Public Document Pack

MID SUFFOLK SCRUTINY COMMITTEE	
DATE	Wednesday, 15 March 2017
PLACE	Council Chamber, Council Offices, High Street, Needham Market
TIME	9.30 a.m.

PLEASE NOTE START TIME OF MEETING

The Council, members of the public and the press may record/film/photograph or broadcast this meeting when the public and the press are not lawfully excluded. Any member of the public who attends a meeting and objects to being filmed should advise the Committee Clerk.

A G E N D A

For further information on any of the items listed above, please contact Committee Services on 01449 724673 or via e-mail at Committees@baberghmidsuffolk.gov.uk.

Members:

Councillor Rachel Eburne – Chairman – Green Group
Councillor Derek Osborne – Vice Chairman – Conservative and Independent Group

Conservative and Independent Group

	Members
Councillors:	James Caston Elizabeth Gibson-Harries Lavinia Hadingham Lesley Mayes Kevin Welsby

Green Group

	Member

Liberal Democrat Group

	Member
Councillor	Wendy Marchant

Substitutes: A substitute may be selected from any member of the same political group, except members of the Executive Committee

Mid Suffolk District Council

Vision

"We will work to ensure that the economy, environment and communities of Mid Suffolk continue to thrive and achieve their full potential."

Strategic Priorities 2016 – 2020

1. Economy and Environment

Lead and shape the local economy by promoting and helping to deliver sustainable economic growth which is balanced with respect for wildlife, heritage and the natural and built environment

2. Housing

Ensure that there are enough good quality, environmentally efficient and cost effective homes with the appropriate tenures and in the right locations

3. Strong and Healthy Communities

Encourage and support individuals and communities to be self-sufficient, strong, healthy and safe

Strategic Outcomes

Housing Delivery – More of the right type of homes, of the right tenure in the right place

Business growth and increased productivity – Encourage development of employment sites and other business growth, of the right type, in the right place and encourage investment in infrastructure, skills and innovation in order to increase productivity

Community capacity building and engagement – All communities are thriving, growing, healthy, active and self-sufficient

An enabled and efficient organisation – The right people, doing the right things, in the right way, at the right time, for the right reasons

Assets and investment – Improved achievement of strategic priorities and greater income generation through use of new and existing assets ('Profit for Purpose')

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Y/03/17

MID SUFFOLK DISTRICT COUNCIL

Minutes of the **MID SUFFOLK SCRUTINY COMMITTEE** meeting held at Mid Suffolk District Council, Needham Market, on Thursday 26 January at 5:30pm.

PRESENT:

Councillor Rachel Eburne – Chair –Green Group
Councillor Derek Osborne – Vice-Chair – Conservative and Independent Group

Conservative and Independent Group

Councillors:	James Caston Lavinia Hadingham Lesley Mayes Kevin Welsby

Liberal Democrat Group

Councillors:	Wendy Marchant

Denotes substitute *

Also present:

Councillors:	Paul Ekpenyoung John Levantis John Whitehead
In attendance:	Assistant Director – Corporate Resources (KS) Corporate Manager – Finance (ME) Project and Research Officer (BS) Corporate Manager – Democratic Services (EY) Governance Support Officer (HH)

SY16 APOLOGIES/SUBSTITUTIONS

An apology was received from Councillor Elizabeth Gibson-Harries.

SY17 DECLARATIONS OF INTERESTS BY MEMBERS

There were no declarations of interest.

SY18 TO CONFRIM THE MINUTES OF THE MEETING HELD ON 1 SEPTEMBER 2016

Report Y/01/17

The minutes of the meeting held on 1 September 2016 were confirmed as a correct record.

SY19 QUESTIONS FROM THE PUBLIC

None received.

SY20 QUESTIONS FROM MEMBERS

None received.

SY21 DRAFT JOINT MEDIUM TERM FINANCIAL STRATEGY AND 2017/18 BUDGET (EXECUTIVE REPORT X/02/17)

2017/18 GENERAL FUND BUDGET UPDATE (EXECUTIVE REPORT X/63/16)

Report Y/02/27 ASSISTANT DIRECTOR (CORPORATE RESOURCES)

Members were asked to consider the draft Joint Medium Term Financial Strategy and 2017/18 Budget, covering the General Fund, Housing Revenue Account (HRA) and capital programme. Members were advised that the Committee would meet on 15 March 2017 to consider the HRA 30 year Business Plan in detail before it was presented to Executive Committee in April.

The current draft Budget Report had been presented to the Executive Committee on 9 January 2017 and would be presented again at the Executive Committee on 6 February 2017.

The Assistant Director - Corporate Resources, clarified that two Draft Budget Reports were included in the meeting papers; December 2016 and January 2017, the second of which being the current Draft Budget.

It was reported that notification of the Council Tax Reduction Support grant had been received and the figures in Appendix A and B would be increased by £22,000.

Questions were raised by Members and responded to by the Officers, and the following points were made:

- Page 9, paragraph 2.7, the increase in the Sheltered Housing service charges would change to a maximum of £4 per week and this would reduce the subsidy from the general needs housing. The Councils' service charges would still be lower than other Housing Associations' charges.
- Page 8, paragraph 2.4, It was recommended that this increase is not introduced as any funds generated would be retained by the Government, it would create an administrative burden and an increase in rent for these tenants could result in an increase in Right to Buy purchases.
- Page 26, Appendix A, line 9 and 10, the Corporate Manager - Finance, would report back to members regarding the Capital Charges and Investment Income and Transfer to Reserves.
- The Recycling Credits figure was confirmed as £250,000. Suffolk County Council was seeking savings on recycling credit budgets and negotiations with the County Council had secured continued funding for three years.

