

## Summary Sheet

### Council Meeting

Cabinet and Commissioners Decision Making Meeting – 10 October 2016

### Council Report

HRA Business Plan 2016-17

### Is this a Key Decision and has it been included on the Forward Plan?

Yes

### Strategic Director Approving Submission of the Report

Anne Marie Lubanski, Strategic Director Adult Care and Housing

### Report Author(s)

Paul Elliott, Business and Commercial Programme Manager

Kath Oakes, Principal Finance Officer

### Ward(s) Affected

All

### Executive summary

The Housing Revenue Account (HRA) records all expenditure and income relating to the provision of council housing and related services, and the Council is required to produce a HRA Business Plan setting out its investment priorities over a 30 year period.

Following the introduction in 2012 of HRA self-financing, whereby the Council was awarded control over its HRA in return for taking on a proportion of national housing debt, Rotherham's HRA was in a strong position with a healthy level of reserves. However a number of policies have recently been introduced by central government that will result in a dramatic reduction to HRA resources, namely:

- 1% per annum reduction in Council rents over four years:
- Reinvigoration of the Right to Buy (reduction of qualifying period to three years):  
Reducing stock
- Welfare reform - bedroom tax, universal credit and benefits cap: Impacting on tenants' ability to pay their rent, and increasing the resources required by the Council to collect rent from tenants in receipt of benefits
- Introduction of 'Pay to Stay' and mandatory fixed term tenancies: Which will significantly increase the administrative burden on the Council, and may also lead to increased Right to Buy sales / more lost stock
- Introduction of the enforced sale of high value properties / equivalent levy: Meaning the Council will have to pay in the region of £2m annually to the

Treasury, to cover the costs of the discounts housing associations must offer now they can offer the Right to Buy to their tenants

The cumulative effect of these changes is that £51m of savings are likely to be required by 2020-21 when compared to the previous business plan, meaning that the Council will need to take some difficult decisions about prioritisation, and how to achieve the best balance between the following:

- Maintaining and continuing to improve our 21,000 Council homes
- Contributing to the borough's housing growth target of 900 homes per annum
- Contributing to the development of Starter Homes and other affordable housing products that are needed locally and will play a critical role in Rotherham's overall economic growth

Further discussions will be required regarding how best the Council manages social housing and new delivery in the future and this will be the subject of a separate report later in the year.

This report provides a detailed technical overview of the current position and the reason for changes to the Plan.

### **Recommendations**

1. That the proposed 2016-17 Base Case for the HRA Business Plan be approved.
2. That agreement be given to review the plan annually to provide an updated financial position as new government regulations come into force.

### **List of Appendices Included**

Appendix A – HRA Business Plan 2016-17  
Appendix B – HRA Operating Statement  
Appendix C – HRA Investment Programme  
Appendix D – Capita HRA Business Plan Review  
Appendix E – Modelled assumptions

### **Background Papers**

HRA Business Plan 2015-16

### **Consideration by any other Council Committee, Scrutiny or Advisory Panel**

Improving Places Select Commission

### **Council Approval Required**

No

### **Exempt from the Press and Public**

No

## **Housing Revenue Account Business Plan 2016-17**

### **1. Recommendations**

- 1.1 That the proposed 2016-17 Base Case for the HRA Business Plan be approved.
- 1.2 That agreement be given to review the plan annually to provide an updated financial position as new government regulations come into force.

