Sheffield City Council Housing Revenue Account
(HRA) Business Plan 2012-17:
2013/14 update report

1. INTRODUCTION

a. Purpose of this report

This is the Housing Revenue Account (HRA) Business Plan 2012-17 update report for 2013/14. The report provides a progress report and update on the existing 5 year plan extended to include 2017/18. This report:-

- Sets HRA rents and charges for 2013/14 (year 2 of the business plan)
- Sets HRA budgets for 2013/14
- 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 and financial assumptions in the report

This report has been developed part way through the first year of the business plan, so there is no full year data to report and no cause for a wholesale review of our original priorities. The emphasis of the report is therefore to highlight key factors that have changed since the business plan was published in January 2012 and how the council proposes to respond to them.

b. Report structure

The report follows the same structure as the HRA Business Plan
1. Introduction
2. Governance
3. Income and resources
4. Homes
5. Tenant Services
6. Debt and Treasury Management
7. Value for Money

Sections 3- 7 of the report include an explanation of what is covered in this section of the business plan, key risks, key developments and other developments.

A financial summary is set out within each section. Where new financial targets are being proposed in the financial summary tables, the original financial assumptions are shaded grey.

c. Background

i. A Self-Financing Housing Revenue Account

From April 2012, all Local Authorities with retained stock in England moved from a national subsidy system of council housing funding to a new system of local 'self-financing'.

The introduction of self-financing has been positive for Sheffield as it has meant that there are more resources coming into council housing in Sheffield than the old subsidy system. However there still remained funding pressures which were most acute in the early years of the plan.

Self-financing also brought with it a transfer of risk and responsibility from government to the local authority. This includes new risks for the HRA including interest rates and cost inflation.

ii. Business Planning principles

The move to self financing, the additional risk borne by the council and the funding pressures mean that the Council must be more business minded in its approach to council housing. In the 2012-17 HRA Business Plan the Council set out its business principles for council housing as follows:

1. Creating sustainable homes and communities
   a. Homes in a safe and sound condition
   b. Neighbourhoods are places where people want to live
   c. Council tenancies are attractive and accessible to customers.

2. Making the best use of council homes
   a. Homes are kept in use as much as possible
   b. Homes and services are charged for fully and fairly
   c. All income owed is collected
   d. External investment is levered in to the business.

3. Minimising running costs
   a. Using the Council's purchasing power and long term view to get the best deals for tenants
   b. Management of known hotspots of expense in the business
   c. Keeping overhead costs under control.

These business principles are the criteria the Council uses to inform how investment decisions are made and what the priorities are for Sheffield council housing over the next five years.

iii. The 2012-17 Business Plan

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.

As a result of the measures in the plan, all planned activity was deemed affordable over the 30 years but financial challenges remained. These were:-

- High volumes of backlog repairs were delayed until the later years of the plan
- The plan was unable to make provision to pay off debt in full over 30 years
- A number of items could not be funded so were not built into the 30 year plan e.g. refurbishment of communal areas

<u>d. Summary of key changes to planning assumptions</u>

A number of significant factors have changed since the business plan was published in January 2012. Some of the most significant developments which have a positive or negative financial impact on the business plan are summarised below;

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

- The Council's separation of HRA debt from General Fund debt as part of the transition to 'self financing' gave the HRA greater opportunity to take advantage of cheaper borrowing than originally forecast.
- The decision to bring the delivery of Council Housing in house from April 2013 has been accompanied by efficiency savings. This will also result in the Sheffield Homes reserve being absorbed into the HRA.

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

- The Government has changed the Right to Buy policy. This sees the maximum price discount to tenants increase, the ring fence of any additional receipts to new affordable housing and requires that receipts are matched by new resources at a ratio of 30:70 if they are to be retained locally.
- The Council's developing understanding of the likely impact of welfare reform is resulting in higher than originally forecast arrears levels.

e. Strategic choices

The new savings and resources arising from the Future of Council Housing decision and interest rate savings significantly outweigh the additional costs of welfare reform at this update and the Right to Buy policy change. This means that new investment activity can be factored in whilst still improving the overall long term viability of the plan.

The original HRA Business Plan 2012-17 set out three challenges for the business plan which meant that efficiencies would be required in future. These were;

- High volumes of backlog repairs delayed over 20 years
- The plan was unable to make provision to pay off debt over 30 years and could only begin to make provision for debt repayment at year 20
- A list of unfunded items including refurbishment of communal areas could not be factored into the 30 year plan

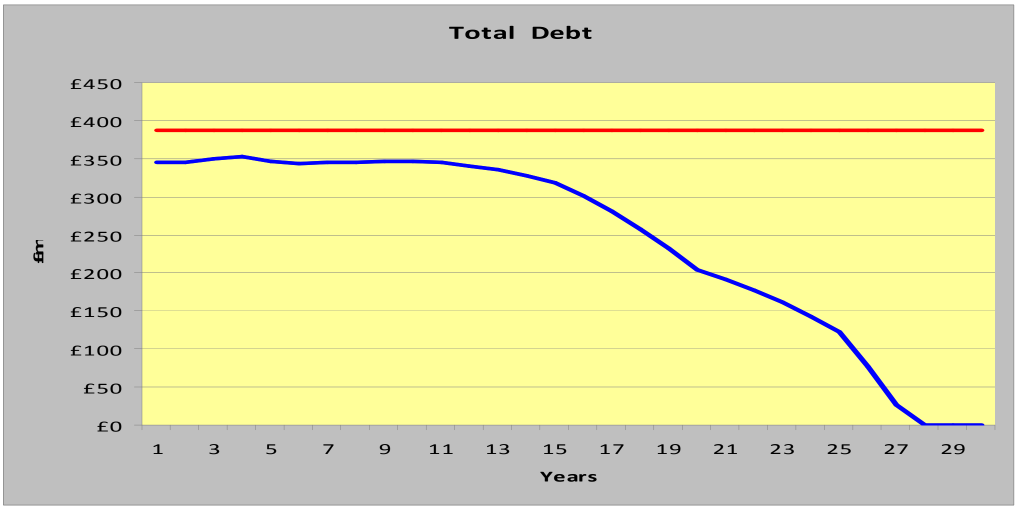
However, the business plan must also respond to risks (e.g. welfare reform) and incentives (Right to Buy policy) which have developed since the original business plan was approved in January. The strategic choices for the HRA Business Plan update 2013/14 are therefore as follows;

