BDC Housing Revenue Account
30 Year Business and Financial Plans

Update 2017

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1. EXECUTIVE SUMMARY

This narrative, in combination with the 30 year financial model, forms the Business Plan for the Housing Revenue Account (HRA). The plan 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.

Babergh District Council has ambitious plans to transform its role in meeting housing need, developing new homes, managing its existing housing assets, supporting its tenants and also has the financial capacity to deliver the following:

- The Babergh District Council HRA is in a strong position. Although financial analysis shows that it faces some substantial challenges in the coming years, the underlying strength of the HRA means the Council can maintain compliance and support new homes building.

- Although strong, the financial position in the plan has deteriorated since the last review mostly due to increasing predications on Right To Buy (RTB) sales and the resulting reduction in rental income.

- 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 HRA must adapt in order to deliver the outcomes agreed in the Joint Strategic Plan.

- The Council has already embarked on an ambitious grant funded new build programme that will deliver 27 new homes for rent and shared ownership by 2018. The Council has now approved a new joint affordable homes development strategy with MSDC which lays out a direction and methodology for the delivery of approximately 150 new build homes over the next three years. The majority of which will be for rent and managed within the HRA.

- 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 despite the financial challenges of welfare reform and specifically Universal Credit, the 1% rent reduction and increasing RTB sales the Council's HRA is financially robust with the capacity to contribute to the delivery of several Joint Strategic Plan outcomes.

- The previous Government indicated its intention, in the Housing and Planning Act 2016, to introduce a high value asset levy on local authorities. The expectation is that Councils will sell high value homes when they become vacant, although Councils would be able to raise funds to meet the levy in other ways. No detail on the levy had been announced prior to dissolution of parliament and on the advice of the Chartered Institute of Housing (CIH), no account has been taken of it in the financial plan. If the new Government proceeds with implementation it would significantly reduce HRA financial capacity.

2. BACKGROUND

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.

HRA business planning has a key role to play in the delivery of all four outcomes but is particularly 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

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 Suffolk around regional housing strategy, identifying the role local authorities will play in accelerating delivery as well as influencing what is delivered, and where Councils might 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 assets, and our residents and what they value, in order to make us more cost effective and create additional capacity to deliver Council priorities for the HRA.

There are a number of other emerging strategies and reviews that will either feed into or impact on the HRA Business Plan in the coming year some directly, some indirectly. These are:

Item	Date
BMBS Review	May 2017
B&MSDC housing strategy	May 2017
NALEP economic strategy (published)	September 2017
Suffolk housing proposal commences	May 2017
Government white paper response finalised	May 2017
Suffolk Strategic Planning and Infrastructure Framework	Summer 2017
Review of the role of the HRA	Autumn 2017
B&MSDC Supported Living review	Winter 2017
Suffolk older persons housing strategy	Winter 2017

LEGISLATIVE FRAMEWORK

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

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 housing finances. From April 2012, Babergh took on a share of the national housing debt calculated by the Government as its debt settlement. The self-financing debt settlement figure was £83.6m. Babergh's total maximum loan portfolio became £97.9m (the debt cap). The current debt is £84.8m leaving headroom of £13.1m.

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 plan 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 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. The Council can increase rents on vacant homes when re-let but only if the increased revenue contributes to development capacity. The Council will need to determine its policy on this point. This is noted at line M in the Improvement Plan in appendix 1.

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
The 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 (UC)
A replacement of six means tested benefits and tax credits with one universal payment. UC will be rolled out in Babergh in late 2017/early 2018. Based on evidence from pilot programmes, its introduction will substantially increase risks around rent arrears and bad debts.

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

The benefit cap
A cap on the maximum a household can receive in benefits to £20,000 per annum. 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:

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 in regulations yet to be published. 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 detail around this issue has yet to be published, and on advice from the CIH, we have not included anything in our financial assumptions relating to 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'. Implementation appears likely to be April 2018 at the earliest.

THE DISTRICT

Demographic information

Population

Babergh is a rural district with a population of approximately 88,840, with its main population areas being Sudbury, Cornard and Hadleigh. Since the publication of the last business plan (2012), there has been an increase in the population of the district of 2,840.

Suffolk's population is growing, but more slowly than regional and national trends. Since 2009, the rate of growth in Suffolk has slowed down and the county's population has increased by around 3 per cent compared with 4 per cent for England and 5 per cent for the East.

Across Suffolk's districts, population changes have been very different. For example, Babergh is growing particularly slowly and in contrast Mid Suffolk is growing faster than the average of England.