### **2. Background**

- 2.1. This report sets out the proposals for the HRA Business Plan for 2016-17 onwards and provides some information on the scale of the financial challenges in future years. In essence the overall approach is to make savings where it is feasible to do so and can, to plan for the future fundamental changes in 2016-17 and to position the HRA and landlord service to best respond to those challenges that come.
- 2.2 Future years will be profoundly different to the position the Council has been in previously in terms of finances and operation of Council Housing, and whilst the Council has a significant challenge over the next three to four years in reshaping the service it is also the case that the Council retains sufficient reserves to allow this to be undertaken in a sensible and prudent manner to reflect the changing environment and tenants' reactions to the changes.
- 2.3 There has been a significant shift in the assumptions underpinning the HRA Business Plan as a result of the Chancellor's Summer 2015 Budget. This made changes to rent setting from 2016-17 onwards and to benefit payments for those tenants receiving housing or work related benefits, along with confirmation of the introduction of Pay to Stay. In summary the changes are:
  - Reductions in rent by 1% per annum for four years from 2016-17
  - Reduction in the Benefit Cap to £20,000 (£13,400) for a single person
  - Restriction of Housing Benefit for people aged 18 to 21 (from April 2017)
  - The introduction of Pay to Stay, which means any household earning over £31,000 per annum will be required to pay at or near market rent
  - Restriction of Housing Benefit to Local Housing Allowance rate for new tenants from April 2016, but applied from April 2018
  - The sale of higher value Council Properties (assumed first payment to be made in 2016-17 and annually thereafter)
  - The ending of lifetime tenancies for new tenants
- 2.4 There have also been a number of other fundamental changes in the overall housing environment, including:
  - Changes to Planning regulations about the need to develop Affordable Housing, with Starter Homes (sold at a 20% discount to full market value) being in effect recognised as Affordable Homes thus replacing homes built for social rent.

- Assistance for 'hard working families' who live in Housing Association properties to exercise the Right to Buy, which is funded through the sale of higher value Council Properties.
  - A fundamental change in government focus with home ownership being seen as the only viable housing solution for people where they can afford it.
- 2.5 The combined effect of these changes is likely to have a significant impact on the nature of housing provision in Rotherham, not just in terms of Council Housing.
- 2.6 The view of Government appears to be that social housing should provide a home if a person is in need and that once the tenant has the ability to purchase a property of their own or rent from the market place then that should be the outcome. This increasingly means that Council provision will be scarcer and fewer properties will be available. How the Council reacts to these changes will determine the HRA's ability to survive in a more difficult market place.
- 2.7 The relationship the Council has with tenants will change as more information is gathered on individual and household income levels. Many tenants may see this as an unjustified and unwarranted intrusion into their lives. In addition new tenants will be subject to a review of their tenancies and the need to be in social housing, at least every 10 years.
- 2.8 Within this context, deriving a sustainable business plan has been problematic, in terms of estimations as to how the underlying business will change and how to address the significant reductions in income that will result from these changes, not least the requirement to reduce rents by 1% for four years.
- 2.9 The overall position is challenging, but given the level of reserves there is the ability to absorb some initial short term impact. However, the HRA can only be based on a long term sustainable and affordable budget to ensure there are sufficient resources to maintain properties over the next 30 years. The scale of issues facing the HRA is such that corrective action has been and must continue to be taken over the next three to four years to avoid the situation becoming more difficult to manage without less measured drastic action. Therefore it is essential we plan and change policy now.
- 2.10 There are two as yet unquantifiable risks that should be at the forefront of the Council's mind in determining the longer term future of social housing. These are that the Government has the power to make estimates of what the HRA should pay over to DCLG (Department for Communities and Local Government) in relation to 'Pay to Stay' and the sale of 'higher value properties'. These estimates may bear little or no relation to actual worth. This has made the estimation of budgets for 2016-17 onwards extremely difficult. Estimates are discussed in the report, but it should be noted that until it is understood how tenants will react and the detail of how the costs will be calculated, these are only indicative figures.
- 2.11 Over the medium term, the significant number of changes introduced means the underlying assumptions have been fundamentally undermined and as

such all assumptions have been reviewed to reflect the changing environment in which the HRA operates.

### **3. Key Issues**

3.1 The Council currently owns circa 21,000 homes and 3,451 garages with a turnover from rents and other sources approaching £84m per annum.

