £58.78 | £58.19 | £0.59 | 1% |
| 1 bed | £66.63 | £65.96 | £0.67 | 1% |
| 2 bed | £76.00 | £75.24 | £0.76 | 1% |
| 3 bed | £85.03 | £84.18 | £0.85 | 1% |
| 4 bed | £93.54 | £92.60 | £0.94 | 1% |
| Total (all bedrooms average) | £75.37 | £74.61 | £0.76 | 1% |

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 calculated using current stock numbers to enable comparison.

## Proposed Community Heating Charges from April 2017

1. Unmetered Heat

| | Full heating | | Partial heating | |
|---|---|---|---|---|
| **Bedsize** | **Current Prices £/week** | **Prices April 2017 £/week** | **Current Prices £/week** | **Prices April 2017 £/week** |
| **Heating & hot water** | | | | |
| Bedsit | 11.38 | 11.38 | 10.52 | 10.52 |
| 1 Bedroom | 11.82 | 11.82 | 10.82 | 10.82 |
| 2 Bedroom | 14.66 | 14.66 | 13.62 | 13.62 |
| 3/4 Bedroom | 15.78 | 15.78 | 14.66 | 14.66 |
| **Heating only** | | | | |
| Bedsit | 8.38 | 8.38 | 7.76 | 7.76 |
| 1 Bedroom | 8.58 | 8.58 | n/a | n/a |
| 2 Bedroom | 10.82 | 10.82 | 10.03 | 10.03 |

2. Metered Heat

| | Charge | | | |
|---|---|---|---|---|
| **New schemes** | | | **Current Prices £/week** | **Prices April 2017 £/week** |
| **Standard price** | Unit charge | pence per kwh | 3.38 | 3.04 |
| | Standing charge | £ per week | 4.00 | 4.00 |
| | *Unmetered hot water charge | £ per week | 0.70 | 0.63 |

* only for dwellings where hot water cannot be measured through the meter

**Appendix E**

## 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 2016/17 | 40,195 |
| Homes - dwellings by 2045/46 | 34,473 |
| Number of RTBs in 2016/17 | 335 |
| Total number of RTBs by 2016/17 to 2045/46 | 5,345 |
| Rents | £72.79 average in 2016/17 |
| Consumer Prices Index (CPI) of inflation | 2% per annum |
| Bad Debts | 0.95% in 16/17, increasing in future years in response to Universal Credit implementation |
| Void rate | 1.5% per annum |
| Repairs | Increased by contractual inflation until insourcing complete |
| HRA reserves are maintained in accordance with risk based reserves strategy | £5.0m in 2017/18 |

| Debt assumptions | Assumption |
|---|---|
| Opening HRA Borrowing requirement on 1st April 2017 | £347.3m |
| HRA borrowing limit | £388.3m |
| Interest rates on HRA debt | 3% in 16/17, 17/18 and 18/19<br>3.5% in 19/20<br>4% in 20/21<br>4.5% from 21/22 onwards |

**EIA (SharePoint Reference 1033) – HRA Business Plan 2017-18 including rents and charges**

## a) Introduction

This paper accompanies the HRA Business Plan 2017-18 including rents and charges EIA (ref 1033) on the SharePoint site.

Section B provides how we have consulted with tenants in 2016-17 and Section C provides some further equalities information with regard to HRA Business Plan proposals for 2017-18 and other recommendations contained within the cabinet report.

## b) HRA Business Plan Consultation

Tenants have been kept informed of progress in relation to the Housing and Planning Act 2016 and the HRA Business Plan 2017-18 via a number of communications. This has included:-

- The Housing and Neighbourhoods Panel (HANAP) – May and July 2016
- An update on the council housing web page – September 2016
- An article in 'In Touch' magazine that is delivered to all tenants – September 2016
- An article in 'The Bridge' magazine that is delivered to all Tenants and Residents Associations (TARAs) – September 2016
- A presentation at Citywide Forum – September 2016

All communications have been intended to reach as wider tenant demographic as possible. Tenants will continue to be kept informed once any further updates are provided from Government and regulation has been published.