i. In response to the Government's Right to Buy policy change and the subsequent agreement entered into by the council to retain Right to Buy receipts locally, a new build programme of 75 new council homes will be undertaken over the next 3 years (further details in section 4 of this report).
ii. Additional resources are allocated to mitigate the potential impacts of welfare reform on tenants and the HRA (further details in section 5 of this report).
iii. A programme of refurbishment to communal areas will begin with an emphasis on door security, new flooring and windows (further details in section 4 of this report).
iv. The improved financial position of the business plan means that resources are now available to tackle the maintenance backlog earlier than anticipated over the 30 year lifetime of the plan (this has no impact on the 5 year investment programme set out in section 4 of this report).
v. The council's capacity to repay debt over 30 years is improved (further details in section 7 of this report).

f. Revised 30 year financial profile

As a result of the strategic choices and updated planning assumptions set out in this report, the long term financial profile for the HRA has changed. The current forecast is that the HRA is able to fund all planned activity over the 30 year period and is now able to make provision for the repayment of debt in full over 30 years.

Graph showing the capacity of the plan to repay debt over 30 years



This is an improved position from the original business plan and indicates a more secure financial footing with reduced exposure to interest rate risk.

It is important to remember that all long term forecasts are the product of a series of assumptions based on information available at a point in time. Such forecasts can only ever serve as an indicative guide which must be subject to regular review.

g. Next steps for the business plan

One of the priorities for the future will be to continue to monitor and address the key risks for the business plan particularly welfare reform, the Right to Buy policy and long term interest rate risk.

2013 will see council housing delivery re-integrate into the council and a number of service designs begin to report recommendations about how best to take advantage of the opportunities this presents. In 2013 a decision will also be made about the future of the repairs and maintenance service. These pieces of work have the potential to have a significant impact on the Business Plan.

The Council will continue to seek opportunities for freeing resources from the business plan in order to accelerate investment in council homes and estates, particularly

1. Bringing forward investment in the maintenance backlog such that the high cost of responsive repairs are minimised and work not in the Decent Homes forward programme is undertaken as early as possible post 2014
2. Tackling previously unfunded items such as communal area refurbishment earlier

The actual level of resource available to the investment programme in future years is sensitive to revenue as well as capital projections. Discussions will take place with tenants to make the best use of future available resources.

2. GOVERNANCE

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 set out the initial draft governance arrangements of the business plan and how these will be developed during the course of 2012/13 in partnership with tenants and stakeholders.

a) Tenant and resident involvement and scrutiny

Tenants and residents have been involved in the development of the business plan in 2012/13 via the established governance and engagement structures such as the Sheffield Homes Board of Directors, the Area Boards, City Wide Forum, the Annual Tenant Conference, and Local Housing Forums.

Tenants have made a contribution to the business plan through these structures as well as examining individual areas of the business plan in more detail through individual partnership groups, Challenge for Change and individual consultation events.

Customer promises, the annual Delivery Action Plan and the annual report to tenants continue to be key tools though which tenants have oversight of council housing activity.

b) Elected member governance

Elected members continue their role in relation to the business plan through decision making by the Cabinet Member and the Cabinet.

Cabinet receives a formal finance report monthly which includes revenue and capital aspects of the plan.

c) 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.

d) The future management of council housing

The business plan proposed to establish a new tenant group dedicated to the oversight of the business plan which was to be discussed with tenants in 2012/13.

The business plan also noted that the Future of Council Housing project and the repairs and maintenance procurement strategy project would impact on the governance arrangements for the business plan so should be reviewed once the outcomes of these projects were known.

In 2012, Cabinet decided that delivery of council housing would be brought in house from April 2013. Following this decision, the Future of Council Housing project launched a project group called 'The opportunity to have my say'. This project group will build on the existing approaches to consultation and governance that are working well to make recommendations on the future shape of engagement and governance structures for council housing. The scoping of the project began in November 2012 and will run into 2013.

3. INCOME AND RESOURCES

a) Overview

This part of the business plan is concerned with income into the Housing Revenue Account (HRA). It includes rent setting and charges payable by tenants to the Council as landlord.

b) Risks

<u>1. Welfare Reform</u>

The key risk to income and the single biggest policy risk to the business plan overall continues to be welfare reform. The most significant risks in relation to welfare reform arise from the introduction of Universal Credit which will be paid direct to tenants of working age and the linking of household size to Housing Benefit eligibility. Universal Credit will start from October 2013 for new claimants and will be phased in by 2017. Housing benefit eligibility linked to household size comes into operation in April 2013. Initial attempts to quantify the risk associated with welfare reform and establish mitigating actions were made in the original business plan. These estimates have now been reviewed, updated and uplifted based on our developing understanding of the Government's proposals.

Other welfare reform proposals may also have an impact on the HRA such as the Council's draft Council Tax Support Scheme (from April 2013). There is also a risk that when the new Universal Credit regulations are announced some charges could cease to be eligible for housing support.

Welfare reform will also affect other HRA costs such as transaction costs, payment card costs, eviction costs and housing management costs.

<u>2. Right to Buy</u>

A second key risk to business plan income remains the Government's 'reinvigoration' of the Right to Buy policy. Since the HRA Business Plan was agreed in January 2012, Government has changed its Right to Buy policy which has resulted in additional financial risk for the business plan.

Key changes to the Right to Buy policy from April 2012:

- An uplift to the maximum Right to Buy discount from £24k to £75k which is likely to result in more sales (and subsequent rent loss)
- The Council can now retain any additional receipts for replacement housing, however before any receipts can be used for replacement housing, it has to pay the Government an amount for receipts that the Government would have received under the previous system.
- Any additional receipts generated after deducting costs are ring fenced for re-investment in affordable housing but must constitute no more than 30% of the replacement scheme cost. The remaining 70% has to be funded from other sources.