3.2 The overall financial strategy for the HRA is focused on:

- Supporting delivery of the Council's Corporate Plan
- Maintaining a sufficient level of balances both as a contingency against risks and to ensure that investment can be sustained over the period of the business plan
- Achieving and maintaining the decent homes standard
- Providing a customer focused and effective repairs service
- Supporting housing and neighbourhood management
- Enabling new affordable housing provision (circa £5m available to fund existing commitment and £7m is being made available in 2017/18)

3.3 The impact of the proposed changes on the HRA means there is a need to fundamentally restructure the budget over the coming years. With this in mind proposals are designed to ensure:

- Whilst savings are made no action is taken that will undermine the Council's longer term ability to react to changes
- Provision is made to ensure there are sufficient resources available to implement changes that are required in the short term
- The longer term viability of the HRA business plan is maintained
- Budgets remain flexible to react to any significant changes in property numbers currently expected or further government policy changes
- No further borrowing is undertaken and no early repayment of debt is made

### **Financial Position of the HRA**

3.4 The HRA currently has a healthy financial position with a general reserve balance of £27.932m and a Major Repair Reserve of £3.873m as at the end of March 2016. A summary of Income and Expenditure for 2016-17 follows:

HRA Operating Statement - June 2016	2016/17 Full Year Budget £000	2016/17 Forecast Out- turn £000
<b><u>Expenditure</u></b>		
Contributions to Housing Repairs Account	19,075	19,075
Supervision and Management	20,658	20,569
Rents, Rates, Taxes etc.	210	210
Provision for Bad Debts	1,546	1,546
Cost of capital Charge	13,785	13,650
Depreciation of Fixed Assets	19,975	19,975
Debt Management Costs	175	130
<b>Expenditure</b>	<b>75,424</b>	<b>75,155</b>
<b><u>Income</u></b>		
Dwelling Rents	-77,851	-77,851
Non-dwelling Rents	-751	-751
Charges for Services and facilities	-4,487	-4,487
Leaseholder Income	-81	-81
Other fees and charges	-324	-327
<b>Income</b>	<b>-83,494</b>	<b>-83,497</b>
<b>Net Cost of Services (surplus)</b>	<b>-8,070</b>	<b>-8,342</b>
Interest received	-90	-100
<b>Net Operating Expenditure (surplus)</b>	<b>-8,160</b>	<b>-8,442</b>

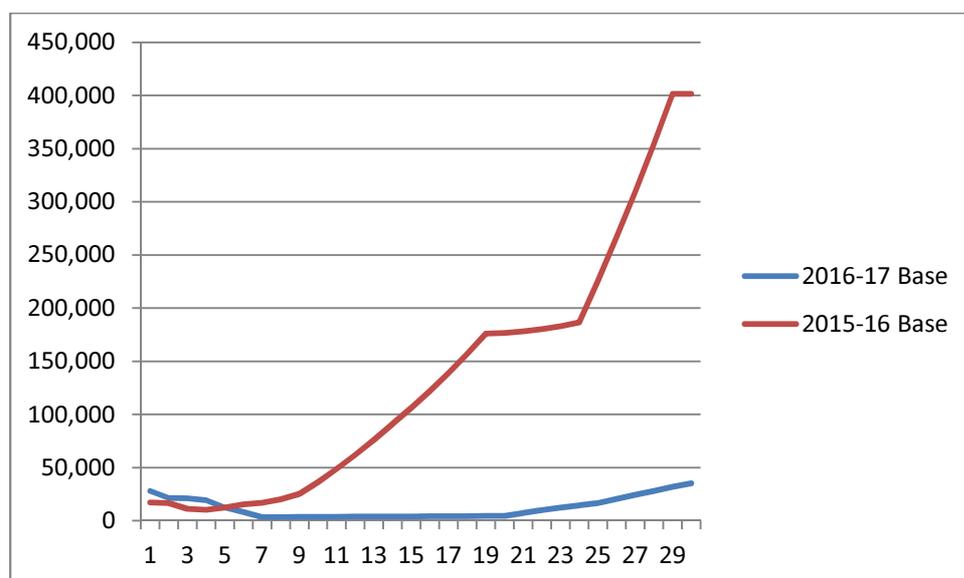
3.5 The £8.16m operating surplus is being used to fund part of the Housing Capital Programme via a Revenue Contribution to Capital Outlay (RCCO).

### Scale of the challenge ahead

3.6 Going forward the financial position of the HRA deteriorates significantly over the next three to four years and therefore immediate action is required to mitigate the impact of this forecast reduction in income as a result of the Government's policy changes.