Consultation proposals on further savings options have yet to be worked up, however any consultation completed in 2017-18 will follow the usual engagement process that has occurred in previous year's consultation of the HRA Business Plan.

**Consultation Action Plan: -**

- Development of a consultation plan / checklist
- Work with established groups and colleagues in order to try and engage more with equality groups e.g. network groups, equality hub, staff groups etc

## c) HRA Business Plan 2017/18 Proposals

As part of the HRA Business Plan update for 2017/18, the following key proposals have been presented:-

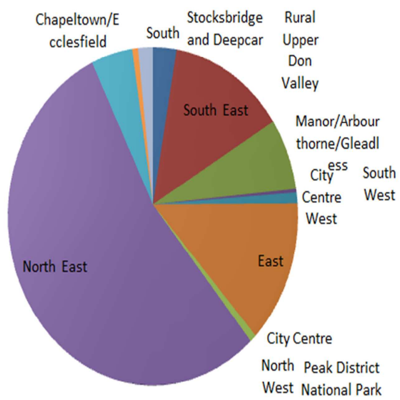
- **Continue with our commitment of 1,000 new/replacement council homes, with a switch of focus from acquisitions to new build with no overall increase in the cost of the programme. A higher percentage of new builds within the programme will help us to build the mix of housing that we need**

Following a review of the current stock increase programme in 2016 and taking into account housing policy changes by government, the proposal for the stock increase programme in 2017/18 is for the acquisitions target within the programme to be reduced in order to allow for a higher number of new build properties to be built. The overall target of new / replacement homes will remain at around 1,000 and the overall cost of the programme will remain the same.

<u>Impacts and Mitigations</u>

The tables below provide an overview of location, property size and property type of acquired properties as part of the stock increase programme so far.

| | 1 bed | | 2 bed | | 3 bed | | 4+ bed | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| South | 0 | | 2 | | 6 | | 0 | | 8 | |
| South East | 3 | | 13 | | 22 | | 1 | | 39 | |
| Manor/Arbourthorne/Gleadless | 0 | | 13 | | 5 | | 2 | | 20 | |
| South West | 0 | | 1 | | 0 | | 0 | | 1 | |
| City Centre West | 2 | | 0 | | 1 | | 0 | | 3 | |
| East | 6 | | 16 | | 13 | | 3 | | 38 | |
| City Centre | 0 | | 0 | | 0 | | 0 | | 0 | |
| Peak District National Park | 0 | | 0 | | 0 | | 0 | | 0 | |
| North West | 0 | | 0 | | 1 | | 1 | | 2 | |
| North East | 22 | | 69 | | 54 | | 8 | | 153 | |
| Chapeltown/Ecclesfield | 1 | | 5 | | 7 | | 1 | | 14 | |
| Rural Upper Don Valley | 0 | | 1 | | 1 | | 0 | | 2 | |
| Stocksbridge and Deepcar | 1 | | 2 | | 0 | | 2 | | 5 | |
| Total | 35 | *12%* | 122 | *43%* | 110 | *39%* | 18 | *6%* | 285 | *100%* |
| | 184 | *= strategic priority* | | | | | | | | |



## COMPLETED PROPERTIES BY ARCHETYPE

| Archetype | Number | |
|---|---|---|
| House | 235 | 82% |
| Flat | 40 | 14% |
| Bungalow | 4 | 1% |
| Sheltered | 0 | 0% |
| Maisonette | 6 | 2% |
| Non-trad House | 0 | 0% |
| Non-trad Flat/Maisonette | 0 | 0% |
| Other | 0 | 0% |
| | **285** | |


These purchases have been made using a scoring process within the acquisitions strategy which includes data and needs identified in the [Strategic Housing Market Assessment.]

The acquisitions programme is reliant on housing that is available and is financially viable for us to purchase. A high proportion of acquired housing has been made in the North East of the city and this is mainly due to there being more council housing in this part of the City, with ex council properties being a priority to purchase.