- Members asked whether the pension fund deficit would be £0 after three years and whether reserves could be used to clear the deficit. The Assistant Director – Corporate Resources confirmed that in three years' time the position would be re-assessed and advised against a lump sum payment to reduce the deficit in accordance with advice from the actuary.
- A small increase had been built in to the budget for Business Rates, however it was difficult to predict what figures will be. The first significant change in relation to 100% retention of business rates would be seen in 2020/21.
- The move to Endeavour House was taken into consideration in the draft Budget in so far as the figures that were reported to Council when the decision was taken. The impact of the redevelopment of the two Council sites, including possible security costs while the buildings were unoccupied, would be included in a report to Members later in the year.
- It was confirmed that the Member locality fund and the community capacity building budget were the same thing.
- Members asked for details of the plans for spending the Transformation Fund. It was confirmed that the Strategic Leadership Team would be reviewing the resources needed to support the delivery of the Joint Strategic Plan. The level of funding to the Transformation Fund had primarily been as a result of income from New Homes Bonus, however, as the changes to how this funding is allocated to authorities, the Transformation Fund would eventually be reduced.
- It was confirmed that the Carbon Reduction funding of £50,000 covered capital costs including the purchase of equipment.

Members requested that Officers clarified the differences in the funding gap between Babergh and Mid Suffolk District Council in the Medium Term Financial Strategy before the Executive Committee meeting on the 6 February 2017.

Members expressed appreciation for the changes to the budgeting process, particularly the earlier start of the process and for the inclusion of the full Budget Book in the meeting papers.

The Assistant Director – Corporate Resources enquired whether the Committee Members would allow a paragraph to be included the Agenda for the Executive Committee, showing their endorsement of the draft Budget Report. Members agreed to the Chairman working with the Assistant Director to agree the wording.

The business of the meeting concluded at 18:10.

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Chairman

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MID SUFFOLK DISTRICT COUNCIL

From: Interim Strategic Director	**Report Number: Y/04/17**
To: MSDC Scrutiny Committee	**Date of meeting: 15 March 2017**

HOUSING REVENUE ACCOUNT 30 YEAR BUSINESS PLAN

1. Purpose of Report

1.1 To enable Scrutiny Committee members to examine the work being undertaken to forecast the 30 year financial position of the Housing Revenue Account (HRA) for the district.

1.2 To appraise the Committee about recent changes made to the assumptions contained in the Housing Revenue Account business plan, the reasons for these changes and the impact the changes have had on the 30 year financial position.

1.3 To seek the Committee's views on work being done to create a sustainable and robust 30 year business plan for the Council's HRA.

1.4 To inform the Committee about the development pipeline of new homes for the Mid Suffolk HRA.

1.5 To set out a roadmap for the transformation of the role of local authority housing and the HRAs in light of the significant financial challenges caused by changes to Government policy, the emerging Suffolk work on housing delivery and the Government's White Paper 'Fixing our Broken Housing Market'.

2. Recommendation

2.1 That Scrutiny Committee examines and endorses the approach being taken to deliver a sustainable Housing Revenue Account 30 year Business Plan.

3. Financial Implications

3.1 Changes in national policy over the last few years have fundamentally impacted on HRA finance. In 2011, the Government introduced the 'self-financing' regime. As a result, Mid Suffolk took on an additional £57.5m of debt. A debt cap was also set at £90.9m by the Government. The Council must demonstrate that it can operate within this debt cap after having taken into account its anticipated operating environment over a 30 year period and its forecast financing requirements. The Council's current debt is £86.8m leaving a headroom of £4.1m available.

3.2 More recently, the Government has introduced further structural change. This includes, an annual 1% reduction in rents for the years up to 2019/20, an increase in Right to Buy discounts and welfare reform. These have added all added significant extra pressure to the 30 year business plan. More detail is included in section 10.

3.3 The capacity for the Council to absorb the impact is challenging and updating the assumptions used in constructing the HRA business plans has been critical for the Council. Mid Suffolk DC would be non-compliant by year 8 if the review was not carried out. Emerging plans to manage the financial impact are outlined in this report and the attached briefing.

4. **Legal Implications**

4.1 The plans outlined in this report are designed to maintain legal compliance.

5. **Risk Management**

5.1 This report is most closely linked with the Council's Significant Business Risk No. 1a – Housing Delivery. Key risks are set out below:

The risk register identifies the following risks. New mitigations have been added.

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to identify detailed housing requirements for local area will undermine our ability to deliver the right homes in the right places.	2 (Unlikely)	2 (Noticeable)	Creation of joint housing strategy including strategy for HRA assets.
Failure to manage our corporate and housing assets effectively will result in diminishing value of the stock and ineffective delivery of JSP outcomes.	2 (Unlikely)	3 (Bad)	Ensure HRAs are robust and sustainable. Explore options for making most effective use of housing assets. Review housing management arrangements based on customer insight and on delivering JSP outcomes.
Failure of the Councils to respond to the external funding environment could result in the Councils' operations no longer being financially sustainable.	2 (Unlikely)	4 (Disaster)	Annual review of HRA business plans incorporating necessary changes to key assumptions. Develop and deliver mitigation measures to sustain viability.
Staff within the organisation not having the right capacity and capability to deliver the strategic priorities of the councils and to work within the wider local government system	2 (Unlikely)	3 (Bad)	Developing our understanding of operational costs and customer value. Developing a staff culture that is customer focussed and drives delivery of JSP outcomes.

6. Consultations

6.1 A presentation on the updated HRA business plan for Mid Suffolk was given to the Joint Housing Board on 20 February 2017.