3.7 The following graph shows the impact on the Operating Account due to changes in underlying assumptions following new Government policies when compared to the previous business plan:

## Operating Account Balance based on modelled assumptions



3.8 In arriving at the 2016-17 Base a series of assumptions have been modelled which give a variety of different scenarios over the life of the business plan. The changes to assumptions modelled have been:

- 2015-16 Base – this is as per the Business Plan approved in May 2015 and assumed rents would increase by CPI + 1% over the life of the plan. **This resulted in an Operating Surplus at Year 30 of £401m.**
- 2016-17 Base – this assumes that rents will decrease by -1% for four years to 2019-20 and then increase by CPI only. In addition, Right to Buy sales have been increased to 200 per year from Year 5 of the plan. To accommodate the reduction in income as a result of increased RTB forecasts 50% of Supervision and Management expenditure has been flexed along with 75% percent of Repairs and Maintenance expenditure (excluding disabled adaptations and garages) in proportion to RTB sales. It also assumes Capital expenditure will reduce by 10% until 2019-20 and by a further 10% for the remainder of the plan, except for during years 21 to 25 where there is a 50% reduction. It also assumes an annual Higher Value Property Levy of £2m. **This results in an Operating Surplus at Year 30 of £35.3m.**

3.9 In developing the 2016-17 Base Case, Capita Housing and Consultancy have undertaken a review of the HRA Business Plan and made a series of recommendations as detailed in their report at Appendix D. All recommendations at Section 5.1 of the Capita report have been incorporated into the 2016-17 Base Case, with the exception of Recommendation 3, which states to flex Repairs and Maintenance expenditure by 100%. As the Council pays a fixed overhead on existing repairs and maintenance contracts it would be more prudent to flex 75% to reflect the current fixed overhead charge. This and all other assumptions will be reviewed annually.

3.10 The Proposed 2016-17 Base Case results in a reduction to forecast income over the next five years of circa £51m when compared to the 2015-16 Base Case. The assumptions already detailed ensure expenditure is reduced in line

with forecast income throughout the life of the business plan, with the exception of a shortfall in Capital funding of £13.6m between Years 7 and 20. It is proposed to address that shortfall as part of the ongoing review of the business plan. The challenge going forward is to ensure that all assumed savings are delivered.

3.11 Although the Operating Account surplus at Year 30 for the preferred option is much lower than other scenarios this has been chosen because:

- Expenditure is reduced proportionately to stock size, so mitigating the effect of increasing Right to Buys.
- RPI is set at 0.25% higher than CPI so provides a more prudent assessment of potential cost inflation compared to some other scenarios
- Repairs and maintenance costs reflect the current fixed overhead charge of circa 25%
- The forecast capital funding shortfall is £13.7m which is significantly lower than in some other scenarios, it is proposed to address this as part of ongoing reviews of the plan
- There is no additional borrowing requirement

The proposed Base 2016-17 still requires significant savings to be made. On average, cost savings of £16m per year are required over the life of the plan when compared to the 2015-16 Base Case. Given the size of property based budget, proportionately this is where the largest savings will need to be made. The majority of these savings will be made as stock is sold and costs are no longer incurred for ongoing repairs, maintenance and investment. The impact of this scenario will be:

- By Year 30 of the plan forecasts the housing stock size will have reduced to circa 15,500 units i.e. a reduction of around 5,000 units.
- Strategic property acquisitions will cease in 2017-18, rather than 2020-21 as in the 2015-16 Base case. This will save £36.375m and mean around 360 fewer council properties are acquired.
- There will be £273m less to spend on property investment over 30 years
- There will be £98m less to spend on Supervision and Management over 30 years

3.12 The table below shows a breakdown of saving targets across Capital Expenditure, Repairs & Maintenance and Supervision and Management budgets for the next 3 years.

#### **Proposed HRA Cost Savings 2016-17 to 2018-19**

<b>Service</b>	<b>2016-17 £</b>	<b>2017-18 £</b>	<b>2018-19 £</b>	<b>Total £</b>
<b>Supervision &amp; Management</b>	<b>450,000</b>	<b>487,000</b>	<b>479,000</b>	<b>1,416,000</b>
<b>Repairs and Maintenance</b>	<b>250,000</b>	<b>250,000</b>	<b>250,000</b>	<b>750,000</b>
<b>Investment</b>	<b>7,679,000</b>	<b>2,989,300*</b>	<b>9,292,443</b>	<b>19,961,043</b>
<b>Total</b>	<b>8,379,000</b>	<b>3,726,300</b>	<b>10,021,443</b>	<b>22,127,043</b>

\*Cost saving reduced as planned acquisition programme will continue in 2017-18.