Implications for Sheffield:

- It is too early to tell the impact of the increase in the discount cap will have on the number and value of sales in Sheffield.
- If the overall sales receipts fall as a result of the discounts, a higher number of sales will need to be generated in order to cover existing commitments to the Government.
- The discount policy is poor value for money for the HRA as assets will be sold at well below their market values.

- Any retained receipts will be insufficient to replace every house sold with one for affordable rent, but by agreeing to use additional receipts for affordable housing the Council are able to retain the receipt for local provision.

Updated assumptions for the Business Plan

- It is assumed the number of Right to Buy sales rise as a result of this policy from 90 to 140-150 per year up to 2015 beyond which forecasting becomes increasingly more speculative so it is assumed that from then the projections continue as per the original business plan assumptions.
- Increases in Right to Buy sales has a significant detrimental impact on the long term viability of the business plan particularly if the HRA is left to service debt on properties it no longer owns. Therefore it is assumed that before receipts are ring fenced for new build, the HRA retains a sum equivalent to the debt each sold property supported in the initial business plan.
- If Right to Buy sales increase as predicted and at the sale price assumed, the additional receipts generated over 3 years might be around £1.3m. Any receipt income raised will be matched with HRA resources at a ration of 30:70 to deliver new council housing at social rent.

<u>3. Supported Housing Funding</u>

The current supported housing subsidy (previously Supporting People) is under ongoing financial pressure as a result of the Council's wider budget reductions. There are no plans to reduce the budget at the present time but as the longer term future of the subsidy cannot be guaranteed the Council's Sheltered Housing arrangements may need to be reviewed.

c) Updates

<u>1. Rents</u>

Under self-financing, the Government continues to set guideline rent levels as it did under the subsidy system. On this basis, in 2013/14 rents will increase by an average 4.8%, equivalent to an average increase of £3.23 per week.

<u>2. Target Rent</u>

The commitment made in the business plan to undertake a dialogue with tenants about the potential to let vacant properties at target rent before the 2015/16 convergence date has been met. A consultation took place during August and September 2012 with the outcome that there was no majority support for the proposal. A decision was therefore made in November 2012 not to pursue the proposal and to continue with the existing path to rent convergence.

<u>3. Charges</u>

Garage rent will continue to increase in line with rent for dwellings (4.8%).

The community heating service charge will increase by 5% in 2013/14 in order to begin addressing the difference between the charge passed to tenants and the current cost of energy. Any accumulated balances on the community heating account will be retained to smooth the impact of future price rises.

The Council is reviewing the City Wide Care Alarms charges for 2013/14. The sheltered housing service charge includes an amount for city wide alarms. Any change in the cost of the care alarms service would result in changes to the sheltered housing service charge. A decision on the City Wide Care Alarms Charge will be made in March 2013 as part of the council's wider budget decisions.

Other charges for furnished accommodation, interim accommodation and burglar alarms will remain unchanged for 2013/14.

4. Service Charge de-pooling

Consultation with tenants about whether to de-pool service charges from rent will now take place in 2013/14 rather than in 2012 as stated in the business plan. This is due to uncertainty, created by welfare reform, in respect of the future eligibility of some service charges for housing benefit. Clarity about eligibility is needed before a dialogue with tenants can begin.

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. Maintenance Backlog

The backlog of repairs/ maintenance is investment to homes which is now due. It is a combination of:

- Work required to complete Decent Homes
- Picking up all of the backtrack properties, omits and refusals that have built up since 2004/05
- All elemental work that was not included in the Decent Homes Programme and has emerged as the Decent Homes Programme has stretched from 2010 to 2014

Work element	Maintenance Backlog (as at end 2012/13)
Decent Homes	**99,122,800**
Heating	**26,312,392**
Roofs	**85,600,385**
Electrics	**18,810,740**
Total	**229,846,317**

The maintenance backlog is a key risk because any delay to the work increases the risk of the boiler or roof or other component failing. If a boiler or roof fails 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.

c) Updates

The aim of the investment programme in the first five years was to create an affordable plan to match expected resources and to try to address as much of the high risk maintenance backlog elements as possible in order to minimise costs overall.

Since these priorities were agreed in early 2012, work has been underway with tenants to agree how to sequence the works. This planning phase has been essential in order to secure tenant support for prioritisation of works but it has meant that some works have delayed. By the end of 2014 it is expected the programme will be back on track compared with the financial profile.

a. Essential investment work

The business plan made a commitment to begin exploring opportunities for making better use of already adapted properties with a view to tackling a potential oversupply of adapted properties. Work has been undertaken in 2012/13 to develop a better understanding of where in the city there exists the highest number of adapted properties and where there is greatest demand for adapted properties. The Lettings Policy Review is due to report to Cabinet in March 2013 and the letting of adapted properties is likely to be considered within that report.

Work has begun on developing a proposal for responding to the growing number of mobility scooters used by tenants living in council flats. This will be made available for consultation in 2013.

b.Maintenance backlog - Decent Homes

The business plan sets out how a commitment to tenants to complete the Decent Homes forward programme by 2014 would be met. Work on the forward programme is ongoing and on track. All tenants in the forward programme are now aware when work is to be carried out to their home.

2.Maintenance backlog - the rest of the backlog

Investment in obsolete heating systems and boilers is the top investment priority from the maintenance backlog and a commitment to tackle 90% of the heating backlog over the first 5 years of the plan was made in the business plan. This was in order to alleviate fuel poverty as well as reducing the high repair costs associated with boiler breakdowns.

Arrangements are now in place with the contractor and the work is expected to be completed by year 5 as planned.

The next priority from the maintenance backlog was roofs with significant and increasing resources being allocated from year 3 (2014/15) onwards. This programme remains as planned with high levels of activity profiled to continue beyond year 5 and into year 6 of the business plan (2017/18). Whilst beyond the current 5 year planning horizon it is anticipated that the 2018/19 budget for roofs will be at least £16.4m in order that the roofing programme can continue as planned and all roofs with a higher priority can be addressed.