6.2 The consultation and decision programme going forward at the time of writing is:

Housing Portfolio Holder Briefing	13 March 2017
MSDC Scrutiny	15 March 2017
JMIB	16 March 2017
MSDC Administration	20 March 2017
Asset and Investment Portfolio Briefing	27 March 2017
MSDC Executive Committee	10 April 2017
MSDC Full Council	27 April 2017

7. Equality Analysis

7.1 There are no equality and diversity implications arising directly from this report. Thorough EIAs will be conducted on any substantial changes to our management service or asset investment plans.

8. Shared Service / Partnership Implications

8.1 The radically different financial positions of the two Councils' HRAs will create challenges going forward. The options open to the Councils to deliver the best outcomes will be different and although these will be handled carefully, it will limit the extent to which future strategies can be replicated across both Councils.

9. Links to Joint Strategic Plan

9.1 Maintaining sustainable and compliant HRA business plans is fundamental to delivery of the Joint Strategic plan. HRA business planning has a key role to play in the delivery of four outcomes:

- Housing Delivery
- Community capacity and building engagement
- Assets and investment
- Enabled and efficient organisation

10. Key Information

10.1 The briefing document attached focusses on the elements that have changed since previous iterations of the business plan. It details the implications for the Council and how it is proposed to manage the impact. It includes a draft roadmap for a transformation of the role of the HRA which will be initiated by our response to the financial context, the Suffolk Housing work and the Government's white paper 'Fixing our broken housing market'.

10.2 In summary the key contextual changes that have impacted on the sustainability of the HRA Business Plan are:

Localism Act 2011

Self-financing
The Act replaced the HRA subsidy system with a system of self-financing, the most radical changes for 30 years to the way in which Councils manage their Council house finances. From April 2012, Mid Suffolk took on a share of the national housing debt calculated by the Government as its debt settlement.

Right to buy
The discount was increased to 70% of value or £77,900 whichever is the lower. This led to a substantial increase in the number of sales which will result in a significant reduction in the Council's future rental income.

New model of affordable housing
The affordable rent tenure regime sets maximum rents for this tenure at up to 80% of local market rents and applies to all new build schemes receiving grant from the Homes and Communities Agency including new council housing.

Welfare Reform Act 2012

Social rent reduction
A reduction in rents by 1% a year for four years (until 2019/20). This has a major impact on long term HRA financial planning.

Universal credit
A replacement for six means tested benefits and tax credits with one universal payment. UC will be rolled out in Mid Suffolk in late 2017/early 2018.

Spare room subsidy
A reduction in housing benefit for working age tenants who under occupy their homes. This has resulted in greater demand for one and two bedroom Council properties.

Benefit cap
A cap on the maximum households can receive in benefits to £20,000. For single people without children, the cap is £13,400.

Housing and Planning Act 2016

High income social tenants – mandatory rents (Pay to Stay)
The Act provides local authorities with the option to charge higher rents to tenants with a household income exceeding £60,000. The Council has decided not to adopt Pay to Stay.

High Value Asset Sales
The Act imposes a duty on local housing authorities to consider selling higher value homes when they become vacant. The definition of "higher value" will be clarified by regulations yet to be made. The payment will take the form of a levy, giving local authorities a choice in how they raise the funds. The money will fund housing association Right to Buy discounts and new house building. As the rules around this issue have yet to be published we have not yet included anything in our assumptions on it.

10.3 The work undertaken to date forecasts that the Mid Suffolk HRA will breach its debt cap in year 8 of the plan. There are a number of actions available to the Council that would contribute to preventing the debt cap breach from occurring. These include:

- Improve efficiency and reduce operating costs. This could impact on the number of establishment posts
- Improve performance and increase income
- Withdraw services and reduce operating costs
- Relinquish Right to Buy receipts
- Sell assets
- Further reduce capital spend

Work has been done to calculate what the minimum bottom line improvement will need to be to prevent a debt cap breach over the entire 30 years. The current minimum position required is £100,000 efficiency savings in each year 2018/19, 2019/20, 2020/21; £300,000 in total at today's value. This would maintain compliance based on what is currently known. It is important to note this is minimum and may change as work is ongoing on the plans. In particular it is important to complete the Babergh & Mid Suffolk Building Services (BMBS) work to fully understand the position.

10.4 A revised Babergh & Mid Suffolk Building Services (BMBS) business plan will be included alongside the final updated HRA business plan. An initial review of the BMBS plan identified some areas of concern and work is underway to revisit and verify the costs and assumptions in the plan and its future business strategy.

10.5 A project team has been established to understand in detail the current costs of and income from our various HRA activities from an operational perspective and to establish an approach to assessing productivity. This is a work in progress but work to date in analysing costs and productivity is included at appendix 1.

10.6 The team will produce an outline 3 year business efficiency plan to deliver the minimum £300,000 reduction in costs currently assessed as being necessary to avoid a breach of the Mid Suffolk HRA debt cap. These plans will be included as part of the HRA 30 year Business Plans.

10.7 There is an absolute need for the Councils to develop an overall strategy for housing and within it the role of local authority housing going forward. This was identified during the development of the Joint Strategic Plan and continues to be a priority given the delivery of housing and the ability to meet need across existing and new housing remains a major challenge.

10.8 The Government's white paper provides a trigger for this work, building on our own housing strategy and alongside work already underway in the wider Suffolk space, including the Suffolk Strategic Planning and Infrastructure Framework, Suffolk Housing Proposal which will inform the NALEP new Economic Strategy and the Suffolk older persons housing strategy.