3.13 These savings have already been factored into the proposed HRA budgets within the HRA Business Plan and are on course to be delivered for 2016-17. The challenge is to ensure that the remaining savings are now delivered and tenants are consulted on their priorities for the future of Council housing in Rotherham. This will be reviewed monthly at HRA Financial Monitoring meetings, which track progress of work to identify cost savings and increase income to the Housing Service.

### **Government Policy changes affecting the HRA Business Plan**

3.14 As explained earlier in the report there are several government policy changes that are already affecting or will adversely affect the health of the HRA Business Plan. These are in summary:

#### **Introduction of 1% rent reduction**

3.15 This was introduced in April 2016 and will operate until 2019-20. After this time the Government states they will return to an inflation based formula, but have not defined what this will be. Future Business Plan assumptions after 2019-20 are based on rent increases at CPI rather than the old rent formula of CPI + 1%. This is line with most other social housing provider's assumptions. This change has resulted in a loss of £638m income over the life of the business plan. The effect of the 1% enforced rent reduction for four years and assuming CPI increases thereafter has a major impact when compounded over 30 years.

#### **Benefits Cap**

3.16 The Welfare Reform Act was passed by Parliament in March 2012 which introduced the concept of a Benefits Cap. The amount at which the cap would be introduced was reduced as part of the Summer Budget 2015, the details of how groups will be affected are below:

	£ per week now	£ per week Autumn 2016	£ per annum now	£ per annum Autumn 2016
Single	350.00	257.69	18,200	13,400
Lone Parent	500.00	384.62	26,000	20,000
Couple	500.00	384.62	26,000	20,000
Couple with children	500.00	384.62	26,000	20,000

3.17 Housing benefit is the first payment to be cut if a household is affected by the benefit cap. From data provided by the DWP (Department of Work and Pensions), 190 council tenancies will be affected in Rotherham and will lose circa £390k in Housing Benefit payments. This will therefore have to be collected by the Housing Service.

3.18 Whilst this does not directly affect the HRA, it will mean that a number of tenants will have no immediate means to pay their rent, causing significant strain on bad debts over the medium to long term as well increase in void rates as tenants seek to move to smaller properties.

3.19 Other potential factors that will impact the HRA Business Plan include:

- Households in private rented accommodation may apply for re-housing to more affordable council accommodation.
- Affected council tenants may require money advice to assist them with budgeting. At the current time there is insufficient staffing to deal with this as the Housing Income restructure report is awaiting approval.
- Rent arrears may increase from larger households in receipt of welfare benefits

### **Spare Room Subsidy**

3.20 The Spare room subsidy commenced in April 2013. There are currently 3,022 tenancies affected of which 1,739 tenants are in arrears with an average balance of £268.02. Total arrears balances have increased by 23% over the past 12 months to £466,096 as at the end of June 2016. The largest value of arrears is attributable to tenants under the age of 35 who owe circa £173,000.

### **Universal Credit**

3.21 The way in which benefits will be paid to tenants in the future presents a risk. At the current time 64% of HRA income is received via direct payment of Housing Benefit, with the remainder paid direct by tenants.

3.22 Universal Credit commenced in Rotherham on 7 December 2015, in that time there have been a total of 159 tenants claiming Universal Credit. At the current time the Council receives an income of £39,535.70 per annum through the Delivery Partnership for providing support to Universal Credit Claimants.

3.23 As at 7 July 2016 the arrears balance of tenants on Universal Credit stood at £137,788; an average balance of £918.59. This is £595.82 higher than the average balance of tenants whose rent is paid by Housing Benefit or fully themselves.

3.24 In setting budget projections beyond the short term these changes to benefits make accurate estimation difficult. There is a lack of information to accurately assess the scale of bad debt provision required, which means over the coming years there is a need to regularly review the impact on:

- Rent payment levels
- Cost of collection
- Tenancy turnover

3.25 If tenants on Universal credit do not pay their rent, in addition to an Alternative Payment Arrangement, the landlord will also be able to apply for a direct deduction of up to 20% for the non-housing element of their claim. This allows some degree of certainty that rent will be paid eventually so at the current time bad debt provision has been left at 2% up to year 10 of the plan.