3.Unfinished projects

Resources were set aside in the 5 year investment programme for regeneration / refurbishment schemes which were ongoing or yet to be worked up/ approved.

Funding set aside to support tenants to move home and make council dwellings safe where commitments have been given to tenants and residents (SWaN and Park Hill) will continue as planned.

Proposals for Arbourthorne are expected to be the subject of a Cabinet decision in 2013. Subject to this decision, additional HRA resources may be required from the capital programme.

The Council made a decision in respect of older people’s accommodation in Stocksbridge on 26th September 2012. This included a decision to bring Balfour House up to the Sheffield Decent Homes Standard in 2013 and to continue with the decommissioning of Sweeney House as planned. This activity will be funded from the investment programme using existing resources.

4. Revenue Repairs

In recent years there has been ongoing financial pressure on the revenue repairs budget. The budget is demand led and is consequently hard to forecast. As the maintenance backlog is eroded over the coming years, this budget pressure should be alleviated and with this in mind, a comprehensive forecast of future revenue repairs costs linked to capital investment is being undertaken in 2012/13. This will be available for next year’s review of the business plan. During

2013/14, pending the outcome of this review, it is recognised the repairs budget may face pressures in order that cyclical maintenance can continue as planned.

5. New investment activity for 2013/14

As a result of the overall improved financial position of the plan in 2013/14 new investment priorities are to be added to the council housing investment programme.

i. Council Housing New Build

The HRA will make use of additional resources released as a result of the transfer of council housing delivery into the council by launching a new build programme of 75 new family sized council houses over the next 3 years.

The new build programme will also allow the council to retain any additional receipts generated as a result of the government's 'reinvigoration' of the Right to Buy policy. The changed Right to Buy policy means that in order to retain such receipts locally they must be used as 30% funding for new affordable housing and the Council has entered into an agreement with Government to retain any additional receipts locally for this purpose. Based on current estimates (but with no trend data to base them on) this change in policy may generate an additional £1.3m receipts for affordable housing over the next 3 years.

The total cost of delivering 75 new homes will be around £9.5m. If additional Right to Buy receipts of £1.3m are realised the cost to the HRA will be just over £8m. However it must be stressed that the actual level of receipt income which will be generated as a result of the changed Right to Buy policy is not known.

A lead-in period is always required when undertaking new build. If this lead in period should extend such that additional receipt income cannot be charged against new build before Government deadlines, then the Council reserves the option to make acquisitions of properties in the short term. This would be a means of retaining the receipt within the HRA whilst maintaining stock numbers. Separate to the Right to Buy policy, the Council will also seek funding from the Government to support the purchase by the HRA of long term empty properties for use as council housing. If successful, such funding might be used to create additional council dwellings and rental income into the HRA.

The Council will also explore the viability and benefits of remodelling existing council properties in order to help meet changing demand.

ii. Communal Area Refurbishment

Because initial forecasts suggested the self financing determination from Government would not provide the resources needed, some activities were deemed unaffordable in the original business plan and not factored into the investment plan. Included in this list was the refurbishment of communal areas.

There are over 18,000 flats and maisonettes in the city located within about 3,000 blocks which have not benefitted from substantial refurbishment since they were built. Despite all the investment into the internal improvements through the Decent Homes Programme little or no investment has been made to communal areas. In addition to this as part of the fire risk assessments to flats it has been necessary to take away a mixture of unsafe communal furniture and carpets which have covered poor quality walls stairs and flooring. Unattractive communal areas have a major impact on how customers feel about their home and neighbourhood and at a time when welfare reform will mean greater numbers of people looking to downsize, it is important that flats are an attractive option.

The Decent Homes environmental programme has carried out some door entry installations to low medium rise flats, but not all. Some poor quality communal windows and doors have been replaced but not all.

A new programme of communal area refurbishment will begin in 2013/14 with the focus initially on low rise flats. An additional £1.5m resources will be added to the capital programme for this purpose which, when matched with £1.4m existing funding for basic maintenance brought forward from later in the 30 year plan, will benefit around 3000 properties.

Investment will initially focus on communal door entry security systems but will extend to communal windows and floor coverings. Scoping work will also begin on developing the Council's approach to addressing the standard of communal areas in maisonettes.

Initial proposals for new investment activity are made in this business plan update for the next 3 years although current projections suggest that additional resources are likely to be available beyond this. How such additional resources are made best use of will be the subject of future discussions with tenants as the actual level of resource becomes clearer.

6. Other updates

Work has started in 2012/13 to review the current condition of garage assets in council ownership under the HRA, the income and expenditure of garages, consider the approach to maintenance and investment and make recommendations for investing / disinvesting in specific garages / garage sites in the future. The involvement of tenants in developing proposals is underway.

In September 2012 the Council decided to upgrade the city's community heating sites through the wider installation of heat metering.

d) Financial Summary

The table below sets out the updated investment and repairs budgets over the first years of the business plan.

The original 2012-17 business plan set out an investment programme of £257m over 5 years. No changes have been made to these original investment priorities and the £257m 5 year investment programme remains although some re-profiling of spend has taken place between years in order to allow time for tenants to have a meaningful say in how the investment is delivered locally. Other changes are the transfer of the budget for heat metering installation from 'Other' to 'Decent Homes' following the September decision to upgrade the community heating sites for the whole of the City in addition to the pilot areas previously approved, and refinement of the budgets for Roofs & Externals and Adaptations & DDA to reflect planned activity.

In addition to the existing 5 year programme, additional resource will be added from 2013/14 to fund new priorities and new investment activity. From 2013/14 a new build programme of 75 new council homes will commence. This will represent around £9.5m additional activity over 3 years which is expected to be funded partly from additional Right to Buy receipts (£1.3m) and the remainder from HRA resources. The new communal area refurbishment programme will be funded from £1.5m new resources matched with £1.4m existing resources from the 30 year plan (for basic maintenance of communal areas). A consultation will be undertaken with tenants at the January City Wide Forum to assess the scope for reducing the 2013/14 Going Local budget by half (to £200k) with a view to using this funding to add to the refurbishment programme.