10.9 An initial roadmap for developing this approach is included in the attached briefing note. As part of this work it will be vital to consider:

- the role of local authority housing in the overall housing market in meeting need
- the future possible necessity to consider cross subsidy with general fund housing to deliver a sustainable local authority model
- use of the Council's own housing assets
- investment in new housing
- developing new approaches to tenure so our assets are used to maximum effect
- our relationship with residents which focuses on increased independence and pathways to employment or care.

11. **Appendices**

A - Housing Revenue Account - 30 year Business Plan	Attached

Kevin Jones **01449 724704**
Interim Strategic Director **kevin.jones@baberghmidsuffolk.gov.uk**

APPENDIX A

Mid Suffolk District Council
SCRUTINY COMMITTEE

15 March 2017

Housing Revenue Account
30 year Business Plan

1. EXECUTIVE SUMMARY

The business plan explains the current financial position of the HRA and presents 5 and 30 year forecasts. It examines various scenarios to assess the impact of a shifting financial landscape and changing government policy. It also identifies the risks to the financial strength of the HRA and how the Council will manage and mitigate those risks.

- The Mid Suffolk District Council HRA is not in a strong position. Financial analysis shows that the HRA faces some substantial challenges in the coming years and action will need to be taken to avoid a breach of its debt cap within 8 years.

- The financial position in the plan has deteriorated since the last review mostly due to increasing RTB sales forecasts and the resulting reduction in rental income. Although a breach of debt cap is projected within 8 years, there is time to make business adjustments to bring this back in line. The options for action are covered in this paper.

- Regardless of the financial position, the needs and aspirations of the District's diverse communities are changing and the way the Council operates and manages its housing revenue account (HRA) must adapt in order to deliver the outcomes agreed in the Joint Strategic Plan.

- The Council has already embarked on a grant funded new build programme that will deliver 37 new homes for rent and shared ownership by 2018. The Council is currently considering a new affordable homes development strategy which will lay out a direction and methodology for future delivery of approximately 60 new build homes. Given the current position, development of further new build may well be curtailed for 3 to 5 years thereafter.

- The work that has been done to understand and measure risk and to stress test the underlying financial strength of the 30 year HRA business plan, indicates that the financial challenges of welfare reform and specifically Universal Credit, the 1% rent reduction, increasing right to buy sales and a potential levy on the sale of higher value assets have all had a significant impact on the sustainability of the Business Plan and a plan for mitigation is required.

2. BACKGROUND

2.1 JOINT STRATEGIC PLAN

Through the Joint Strategic Plan, Babergh and Mid Suffolk District Councils' vision is to create an environment where individuals, families, communities and businesses can thrive and flourish. The plan aims to deliver five strategic outcomes. The HRAs will contribute to the following four JSP outcomes.

Housing Delivery	Community Capacity Building and Engagement	Assets and Investments	Enabled and Efficient Organisation
Existing estate regeneration Homes for the ageing population Being clear about what housing is needed	Continued support for health and wellbeing outcomes that prevent interventions	Manage our housing assets effectively	Intelligence based community insight and outcome focussed performance management

HRA business planning has a key role to play in delivery of all four outcomes. It is fundamental to the Housing Delivery and Assets and Investments outcomes.

The business plans sit very firmly in the wider businesses of both Councils and needs to be understood in the context of the Councils':

- Housing delivery strategy
- Joint local plan
- Assets and investment strategy
- Joint Affordable Homes Development strategy
- Public access and accommodation strategy (All Together programme)

And the:

- Suffolk Strategic Planning and Infrastructure Framework
- Suffolk Housing Proposal which will inform the NALEP new Economic Strategy
- Suffolk older persons housing strategy.

2.2 FUTURE VISION FOR HOUSING

The Government's white paper "Fixing our broken housing market" published in February 2017 evidenced the "broken" nature of the UK's housing market and identified the root cause as insufficient new home building over decades.

Although the White Paper was light on detail around substantial change to the housing market and did not, for example, modify the current approach to Council borrowing or rent setting, it does present an opportunity for the Councils to reconsider the long term role of the HRAs in delivering the outcomes described in the Joint Strategic Plan (JSP).

This is timely given the work already underway in the wider Suffolk space around broad housing strategy, identifying the role local authorities will play in increasing overall delivery as well as influencing what is delivered and where and the need for the Councils to reimagine the role their housing assets will play in meeting future need.

Whatever future strategy is adopted, we will need to test how far the Councils' will want to continue being landlords and how the Councils will deliver the best service at the lowest cost, manage within the statutory financial framework whilst maximising provision of new or reconfigured housing for future and existing residents. We need to continue and strengthen the move away from a generic, paternalistic approach with our tenants to one that is much closer aligned to delivery of JSP outcomes.

This means a renewed focus on the role of the Councils' housing, increasing income, and improving performance, efficiency, productivity and value for money.

The Councils recognise that council housing residents have individual needs and requirements and that this demands intelligent services tailored to different customer segments. Much good work is already underway, for example, in the way the Council deals with income management through use of customer insight to drive a resident focussed approach that is efficient and effective.

New ways of working will need to be devised that will enable us to target our limited resources at residents that need our help most at a particular point in their lives. We will need to extend use of new technology and financial tools to enable us to better understand our portfolio and our residents and what they value in order to make us more cost effective and create additional capacity to deliver our priorities for the HRA.