The acquisitions strategy is reviewed on an annual basis to adjust for changes within the housing market.

The overall impacts of a switch of focus from acquisitions to new build include:
- More opportunities and flexibilities for the Council to provide a housing mix needed
- Opportunities for more custom build properties such as older people's independent living and housing schemes specifically for people with learning disabilities
- Opportunities to be more flexible with the design such as adaptable homes e.g. wheelchair access
- Opportunities to look at incorporating more renewable energy technology and having more thermally efficient homes
- Opportunities to build larger family homes (for 6 people or more)

Properties acquired/built through the stock increase programme will continue to be let through the Choice Based Lettings System, meaning that there shouldn't be a disproportionate impact to a particular equalities or demographic group.

Phases 1, and 2 of the new build programme will be general needs housing (a total of 89 units built in Darnall, Manor and Weakland) and will be offered through the Choice Based Letting System. Phases 3, 4 and 5 are still being scoped and developed as part of the overall new build programme.

An increase in the council housing stock is likely to have a positive impact across all socio economic groups as increasing the type and number of properties available can help to house a number of target groups such as people with disabilities, older people and larger families.

Newly acquired properties as part of the programme will continue to be let at an Affordable Rent in line with last year's decision.

Properties that are let at an Affordable Rent will remain within the Housing Benefits cap therefore existing or new tenants that receive Housing Benefit would not be detrimentally impacted by this. If however their circumstances changed e.g. gained employment, if they were paying an Affordable Rent this is likely to be more than if they were living in a social rented property. The Affordable Rent would however be lower than the equivalent in the private rented sector.

- **Continue to deliver, as planned, improvements to our tenants' homes to make sure they continue to be well maintained over the next 5 years**

On-going investment to people's homes remains a key priority to the business plan and for all tenants; therefore there would be no disproportionate impact on any particular equalities group.

- **To change garage rents to a single rate for garage plots and a single rate for garage sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots**

Garage rents have been frozen since 2014/15. It is proposed from 2017/18 that garage rents will change to a single rate for garage plots and a single rate for garage sites. Charges for garage plots and sites vary across the city; therefore a change to a single rate will provide a simpler and fairer charging mechanism for both garage plots and sites. Once implemented this will apply to new garage tenants immediately and to existing garage tenants once improvements have been made to existing sites and plots. All garage tenants will be given notification of any change to their existing garage rent rate.

<u>Impacts and Mitigations</u>

A change in the garage rent to a single rate will mean that all garage tenants will be charged the same rent, meaning this will be a fairer charge. The change in rate to a single rate may see some garage tenants rents increase and some decrease, however this will mean that all garage tenants will be charged via a simpler and fairer charging mechanism. All effected tenants will be contacted and informed about any change to their current garage rent.

The proposal is for the change to the single rate charge to be introduced to new council garage tenants immediately once implemented and to existing garage tenants once improvements have been made to existing sites and plots.

Garage plots and sites are located across the city (see table below). Garage tenants are available to be applied for by all council tenants who wish to apply for one in their area, therefore there is no impact to any one particular socio-economic group over another. As the table shows below there is a higher proportion in the South East and South West of the city. The garage demolition programme will have an impact on the overall number of garages as some will be demolished due to health and safety and viability reasons.

| **Number of garages by Housing Management Area** | | | | |
|---|---|---|---|---|
| | Locations | Garage Plots | Garage Sites | **Total** |
| **North West** | 84 | 683 | 156 | **839** |
| **Central** | 29 | 159 | 98 | **257** |
| **South East** | 127 | 576 | 892 | **1468** |
| **South West** | 177 | 1643 | 27 | **1670** |
| **North** | 65 | 565 | 128 | **693** |
| **East** | 36 | 271 | 221 | **492** |
| **Total** | **482** | **3897** | **1522** | **5419** |

The impacts to tenants overall should be generally low. All garage tenants have been consulted and been kept informed of developments via the Asset Management team.