In order to maintain a 5 year planning horizon, a year 6 (2017/18) has been added to the programme, in line with the priorities set out in the original business plan.

Investment	**2012/13 Expected outturn £m**	**2013/14 (incl. slippage) £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**5 yr total £m**	**2017/18 £m**
Essential investment work incl. Health & Safety	0.839	3.743	2.011	1.373	1.882	9.848	1.500
Adaptations & DDA	2.200	2.225	2.225	2.225	2.225	11.100	2.100
Regeneration	0.907	7.740	2.550	0.114	0.114	11.425	0.000
Waste	0.500	0.633	0.756	1.906	0.155	3.950	0.000
Other (sheltered lifts, community heating, programme mgt)	0.905	2.730	1.855	2.105	1.805	9.400	1.605
Decent Homes programme	20.820	31.776	2.599	3.300	0.000	58.494	0.000
Heating & boilers	7.600	7.700	10.050	8.250	8.250	41.850	3.500
Roofs & externals	0.050	2.004	21.922	25.310	21.364	70.650	26.300
Electrics	0.000	0.000	1.000	4.000	4.000	9.000	5.000
Other planned elementals (including backtracks)	0.000	6.600	3.547	6.144	15.055	31.346	17.895
Subtotal	**33.820**	**65.150**	**48.515**	**54.727**	**54.850**	**257.062**	**57.900**
New build programme	0.000	0.600	5.115	3.810	0.000	9.525	0.000
Communal area refurbishment	0.000	0.200	2.700	0.000	0.000	2.900	0.000
Total	**33.820**	**65.950**	**56.330**	**58.537**	**54.850**	**269.487**	**57.900**

Repairs	**2012/13 Expected outturn £m**	**2013/14 £m**	**2014/15 £m**	**2015/16 £m**	**2016/17 £m**	**5 yr total £m**	**2017/18 £m**
Revenue repairs budget	32.7	33.1	33.1	33.9	34.8	**167.6**	35.4

5. TENANT SERVICES

a) Overview

This part of the business plan is concerned with the 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 is the challenge on services to gear up to meet the new demands brought about by welfare reform.

c) Updates

<u>1. Ensure all income owed is collected</u>

A key priority for the business plan was to begin work on mitigating the potential impact of the Government's welfare reforms and to start work on this early. The business plan made provision to fund additional staff for the Income Management Unit Team, a specialist debt worker based at the Citizens Advice Bureau (CAB) and Smartmove (previously grant funded).

It is now proposed that additional resources are allocated to this aspect of the business plan as follows;

a) Visiting affected tenants (fast-tracked- already underway)

Social landlords are stressing the importance of face to face contact with tenants when explaining the Government's welfare reform changes to tenants. They say that tenants report they had not understood the changes until they were explained in person. Therefore additional staff are being recruited so that all tenants affected by the benefits cap and the under occupancy rules can be visited at home by April 2013 when the changes come into force.

b) Training on welfare benefits for staff.

The welfare reform changes are large scale and complex. It is proposed that Income Management Unit staff are provided training on the reforms to enable them to better signpost tenants to claim appropriate benefits.

c) Support for under-occupying customers who wish to move

In addition to the downsizing support offered through Smartmove, it is likely that more practical support with moving home) would be beneficial to tenants concerned about the implications of the under-occupancy rules on housing benefit. The cost of providing this additional support will be factored into the business plan.

d) Payment methods

The Council will look to increase the use of alternative payment methods such as direct debits and jam jar accounts to mitigate the risk associated with direct payments to rent accounts ending under the Universal Credit. The cost associated with administering these schemes would need to be funded and these costs will be factored into the business plan.

e) Hardship Fund

The Council will consider the benefits and viability of establishing a limited (HRA) fund that could be accessed by council tenants who are at severe risk of eviction. This would complement the Social Fund which transfers to the City Council from the Department for Work and Pensions in April 2013.

f) Increased funding to the CAB Debt Support Unit for another specialist

This would allow a further 150 tenants to be supported each year to help tenants manage and reduce debts, reduce the number of legal actions taken and improve the sustainability of tenancies.

2. Make best use of homes

The business plan made a commitment to make the re-housing process more effective and efficient by reviewing the lettings policy and introducing a new lettings website for the bidding process.

The completion date for the lettings policy review is now March 2013, with implementation in April 2014. The implementation date for the new lettings website is now July 2013. Due to the slippage to the timetable, efficiency savings associated with the new website have been reduced from £100k to £75k in 2013/14. This is offset by £75k staffing costs for implementation carried forward into 2013/14.

The business plan also had an ambition to improve the sustainability of tenancies over the long term. The Successful Tenancies scoping project completed in the summer of 2012 and it is proposed that the learning from this will be used to inform Future of Council Housing Service design work.

3. Attractive Neighbourhoods

A key aim for 2012/13 was to begin to reduce the high cost of estate services whilst ensuring neighbourhoods continue to be attractive and pleasant places to live. This was to be achieved in two ways.

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

- Work has commenced in 2012/13 on a pilot in the North East of the city to test integrated working between Sheffield Homes Estate Officers and Sheffield City Council Parks staff and whether this might offer financial efficiencies as well as a more joined up service for the customer.
- Green and Open Space, particularly grass cutting, has been a high tenant priority this year with two reviews of this work area launching in 2012 (Challenge for Change and the Future of Council Housing 'Safe and Attractive neighbourhoods' project). In order that these reviews have the opportunity to inform any design of the service it is proposed that implementation of the business plan's green and open space efficiency targets are delayed by 12 months.

b. Taking a coordinated approach to the prevention of fly tipping through investment in facilities, education and enforcement. This intervention was to be funded through savings made on bulky waste collection service.

- Savings from changes to the bulky waste service are being realised as planned.
- Proposals have been developed for a programme of education and enforcement and these will start to be implemented in a phased approach during 2012/13.

d) Other updates

1. Provision is made for a Going Local budget of £400k in 2013/14 although tenants will be consulted prior to April on whether this should be reduced to £200k to allow £200k to be allocated to investment into communal area refurbishment. This proposal comes as a high proportion of the Going Local budget is currently allocated to communal areas.