2.3 DRAFT ROADMAP

BMBS Review	March 2017
B&MSDC housing strategy	May 2017
NALEP economic strategy	May 2017
Suffolk housing proposal	May 2017
Government white paper response	May 2017
Suffolk Strategic Planning and Infrastructure Framework	Summer 2017
Review of the role of the HRA	Summer 2017
B&MSDC Supported Living review	Autumn 2017
Suffolk older persons housing strategy	Autumn 2017

2.4 LEGISLATIVE FRAMEWORK

There have been several legislative changes in recent years that have had an impact on the sustainability of Council's HRA business plan.

The changes and the impacts are outlined below. Following sections of this briefing deal with our response to the changes, how we propose to mitigate the impact and how we propose to maintain a sustainable business plan over the full 30 year period.

Localism Act 2011

Self-financing

The Act replaced the HRA subsidy system with a system of self-financing, the most radical changes for 30 years to the way in which Councils manage their Council house finances. From April 2012, Mid Suffolk took on a share of the national housing debt calculated by the Government as its debt settlement. The self-financing debt settlement figure was £57.5m. Mid Suffolk's total maximum loan portfolio became £90.9m (the debt cap). The current debt is £86.8m leaving a headroom of £4.1m.

The introduction of self-financing required the Council to take a long term strategic approach to its finances using a 30 year business plan. The plans must take into account the environment in which the Council is operating. It must be robust and sustainable over a 30 year period having taken into account reducing Government subsidy and its requirements to finance:

- The housing service
- Investment and maintenance of its existing assets
- New homes development

Right to buy

The discount was increased to 70% of value or £77,900 whichever is the lower. This led to a substantial increase in the number of sales which will result in a significant reduction in the Council's future rental income.

New model of affordable housing

The affordable rent tenure (ART) regime sets maximum rents for this tenure at up to 80% of local market rents and applies to all new build schemes receiving grant from the Homes and Communities Agency (HCA) including new council housing.

Welfare Reform Act 2012

The Government's welfare reform measures are aimed at:

- reducing the overall benefits bill
- increasing incentives to work:
- promoting independence and self-reliance
- creating greater fairness in the welfare system between those on out of work benefits and taxpayers in employment
- reducing long term dependency on benefits.

Social rent reduction
A reduction in rents by 1% a year for four years (until 2019/20). This has a major impact on long term HRA capacity.

Universal credit
A replacement for six means tested benefits and tax credits with one universal payment. UC will be rolled out in Mid Suffolk in late 2017/early 2018. Based on evidence from pilot programmes, its introduction substantially increases risk around rent arrears and bad debts.

Spare room subsidy
A reduction in housing benefit for working age tenants who under occupy their homes. This has resulted in greater demand for one and two bedroom Council properties.

The benefit cap
A cap on the maximum households can receive in benefits to £20,000. For single people without children, the cap is £13,400.

Housing and Planning Act 2016

The Housing and Planning Act made widespread changes to housing policy and the planning system. The Act is intended to promote homeownership and boost levels of housebuilding in England. The key changes affecting Council housing are outlined are:

High income social tenants – mandatory rents (Pay to Stay)
The Act provides local authorities with the option to charge higher rents to tenants with a household income exceeding £60,000. The Council has decided not to adopt Pay to Stay.

High Value Asset Sales
The Act imposes a duty on local housing authorities to consider selling higher value homes when they become vacant. The definition of "higher value" will be clarified by regulations yet to be made. The payment will take the form of a levy, giving local authorities a choice in how they raise the funds. The money will again fund housing association Right to Buy discounts and new house building. As the rules around this issue have yet to be published we have not as yet included anything in our assumptions on it. There is the potential for implementation to have a significant negative impact on the HRA.

Fixed Term Tenancies
Lifetime (secure) tenancies for Council houses will be replaced with finite or fixed term tenancies of up to ten years. All other tenancy rights, including the Right to Buy, will remain.

The Housing Minister reaffirmed the Government's commitment to these policies in a letter to local authorities in November 2016 and in the February 2017 White Paper 'Fixing our broken housing market' although implementation appears likely to be April 2018 at the earliest.

3. 30 - YEAR FINANCIAL MODEL

3.1 ASSUMPTIONS

Since the previous iteration of the business plan, a range of assumptions have been adjusted to reflect the current operating environment and future pressures and capacity. The tables below highlight the previous assumptions in the plan and the adjusted assumptions.

Item	Current Assumption	New Assumption
Rent Increase	CPI+1% for the life of the plan after the 4 year rent reduction policy stops	CPI only for 2 years after the 4 year rent reduction policy stops, then CPI+1% for the remainder of the plan
Provision for Bad Debt	0.51% all Years	0.25% increase each year for the next three years, plateau for two years followed by reduction by 0.25% for two years then fixed for the life of the plan
Right to Buy Sales	27 sales for all years to Year 15 then 4 sales each year for the remainder of the plan	32 sales each year to year 11 then 25 each year for the remainder of the plan

The following assumptions have not been changed.

Description	Assumption
Basis for settlement	Potential to repay settlement loan by Year 25
Inflation and interest rates	RPI - 2.5% CPI – 1.5%
Management costs	Inflation long term at 2.5%
Voids – BDC	0.93%
Voids – MSDC	1.26%
Repairs costs	Inflation long term at 2.5%
Capital profile	MSDC standard on existing stock moving with 2.5% inflation but this will be reviewed after the Stock Condition Survey
Assumptions of efficiencies being delivered	All inflationary pressures above main inflation absorbed

3.2 RATIONALE FOR ASSUMPTION ADJUSTMENTS

Rent Increase

Although difficult to predict, the assumption made on rent increases is that Government policy may not return directly to CPI+1% following 4 years of rent reduction. The assumption on rents is cautious but since the impact can be profound it is considered appropriate to model a small period at CPI only (1.5%) and then a return to CPI+1% for the remainder of the plan. The Government's white paper makes it clear that the rent reduction regime will continue as planned (until 2020) but that this might be eased subsequently. In the absence of a firm commitment a prudent position remains.