### **Backdating of Housing Benefit**

3.26 As of 1 April 2016 Housing Benefit claims will only be backdated by 4 weeks. This will impact on rent payments where a tenant was eligible for Housing Benefit but did not submit an earlier claim. As a result the Housing Income

team now attend all tenancy sign up meetings to ensure that Housing Benefit claims are submitted at the start of a tenancy to minimise the detrimental impact this may have on income collection. Clearly this may also impact on existing tenants when there is a change in circumstances, which will be dealt with when identified through the arrears management process.

### **Restriction of Housing benefit for 18 to 21 year olds**

3.27 From April 2017, 18-21 year olds submitting a claim for Universal Credit will not be automatically eligible for the housing cost element (equivalent of Housing Benefit). There will be some exceptions for:

- Parents whose children live with them
- Vulnerable groups
- Those who have previously been living independently and working continuously for six months

3.28 The HRA has 214 tenancies that fall into this category for which £10,592 income per week is received via Housing Benefit. Based on an average tenancy duration of 13 months for this client group it is inevitable there will be a risk that some of the £550,000 annual income would not be recovered from April 2018 onwards. This will lead to further pressure on HRA income and bad debt provision.

### **Pay to Stay**

3.29 Tenants in social housing who earn more than £31,000 outside of London are expected to pay market rent from April 2017 onwards. The increase in rent will be tapered at a rate of 15 pence to the pound. ie for every extra pound of earnings over £31,000 the tenant will be expected to pay an extra 15 pence per week rent until they reach average market rent (for Rotherham).

3.30 In 2017-18 only additional rent collected less reasonable Local Authority administration costs, still to be determined by Department for Local Government and Communities, will be paid to the Treasury. This will be reviewed in 2017-18 and an annual determination may be introduced instead.

3.31 In addition to the extra administrative burden this policy places on the Housing Service such as income verification for all 21,000 tenancies and calculation of market rents annually by property type, this policy is also expected to increase the rate of Right to Buy given this may be a far more financially attractive option.

3.32 The policy will also directly place council properties in competition with the private sector. This may result in an increase in tenancy turnover rate for those affected who may see private sector rented as a more desirable option.

3.33 Until final regulations are published it is difficult to estimate the full financial implications of this policy. That said it is clear there are significant financial risks as :

- The government may move to an annual determination after Year 1 dependant on the amount of additional income this policy generates for the Treasury

- There will be an administration allowance but this is likely to be less than the cost of implementation.

### Local Housing Allowance

- 3.34 As part of the 2015 Autumn statement it was announced that for new tenancies Housing Benefit in the social rented sector will be paid up to the Local Housing Allowance rate – the rate that applies to the private sector. In particular this means for single people aged under 35 without children, they will be restricted to shared accommodation rates. These rates are below typical council rents for one bed properties.
- 3.35 The policy applies to all tenancies signed from 1 April 2016, with the new rate commencing on 1 April 2018.
- 3.36 In such cases we therefore require tenants to make up the shortfall from other sources, with a subsequent increase in bad debts as a result. Further work on the future offer to this client group is underway and a report will be brought to SLT in 2017.
- 3.37 LHA rates have been frozen since April 2016 and Rotherham levels are detailed in the following table:

	<b>Rates £ per week</b>	<b>Average Council rent £ per week</b>
Shared accommodation	58.50	49.34
One bedroom rate	80.00	66.77
Two bedroom rate	92.31	76.20
Three bedroom rate	100.38	79.00
Four bedroom rate	144.23	87.24

- 3.38 This policy is not restricted by age therefore pensioners will also be affected, with the exception of the Shared accommodation rate.
- 3.39 The table below details the annual income currently received from tenants under 35 who are single with no dependants:

<b>Number of tenants in receipt full HB</b>	<b>Annual Income £</b>	<b>Number of tenants in receipt of part HB</b>	<b>Annual Income £</b>
534	2,295,696	505	1,891,864