2. Cornhill Concierge - The original business plan proposal was to provide a concierge service at the Cornhill temporary accommodation scheme. The project has now been extended to enable relocation of the current office from two converted flats, therefore freeing these properties so they can be converted back to residential accommodation. This is expected to result in additional rental income of around £20k per year.

3 .Others - It is not proposed to make any changes to the plans set out in the original business plan in respect of the Night Time Noise service, the Homefinders service or Digital Region.

e) Financial Summary

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

Where the proposed numbers are different from those in the original business plan, the original numbers are shown in grey beneath the proposed figure.

Indicative figures have also been shown in a new year 6 column in order to maintain a 5 year planning horizon.

Existing activity to mitigate welfare reform	**Yr1 12/13 (£000)**	**Yr2 13/14 (£000)**	**Yr3 14/15 (£000)**	**Yr4 15/16 (£000)**	**Yr5 16/17 (£000)**	**Yr6 17/18 (£000)**
Smartmove	70	70	70	70	70	70
Debt advice worker	40	40	40	40	40	40
Additional IMU staff – preventative & arrears work	50	190	190	190	190	190

x =Original Business Plan figure if different from proposed

	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6
Proposed <u>additional</u> activity to mitigate welfare reform	**12/13 (£000)**	**13/14 (£000)**	**14/15 (£000)**	**15/16 (£000)**	**16/17 (£000)**	**17/18 (£000)**
Visiting affected tenants	90 0	0	0	0	0	0
Training on Welfare Benefits	0	5 0	0	1 0	0	1 0
Support for under-occupying customers who want to move	14 0	27 0	14 0	14 0	0	0
Payment methods - jam jar	0	0	37 0	37 0	37 0	37 0
Hardship Fund	0	50 0	50 0	50 0	50 0	50 0
Payment methods - direct debit	0	0	25 0	25 0	25 0	25 0
Increased funding to the CAB Debt Support Unit for another specialist Debt Worker	0	40 0	40 0	40 0	40 0	40 0

	Yr1 1	Yr2	Yr3	Yr4	Yr5	Yr6
Make best use of the homes we have	**12/13 (£000)**	**13/14 (£000)**	**14/15 (£000)**	**15/16 (£000)**	**16/17 (£000)**	**17/18 (£000)**
Lettings Policy review implementation & efficiencies	185	140 150	-50	-50	-50	-50
Lettings ICT system - implementation & efficiencies	100	0 -100	-100	-100	-100	-100
Tenancy Sustainment – implementation & efficiencies	50	190	130	0	-250	-250

	Yr1	Yr2	Yr3	Yr4	Yr5	Yr6
Invest to save on Estate Services – Open Space Maintenance	**12/13 (£000)**	**13/14 (£000)**	**14/15 (£000)**	**15/16 (£000)**	**16/17 (£000)**	**17/18 (£000)**
Review of estate management arrangements (SH grounds maintenance saving)	0	0 -40	-40 -80	-80	-80	-80
Open space maintenance (10% saving)	0	0 -110	-110 -220	-220	-220	-220
Block cleaning - service improvements	0 50	50 75	75 100	100 125	125 150	150
Cleared Sites	0	-50	-100	-150	-200	-200

x =Original Business Plan figure

Invest to save on Estate Services – Fly tipping costs	Yr1 12/13 (£000)	Yr2 13/14 (£000)	Yr3 14/15 (£000)	Yr4 15/16 (£000)	Yr5 16/17 (£000)	Yr6 17/18 (£000)
Savings from limiting bulky waste collections to one few collection per year	-145	-145	-145	-145	-145	-145
Education and enforcement investment	70 145	150	150	120	100	70
Savings on tipping charges	-20	-59	-97	-133	-169	-169
Savings on staff charges	-26	-78	-128	-177	-225	-225

Other ongoing investment priorities	Yr1 12/13 (£000)	Yr2 13/14 (£000)	Yr3 14/15 (£000)	Yr4 15/16 (£000)	Yr5 16/17 (£000)	Yr6 17/18 (£000)
Going Local	-400	-400	-400	-400	-400	-400
Cornhill concierge (year 1 is capital, not revenue)	121 100	55 100	55 100	55 100	55 100	55
Night time noise service contribution	46	46	46	46	46	46
Homefinders service (pending review)	292	292	292	292	292	292
Digital region – implementation	30	0	0	0	0	0

x =Original Business Plan figure if different from proposed

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 currently supports around £346m borrowing. This costs around £18m in interest payments each year. Interest rates can affect the business plan in two ways; on existing variable rate loans, but also when the HRA takes on new loans at a higher than forecast fixed rate. Both of these risks have to be understood and mitigated against in the business plan.

HRA borrowing is made up of a number of different fixed and variable rate loans. 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 income or by refinancing so is never held to ransom by high interest rates.

c) Key updates

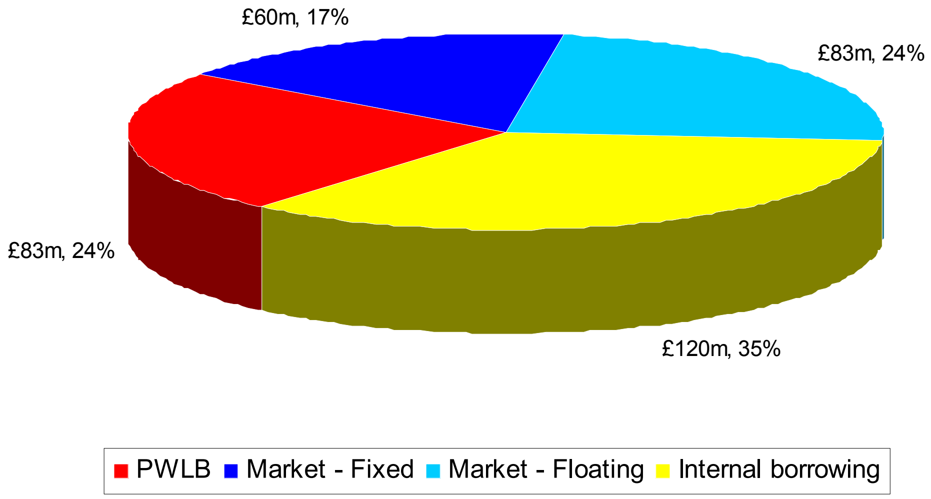
<u>1. The self financing transaction and subsequent de-pooling of debt</u>

The move to self financing resulted in £518m of Sheffield's HRA debt being written-off by Government on 28th March 2012. This reduced the HRA's borrowing requirement from £864m to £346m and took the HRA's share of the Council's overall borrowing requirement from 68% to 45%.