Bad Debt

The assumption made on provision for Bad Debt has changed significantly and reflects the predicted impact of the roll-out of Universal Credit on arrears levels. The assumption is a sharp rise, a plateau as tenants become more familiar with the system then a reduction and further plateau marginally higher than the starting point for the reminder of the plan.

Right to Buy

Right to buy sales have a significant impact on future rental streams and on capital 'match funding' where receipts are kept for future acquisitions or development. MSDC has seen an increase in sales at around 32 per year for the last two years. Given the impact it is considered prudent to model this to year 15 followed by a tailing off of sales. The current plan had an historic 4 per year sales for the final years of the plan. This has been adjusted to 25, a figure considered more realistic in light of current sales and government policy.

Babergh and Mid Suffolk Building Services (BMBS)

There was no specific identification of the new building company within the previous business plan. A new tab has now been added to the plans with predicted costs of the venture and its projected losses and surpluses apportioned across the two Council HRA plans. The BMBS business plan projections are undergoing detailed review as there are concerns about the projections and costs and the reliability of those figures in the original plan. These revised projections will be incorporated into the next iteration of the plans and brought before Members in April.

4. DETAILED FINANCIAL ASSESSMENT

The Mid Suffolk HRA is not in a strong position. Financial analysis shows that the HRA faces some substantial challenges in the coming years and action will need to be taken to maintain compliance.

The financial position in the plan has deteriorated since the last review mostly due to increasing RTB sales assumptions and the resulting reduction in rental income. Although a breach of debt cap is projected at year 8, there is time to make business adjustments to bring this back in line. This action will need to be considered now and a plan developed.

Current Plan status and Risks

Chart 3 below shows a debt cap breach at year 2024/2025. Capital Funding Available falls below the amount required also at Year 2024/2025. It must be remembered however that this is based upon prudent assumptions, in reality the position is likely to improve slightly but action will need to be taken to ensure that the sustainability of the plan.

Historically the approach to plugging holes in the business plan has been to cut future capital spend. This is a very blunt tool which has the potential for several negative consequences:

- Deterioration in stock condition
- Higher spend requirement building up long term
- An increase in more expensive day to day repairs
- Longer void turnaround periods and an increase in hard to let properties
- Reduction in BMBS turnover and impact on viability

For these reasons and others, further reductions in capital spend are not being explored. Instead we have assumed an increased in spend to a benchmark average of £1,100 per home per annum.

Mitigations

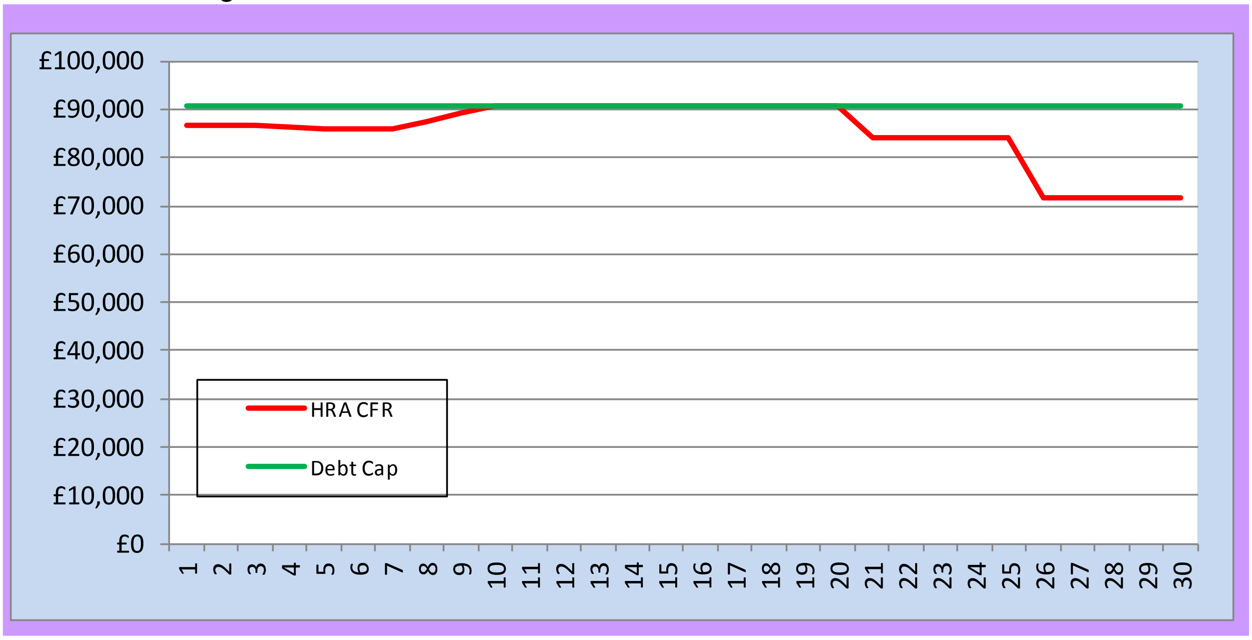
Possible actions are still to be modelled. In practice, options are limited but will include a mixture of the following:

- A review and reduction of management and other overhead costs.
- The potential for the return of RTB receipts over the next 5 years
- Disposal of higher value assets
- The critical improvement in performance especially in void and arrears management and the reduction in bad debt.
- Achieve operational efficiencies. Savings, for this purpose, have been applied from 2018/19. The minimum position required is £100,000 efficiency savings in each year 2018/19, 2019/20, 2020/21; £300,000 in total at today's value. This is a significant figure but one that, if applied to MSDC alone, will present a compliant 30 year position.