Garage rent is not covered by Housing Benefit, therefore current garage tenants will be paying for this outside of any benefits they may receive.

- **Prepare to implement new government housing policies when legislation comes into force, ensuring we work with our affected tenants to make sure they are fully supported**

In 2015 a number of major changes for social housing were announced, some of which were included in the Housing and Planning Act 2016 that was enacted on 12 May 2016. It was originally envisaged that some of the key policy changes contained in the Housing and Planning Act 2016 would have a significant and detrimental impact to the HRA Business Plan. This included:-

- **Pay to Stay** - a mandatory scheme whereby local authorities would have to charge up to a market rent to tenants whose household income exceeds a proposed £31,000 per year (£40,000 in London).

- **The Extension of Right to Buy to Housing Association Tenants** – a scheme involving the government reimbursing housing associations in relation to the discounts made available to their tenants exercising their Right to Buy as part of the voluntary agreement. This is to be funded nationally through payments by local authorities housing revenue accounts to the government based on estimated receipts from the sale of higher value council homes as they fall vacant.

- **Implementation of Fixed Term Tenancies** - councils will be required to offer fixed term tenancies of between 2 -5 years to new tenants (extending to 10 years in certain circumstances to be determined by regulation).

Since the enactment of the Housing and Planning Act 2016, the government announced in the autumn statement (November 2016) a number of changes to these original proposals. This included:-

- No longer proceeding with the compulsory Pay to Stay proposals
- The extension of Right to Buy to housing association tenants is to continue. There will be a large scale regional pilot on Right to Buy extension which the government will fund
- No higher value asset payments from local authorities in 2017/18
- The implementation of fixed term tenancies policy is still to be introduced, however government are yet to announce any timescales for this

**Implementation of Fixed Term Tenancies**

Councils will be required to offer fixed term tenancies of between 2 -10 years to new tenants (or until the 19th birthday of the youngest child in the household if that is longer).

Shortly before the end of the fixed term, the landlord (Sheffield City Council) must carry out a review and decide whether to:

i. Offer to grant a new (fixed term) tenancy of the dwelling
ii. Seek possession of the dwelling but grant a tenancy of another dwelling instead or;
iii. Seek possession of the dwelling without offering a tenancy of another dwelling.

Only spouses, civil partners and common law partners can succeed automatically to a lifetime tenancy. Other family members that qualify as a successor to a tenancy will be granted a 5 year fixed term tenancy.

The policy will apply to new tenants, however existing lifetime tenants *required* to move home will retain security of tenure and existing tenants who *choose* to move home may be given a further lifetime tenancy in circumstances still to be prescribed in regulations.

- <u>Impacts and Mitigations</u>

There are around 4,200 new council tenancies per year; therefore this is the number initially to be expected to be impacted by this policy. This will apply to the majority of tenants regardless of socio-economic status. There may be some exemptions such as vulnerable people and people with a disability; however the detail is yet to be published via regulations by government. There may also be an extension for people with school age children up to 10 years (again not yet confirmed as awaiting details from government).

Traditionally lifetime tenancies have meant that people have been able to access council housing knowing that their secure tenancy has meant they could settle within a community for a prolonged period of time. Although new tenants may be able to sustain their tenancy pending a review after 5 years, this policy removes that security they may otherwise have had with council housing. Implications and impacts as a result of this is are likely to be increased tenancy turnover which could also create an issue around community cohesion and sustainability if there is an increase in turnover within estates and areas.

We will ensure to keep all tenants informed of any updates regarding this policy via a number of communications. We will also ensure that any information we distribute is available for people who English is not their first language, braille and large print.

- **Explore potential savings to the HRA allowing time to consult on options in order to help mitigate against anticipated future financial pressures to the HRA**

This will be looked at as part of the consultation proposals in 2017/18 and beyond.

In addition to the proposals mentioned above, the second 1% rent reduction will be applied from April 2017 as required in the Welfare Reform and Work Act 2016. See the **SharePoint EIA (reference 1033)** for specific impacts on demographic groups.