'Self financing' required the separation of HRA debt from General Fund debt and the management and accounting of each separately. Therefore from April 1st the HRA was required to take 45% of the Council's overall debt portfolio which consisted of fixed-rate PWLB loans, fixed-rate bank (LOBO) loans, floating-rate bank (LOBO) loans and internal borrowing.

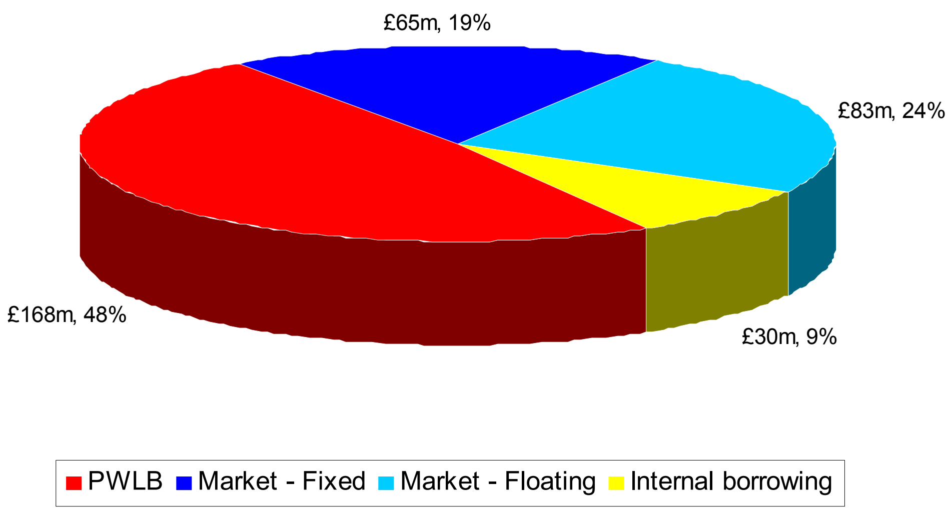
HRA debt has now been decoupled from the General Fund for debt management purposes with each type of loan equitably assigned between HRA and General Fund. As of April 2012 the HRA's debt structure was as follows:

Debt Structure as at April 2012



At the start of the year the HRA had a significant amount of internal borrowing. Internal borrowing represents the Council's use of cash reserves to finance capital expenditure. This was only a temporary measure and throughout the year a significant proportion of the HRA's internal borrowing needed to be replaced by external borrowing. This has given the HRA the opportunity to take advantage of highly favourable borrowing rates throughout the year which has resulted in lower than forecast interest rate costs to the HRA for 2012/13 and beyond.

Debt Structure forecast April 2013



2. Developing our approach for managing interest rate risk

The interest rate risk for the HRA is significant and is due to:

1. The amount of floating-rate debt (24%); and,
2. The need to refinance fixed rate debt as and when it matures.

The original business plan set out how one of the continuing challenges for the business plan was the repayment of debt. It said that in choosing to prioritise the funding of the maintenance backlog, the business plan could not afford to pay off debt over 30 years. This would result in continuing interest rate payments and less resource to fund other activities. The business plan's inability to repay debt over 30 years was also a concern in respect of interest rate risk as it increases the likelihood of the HRA having no choice but to refinance newly maturing loans in the future, even if interest rates are prohibitively high at the time.

During 2012/13 work has been undertaken to develop the Council's approach for mitigating interest rate risk in the business plan. Three strategies are being considered.

i. Build the financial capacity into the plan to repay debt over the 30 years of the plan
ii. Quantify interest rate risk exposure to the plan over the next 5 years and build a financial contingency into the HRA reserve to cover it
iii. Set aside an amount of money each year for the repayment of debt in line with the business plan's debt maturity profile (the dates when debt matures and becomes repayable)

The first option has been the interim approach taken by the Council in the transfer to self financing. The premise being that if the plan has the capacity to repay debt over 30 years then any refinancing decisions over the 30 years will be the Council's to make. However, this approach sees the financial capacity to repay debt built into the plan in the later years as financial resources in the early years are prioritised on the maintenance backlog. In the original business plan this capacity was insufficient to repay all debt.

As a result of the improved financial position described in this update report for 2013/14 the business plan does now have the capacity to repay debt over a 30 year period. However, in recognition that this approach does not set aside resources for the repayment of debt until the later years of the plan provision is made in the HRA reserve (option ii) to mitigate interest rate risk in the short to medium term.

Whilst option ii in this list does provide cover to the business plan in the event of interest rate rises in the early years it does not provide the resources for the repayment of debt, only the interest payments. If it were in the best interests of the business plan to repay debt one year, then additional resources would have to be found (most probably out of the capital programme) to fund it.

Therefore it is proposed that in the coming months work is undertaken to explore option iii as a more robust means of mitigating interest rate risk in the business plan. This would see the HRA set aside resources to reflect the maturity profile of its actual current loan portfolio. This would not only mitigate interest rate risk for the business plan but would give more flexibility to create borrowing headroom and tailor the HRA's loan portfolio to the needs to of the business plan. The challenge would be to do this whilst still allowing a sufficient level of resources for investment in the maintenance backlog.

Any *new* borrowing undertaken by the HRA since April 2012 (the start of self financing) will be undertaken in line with option iii and will have a repayment plan.