This is however the position before the impact of BMBS has been included. A final position on savings will be established before April 2017.

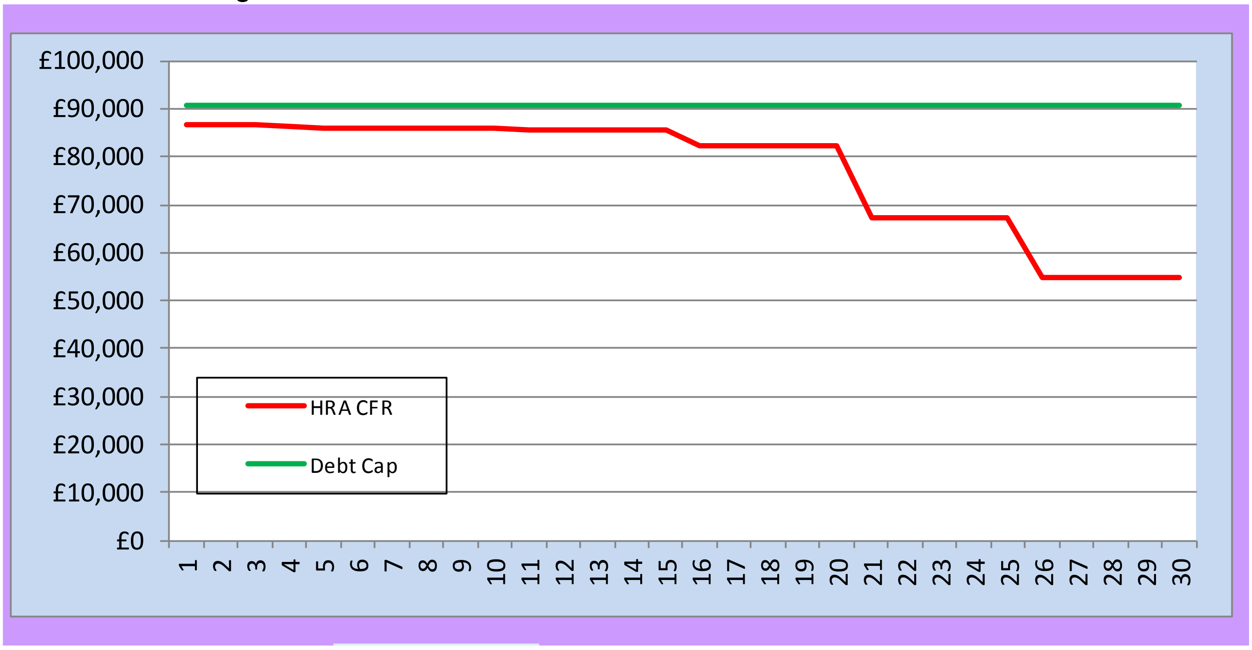
Charts illustrating the Mid Suffolk HRA financial position pre and post mitigation

Chart 3 – Pre Mitigation



The chart shows the debt cap being hit in year 9 and the plan being non-compliant for the subsequent 10 years.

Chart 4 – Post mitigation



5. GROWTH AND BUILDING NEW COUNCIL HOMES

A modest development programme of 98 homes is possible based largely on schemes already committed to and the use of Right to But Receipts.

Although MSDC has no tangible headroom beyond the current planned development pipeline, planning for future headroom and development still needs to be undertaken. While we build our intelligence base to inform longer term development plans, we have the following development and acquisition activity happening already:

- We have commissioned a desk top exercise which will identify all existing HRA land and potential regeneration opportunities. These opportunities will then be reviewed and appraised to create a pipeline of estate regeneration based delivery.
- We are working with private developers to secure direct purchase of new build homes to utilise RTB receipts and ensure the viability and sustainability of such acquisitions.
- We will work with agents to source land opportunities for development. The level of funding required will be dependent on opportunities but a fund will be set aside to support this.
- The existing HQ site in Needham Market may provide opportunities for HRA investment in housing. Options for the site will be developed in late 2017.

The Investment and Development team is developing a pipeline of new HRA homes using HRA resources including: earmarked development funds; Right to buy receipts; Homes and Communities Agency Grant Funding; existing HRA owned land such as garage sites. Housing developments will also be brought forward by taking opportunities which arise within the HRA estate by making best use of our existing HRA assets to maximise development opportunities:

- Turnover of HRA homes – voids
- Garden severances and infill opportunities
- Garage site opportunities
- Review of existing housing that is no longer fit for purpose as a result of low demand or the asset is uneconomical to maintain or has a high value
- Joint ventures with neighbouring landowners

6. INCREASING FINANCIAL CAPACITY AND IMPROVING EFFICIENCY

The review of the Council HRA has identified the need to achieve efficiency savings. The quantum identified to date is £300,000 spread over the 3 years from 2018/19. There isn't an equivalent critical driver for the Babergh DC HRA but nevertheless, improving efficiency is good business practice and will increase the capacity to deliver growth.

The supported living team are developing an efficiency plan to deliver the £300,000 savings for the Mid Suffolk DC HRA. The plan will be completed in time for Executive and Strategy committees having been through the consultation framework outlined earlier.

Activity Based Financial Analysis

The team have invested time in drilling down into our financial information to ensure that is a correct reflection of operations, with costs apportioned accurately and reported in a format that is understandable from an operational perspective.