- 3.40 Given this client group will in future be restricted to a maximum LHA (Local Housing Allowance) rate of £58.50 per week and an average tenancy duration of 4 years 4 months, it is reasonable to assume by 2020 the client group will lose equivalent to £24.35 per week (£1.3m annually) HB (Housing Benefit) entitlement. This will subsequently have a further impact on HRA finances and it is highly probable this will manifest itself through increasing rent arrears and bad debts.
- 3.41 There will also be an adverse impact on Council tenancies that are offered as 'furnished' through the Rotherham Furniture Solutions scheme (RFS). The scheme is paid for by the HRA but delivered as a service within the General

Fund. Extensive modelling of the impact the new LHA rates will have on the future viability of the RFS scheme have been undertaken. In summary whilst the service can continue to be delivered with some changes to packages offered, there will no longer be the ability to generate significant surpluses on an annual basis. This may have an impact on the Council's Medium Term Financial Strategy as £1.35m income is factored into this plan in 2017/18.

### **Fixed term tenancies**

- 3.42 The Housing and Planning Act introduced the requirement for fixed term tenancies of up to 10 years for social housing with the aim of making best use of the stock so only people in housing need remain. Whilst this will not reduce income to the HRA, it will probably increase the turnover rate for stock so increasing housing management and void costs at a time when cost savings are required.
- 3.43 This policy would also apply to succession rights, with the exception of a Partner or spouse inheriting the tenancy.

### **Higher Value Property Sales**

- 3.44 The Housing and Planning Act introduced a requirement on Local Authorities to consider the sale of higher value properties that become vacant.
- 3.45 This duty is a result of the introduction of Right to Buy for Housing Association tenants. Originally it was intended that this would be funded by the sale of higher value council properties when they became vacant. It is now clear that Local Authorities will receive an annual determination from the DCLG which may or may not reflect the actual turnover of higher value properties.
- 3.46 It will be for Rotherham MBC to consider if it wishes to sell a higher value property when it becomes vacant. No guidance has been issued yet to define what is meant by higher value. Irrespective of whether the council chooses to sell or not, it will be required to make a payment from the HRA each year to the DCLG based on the determination it receives.
- 3.47 Previous estimates, assuming the highest value properties by bedroom size would be subject to review and therefore captured by the levy / determination, this could cost the HRA up to £3.1m per annum.
- 3.48 As of August 2016 no detailed regulations have been issued. For planning purposes it has been assumed the HRA will incur a charge of £2m per annum under this policy. Once the regulations have been published a review of this assumption will take place. This is a significant risk to the HRA Business Plan.

## **4. Options considered and recommended proposals**

- 4.1 Detailed options are contained in the main body of the HRA Business Plan report. The proposed option going forward is Base Case 2016-17. This will result in the HRA having an Operating Surplus of £35.3m by Year 30.

## 5. Consultation

- 5.1 The Cabinet Member for Housing has been consulted over these proposals. The Tenants Quality and Standards Group will be consulted on 11 October 2016 and their comments will be incorporated into future revisions of the plan.

## 6. Timetable and Accountability for Implementing this Decision

- 6.1 The table below shows the approval timeline:

Date	Progress
23 August 2016	Draft considered by Housing SMT
13 September 2016	SLT
19 September 2016	Pre-Cabinet Meeting – Presentation
20 September 2016	Members Seminar
10 October 2016	Cabinet
26 October 2016	Improving Places Select Commission