7. VALUE FOR MONEY

a) Overview

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

b) Risk

The risk to this section of the business plan is that efficiency targets built into the plan do not materialise or that costs associated with achieving them exceed budget. The main risk at this time is the Repairs and Maintenance Redesign as no decision has yet been made about how the efficiencies set out in the business plan will be delivered.

c) Key updates

1. 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. It is proposed these targets remain.

2. Future of Council Housing Efficiencies

At the time of the first business plan the ballot was yet to be held so no efficiencies and only £180k project costs were factored into the plan. It is now proposed that £1.2m efficiency savings are built into the plan together with a budget for implementation costs. It is also proposed that Sheffield Homes reserves are factored in to the HRA from 2013/14.

3. Repairs and Maintenance service redesign

A 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.

The Council is now looking at the options for the HRA Repairs and Maintenance Service with a Cabinet decision expected in early 2013.

d) Financial Summary

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

Where the proposed numbers are different from those in the original business plan, the original numbers are shaded grey.

Indicative figures have also been shown in a new year 6 column in order to maintain a 5 year planning horizon.

Value for money	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)
SCC/SH support cost efficiencies	-673	-1178	-1290	-1403	-1403	-1403
Future of Council Housing project costs	196 180	196 0	0	0	0	0
Future of Council Housing project implementation/ efficiencies	-25 0	-400 0	-1200 0	-1200 0	-1200 0	-1200 0
Repairs & maintenance implementation and post 2014 efficiencies	200	100	-665	-665	-665	-665

x =Original Business Plan figure

HRA Financial Information **Annex A**

Housing Revenue Account – 5 year projections

Year	2012/13 (Forecast outturn as at October 2012)	2013/14	2014/15	2015/16	2016/17	2017/18	Total 2013/14 to 2017/18
	£m	£m	£m	£m	£m	£m	£m
Income							
INCOME TOTAL	**-142.2**	**-147.4**	**-153.9**	**-161.1**	**-166.0**	**-170.9**	**-799.3**
Income from rents	-136.0	-141.4	-147.9	-155.0	-159.8	-164.5	**-768.6**
Other income	-6.2	-6.0	-6.0	-6.1	-6.2	-6.4	**-30.7**
Expenditure							
Homes – revenue repairs	32.7	33.1	33.1	33.9	34.8	35.4	**170.3**
Homes – funding for Capital programme – depreciation	36.4	37.1	38.0	38.9	39.9	40.9	**194.8**
Tenant services (including overheads/ support costs)	49.9	51.3	50.8	51.8	52.8	54.3	**261.0**
Interest on debt	15.7	17.6	17.3	17.5	17.8	18.1	**88.3**
Other expenditure	0.8	1.0	2.7	2.1	2.2	3.4	**11.4**
Total	**135.5**	**140.1**	**141.9**	**144.2**	**147.5**	**152.1**	**725.8**
Surplus (-) or Deficit	**-6.7**	**-7.3**	**-12.0**	**-16.9**	**-18.5**	**-18.8**	**-73.5**
Opening revenue reserve	-11.7	-25.5	-10.0	-10.0	-10.0	-10.0	
Surplus (-) or Deficit	-6.7	-7.3	-12.0	-16.9	-18.5	-18.8	
Contribution to the Capital Programme	0.4	22.8	12.0	16.9	18.5	18.8	
Sheffield Homes Reserve	-7.5	0.0	0.0	0.0	0.0	0.0	
Closing revenue reserve	-25.5	-10.0	-10.0	-10.0	-10.0	-10.0	

Capital Account – 5 year projections

Year	2012/13 (Forecast outturn as at October 2012)		2013/14	2014/15	2015/16	2016/17	2017/18	Total 2013/14 to 2017/18
	£m		£m	£m	£m	£m	£m	£m
Expenditure								
EXPENDITURE TOTAL	**33.8**		**66.0**	**56.3**	**58.5**	**54.8**	**57.9**	**293.5**
Funding								
Homes – funding for Capital programme depreciation	-36.4		-37.1	-38.0	-38.9	-39.9	-40.9	-194.8
Revenue Surplus	0.0		-7.3	-12.0	-16.9	-18.5	-18.8	-73.5
Contribution from revenue reserves	-0.4		-15.5	0.0	0.0	0.0	0.0	-15.5
Borrowing	0.0		0.0	-4.3	-1.6	0.0	0.0	-5.9
RTB receipts	-1.3		-1.4	-1.2	-0.9	-1.2	-1.2	-5.9
Other capital contributions	-0.2		-0.2	-0.8	-0.2	-0.2	-0.2	-1.6
Total funding	**-38.3**		**-61.5**	**-56.3**	**-58.5**	**-59.8**	**-61.1**	**-297.2**
Capital balance b/f	0		-4.5	0	0	0	-5.0	
Use of /- contribution to balances in year	-4.5		4.5	0	0	-5.0	-3.2	
Capital balance c/f	-4.5		0	0	0	-5.0	-8.2	

HRA Financial Assumptions **Annex B**

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 2012/13	41,361
Homes - dwellings by 2042	36,816
Number of RTBs 2013/14	149
Total number of RTBs by 2042	4,285
Rents assumed at inflation + 0.5% from 2013/14	Based on 2.75%
Convergence date	2015-16
All income lines excluding supported housing funding	Increased by inflation 2.75% from year 3 (2014/15)
Supported housing subsidy	No uplift
Management costs for Sheffield Homes and SCC	Increased by inflation 2.75% from year 3 (2014/15)
Bad Debts	Average of 1% of debt
Void rate	1.55%
Repairs	Increased by contractual inflation to 2014 then 2.75%
HRA reserves are maintained in accordance with risk based reserves strategy	**£10m** in 2013/14

Debt assumptions	Assumption
Opening HRA Borrowing requirement as of 1st April 2012	£349m
HRA borrowing limit	£391m
Interest rates on HRA debt	Approx rates 4.1% to 5.2%

Capital assumptions	Assumption
Capital receipts	£9,417 RTB receipts credited to HRA to cover average debt per dwelling. Additional receipts used towards affordable housing.
Capital management fee has been assumed throughout the model	£3.7 million per annum 2013/14
SCC capital costs council housing investment	£0.605 million per annum 2013/14