This is a work in progress. The latest version of the analysis is shown below in Appendix 1. It includes an initial attempt at understanding productivity. A lot more work is needed on this if it is to become a useful tool but even at this stage it helps highlight anomalies, high cost areas and discrepancies between the Councils which have focussed the work of the team.

The component elements of the efficiency plan have yet to be finalised but are likely to include those set out below:

Improved ways of working

At the core of the All Together project is an increased investment in technology to enable over time

- more efficient working practices
- increased use of data
- better customer insight
- understanding what our customers value and what they do not
- more effective targeting of services
- encouraging self-service for those that are able in order to free up resource to make savings or focus on those that really need our help.

We are already reviewing the way we are structured to deliver housing services. This includes a reassessment of:

- The way we handle reports of ASB
- Focussing our work on those that need us most by piloting an 'Early Help Delivery Team' comprising a multi-disciplinary, integrated approach.

This approach is in line with a move to more outcome focused working proposed in the future vision for housing.

Improved performance

Our performance on void turnaround warrants further work across both Councils. Our target is 28 days. The performance over recent years in shown below.

Days	2012/13	2013/14	2014/15	2015/16
BDC	27	52	45	43
MSDC	24	62	66	42

Good work is already being done on rent collection but the implementation of Universal Credit (UC) presents a major challenge. Our work to mitigate the impact of UC and so minimise bad debts is vital to improving the financial health of both business plans.

Improved stock condition data

Robust stock condition data enables the Councils to plan and to budget for the work required to maintain the housing stock in a reasonable and lettable condition. Accurate data provides confidence that HRA funds are spent on the right work in the right places.

A project is underway to update the data to enable an evidence based programme of capital works to be designed for 2017/18 and the following two years. A fresh sample stock condition survey will be commissioned for MSDC in 2018/19.

Increasing service charge income

Both Councils have agreed to an increase in sheltered housing service charges to begin closing the gap between cost and income. This process will need to continue in subsequent years and this will improve the financial positions of both HRAs.

Our processes for consulting, charging and collecting leasehold charges need improving. A home ownership project conducted last year made a number of recommendations that will be implemented during 2017.

A project to review our approach to rented service charge costs, which are significantly under charged, is being considered.

BMBS

The original BMBS business plan projections do not appear to be robust. A thorough review is underway and current projections are included in the financial analysis behind this report.

It appears likely that the outturn position will be significantly worse than that approved by Members. Part of the work we will do will be to produce options on improving the financial performance of BMBS where realistic and its longer term legal structure.

APPENDIX 1

ACTIVITY BASED FINANCIAL ANALYSIS

	Babergh 2017/18 Costs								Mid Suffolk 2017/18 Budget							
	Salaries	Direct Costs	Overheads	Total Cost	Income	Total	Units	Cost per unit	Salaries	Direct Costs	Overheads	Total Cost	Income	Total	Units	Cost per unit
Amenity Areas	9,633	179,500	880	190,013	(84,000)	106,013	3,399	56	4,440	5,775	-	10,215		10,215	3,257	3
Property Services	164,727	804,163	149,190	1,118,080	(39,500)	1,078,580	3,399	329	305,215	816,986	170,059	1,292,260	(14,410)	1,277,850	3,286	393
BMBS/DSO (Incl Depot Costs)	878,593	1,282,573	74,897	2,236,063	(2,037,560)	198,503	3,399	658	845,865	1,234,797	72,107	2,152,769	(1,961,583)	191,185	3,257	661
Cylical Repairs and Maintenance		687,640	21,980	709,620		709,620	3,399	209		1,290,019	66,744	1,356,763		1,356,763	3,257	417
Voids Maintenance		364,890	64,922	429,812		429,812	3,399	126		748,024	7,990	756,014		756,014	3,257	232
General/Supervision & Mgmt	150,221	276,700	215,520	642,441	(300)	642,141	3,399	189	108,342	103,465	214,350	426,157	0	426,157	3,257	131
Tenancy Services	141,364	77,065	74,250	292,679		292,679	3,399	86	141,464	21,900	58,590	221,954		221,954	3,257	68
Housing Options and Lettings	95,836	8,000	87,750	191,586	(510)	191,076	3,399	56	95,036	8,100	68,120	171,256		171,256	3,257	53
Sheltered Housing	187,350	560,383	112,030	859,763	(515,902)	343,860	264	3257	351,735	444,439	155,640	951,814	(824,553)	127,261	295	3226
Leaseholders			5,140	5,140	(24,269)	(19,129)	3,399	2		2,000	5,480	7,480	(14,000)	-6,520	3,257	2
Tenants Forum	32,332	29,000	6,680	68,012		68,012	3,399	20	32,378	32,150	5,160	69,688		69,688	3,257	21
Rent Collection	185,481	92,930	117,370	395,781		395,781	3,399	116	185,932	78,000	95,210	359,142		359,142	3,257	110
Rent and other Income			590	590	(16,185,998)	(16,185,408)	3,399	0			240	240	(14,706,138)	-14,705,898	3,257	0
Bad Debt Provision		115,000		115,000		115,000	3,399	34		111,000		111,000		111,000	3,257	34
Pension Fund Contribution	210,754			210,754		210,754	3,399	62	175,600			175,600		175,600	3,257	54
Homeless		43,015	-	43,015	(18,000)	25,015	3,399	13		10,180	660	10,840		10,840	3,257	3
TOTAL	**2,056,291**	**4,520,859**	**931,199**	**7,508,349**	**(18,906,040)**	**(11,397,691)**		**5,213**	**2,246,009**	**4,906,835**	**920,350**	**8,073,193**	**(17,520,684)**	**(9,447,492)**		**5,409**