## 7. Financial and Procurement Implications

- 7.1 In developing the HRA Business Plan the CIPFA / CIH code of practice for a self- financed housing revenue account; the Financial Viability principle has been taken into account which states that:
- The housing authority has arrangements in place to monitor the viability of the housing business and take appropriate actions to maintain viability.
- 7.2 A reduction of 1% on rental values as required by legislation and assuming CPI increases only thereafter, compounded for 30 years has had a significant detrimental impact on the potential HRA balances. Income within the HRA Business Plan is £638m lower as a result.
- 7.3 Significant cuts to capital Investment are already built into the plan and these need to be delivered within the business by re-profiling works to match available funds. Work is ongoing to manage this and it may be delivered in part by extending the life of building components and by planning in advance.
- 7.4 Reductions to revenue Supervision/ Management costs of £1.416m and Repairs/ Maintenance costs of £0.750m have been incorporated into the HRA Business Plan from 2016 to 2019 (detailed at 3.12 above). Discussions are already ongoing with relevant service areas in order to deliver the required savings.
- 7.5 A key financial issue is the shortfall in capital funding of £13.6m between Years 7 and 20. It is proposed to address that shortfall as part of the ongoing review of the business plan and reprioritisation of future resources and investment plans alongside a better understanding of the future impact of the are various legislative changes detailed within Section 3 above.
- 7.6 The HRA Business Plan assumes an annual payment to central Government of £2m for the higher value property levy. As previously noted it is not possible at this stage to confirm the accuracy of the estimate until the detailed regulations are issued by DCLG. Any change in the estimate will need to be reflected in a revision to the business plan.

## **8. Legal and Procurement Implications**

8.1 The Legal Implications where known are covered in main body of this report. Further detail is awaited from central government on some recent legislative changes under the Housing and Planning Act 2016, such as the pay to stay and higher value property sales provisions, which may alter some of the estimates made in this report.

## **9. Human Resources Implications**

9.1 The report indicates cost savings over the next three years and therefore there is potential for service reviews across those service areas funded from the HRA. Opportunities to reduce through natural wastage should also be taken where staff leave housing services.

## **10. Implications for Children and Young People and Vulnerable Adults**

10.1 There are no implications for CYPS or Vulnerable Adults.

## **11 Equalities and Human Rights Implications**

11.1 There are no Equalities and Human Rights implications.

## **12. Implications for Partners and Other Directorates**

12.1 This proposal is about making effective use of council assets and managing them to best effect. It contributes to the sustainable neighbourhood's agenda by addressing future investment needs and will help deliver a better quality of affordable housing to the community.

## **13. Risks and Mitigation**

13.1 Self-financing involved a significant transfer of risk from Central Government to the Council. Variables such as interest rates, cost inflation, number of homes owned etc. are all risks managed by the Council.

13.2 Any adverse changes in rental income (for example as a result of welfare reform or changes in the number of Right-to-Buy sales) must be managed locally.

13.3 The risks associated with the HRA Business Plan demand a smarter approach to risk management. The Council will closely monitor the viability of the HRA Business Plan; through the governance structure described in the Business Plan at Appendix A, by building a HRA Business Plan monitoring report to monitor key variables such as:

- Number of homes
- Rental income
- Rent arrears and bad debts
- Voids and void rent loss
- Debt levels and repayment
- Reserve levels, and
- Maintenance backlog

- 13.4 The risk management plan for the HRA Business Plan is contained in the HRA Business Plan at Appendix A. The plan follows the Council's risk management methodology and approach. It includes a clear description of the risk, an assessment of probability and impact of the risk, a summary of controls and cost consideration and information on when the risk will be reviewed.
- 13.5 The risk management plan is updated, tracked and monitored through the governance structure described under the Governance section. The management plan will be revised as the situation changes - especially regarding interest rates and inflation - in light of Government announcements such as continuing welfare reforms as part of process of monitoring changes in variables and performance.
- 13.6 Significant risks will be placed on the Corporate Risk Register and risk issues will be escalated through the Council to Departmental Leadership Team and Senior Leadership Team as necessary.
- 13.7 The Council has risk based reserves to ensure that HRA reserves are maintained at the appropriate level. The reserves will be maintained at the appropriate level to fund potential future financial pressures from risks such as welfare reform and investment requirements.

#### **14. Accountable Officer(s)**

Anne Marie Lubanski, Strategic Director for Adult Care and Housing  
Tom Bell, Interim Assistant Director of Housing and Neighbourhood Services

Author: Paul Elliott - Business and Commercial Programme Manager  
[paul.elliott@rotherham.gov.uk](mailto:paul.elliott@rotherham.gov.uk)

Approvals obtained from:-

Strategic Director of Finance and Customer Services:- Kath Oakes, Principal Finance Officer

Assistant Director of Legal Services:- Neil Concannon, Service Manager – Litigation and Social Care

Head of Procurement (if appropriate):-

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