The latest population estimates for age composition in Babergh's Housing Market Area (SHMA) shows that between 2005 and 2015 the number of people aged 60 or over markedly increased. In contrast, the number of people aged between 30 and 44 decreased.

Babergh's population is forecast to increase by 10% to 96,400 by 2035. According to this growth forecast figure, 12,927 people are expected to be aged over 80 (13.4%). This poses challenges for us in terms of how we adapt our services and work with our communities to meet the needs of an ageing population.

Rurality is pertinent to the issue of housing need because rural households are exposed to a series of additional challenges including extra transport costs, particular housing needs (such as higher domestic fuel costs) and access to essential services, educational choices and employment opportunities.

Research suggests that people living in rural villages and hamlets need to be able to spend between 15 and 25 per cent more than their urban counterparts in order to be able to afford the same, minimum socially acceptable standard of living. (Hidden Needs Report 2011-2016). This means that income deprivation in rural households has an even greater impact than it does in urban areas. For people living in poverty and hardship and for those on low income, difficulties are exacerbated by barriers to accessing services and the higher additional costs associated with living in the countryside.

Household Size

The Census 2011 shows that the average household size has changed since 2001. In Babergh the average household size was 2.35 in 2001, dropping to 2.30 in 2011. The population has increased at a slower rate than the number of households between 2001 and 2011, resulting in a falling average household size.

Household composition
Figures taken from the Census 2011 indicate that there are more one person households than any other household type in the Babergh district. The overall household distribution does not differ notably from the regional and national averages.

Change in household types
The Census 2011 looks at the percentage change in household groups between 2001 and 2011 at district level. The figures show that lone parent households have increased most notably and that there has been a fall in the number of couple households.

Overall, in the Housing Market Area (SHMA), it is interesting to note that households with non-dependent children have increased whilst the number of households with dependent children has decreased. This suggests that household formation rates amongst young adults may have reduced.

The housing market
Babergh is a relatively expensive places to live, partly because of the desirability of the area, and partly because the supply of new homes of all types has not kept pace with the demand over recent years. For many residents including young families, this makes owning their own property impossible in the short to medium term.

The high cost of housing in Babergh, together with relatively low average earnings suggests a strong and ongoing need for affordable housing. The median house price to salary ratio is 10.5. This is against a national average of 6.96.

In August 2016, the average price of a house in Babergh was £262,393, 10% higher than the national average of £235,573 and an increase of 11.6% from August 2015 when the average price was £235,183. The average first time buyer will pay around £231,323 for their first home. An average former owner occupier will pay around £311,280. The average private rent per calendar month is £635 in Babergh.

Many of the Council's tenants are facing hardship caused by the rising costs of basic goods and services in particular rising energy bills. The high cost of housing, together with relatively low earnings suggests a strong and ongoing need for affordable housing.

Economic factors
The district of Babergh has a small local economy with much of the workforce commuting outside Suffolk. Many local jobs are less skilled and lower waged than elsewhere in the country which has an effect on housing affordability. Babergh has an unemployment rate of 3.2%, below the UK average of 5.1%. Latest information (November 2016) shows there were approximately 4,020 (7.8%) benefit claimants in Babergh. The East has 9.6% and the Great Britain average is 11.8%. Babergh has 2048 recipients of part or full housing benefit and 455 (0.9%) out of work benefit claimants.

Council housing stock
Table 1 provides details of Babergh's current housing stock.

	Bungalow	Flat	House	Total
General needs	877	372	1795	**3044**
Sheltered	100	245	0	**345**
Shared ownership	0	3	0	**3**
Leasehold	0	97	0	**97**
Temporary accommodation	0	16	0	**16**
Total	**977**	**733**	**1795**	**3505**

Table 1

The Council also owns and manages 1,216 garages.

Total rental income receivable from houses and garages for 2016/17 was £16,996,226. This figure includes, rental income (including compulsory garage rent), garage income and service charges. The average rent for 2016/17 was £90.90.

Housing need
Table 2 provides details of the number of people on the Council's housing register. Vacant dwellings are allocated through a Choice Based Lettings system (Gateway to Home Choice) in partnership with seven other local authorities.

Number of people on waiting list *(by need)* at November 2016

Band	A	B	C	D	E	Total
1 bed	8	51	188	25	248	520
2 bed	41	59	86	8	173	367
3 bed	4	35	10	2	70	121
4 bed	1	6	1	1	4	13
5 bed	0	2	0	0	0	2
Total	54	153	285	36	495	1023

Table 2

Around 50% of those on the waiting list are in the lowest band – these people are considered adequately housed, typically those in private rent, owner occupiers and those with an existing social housing tenancy which is deemed suitable. These people have no particular need to move.

The number of people on the Council's housing register has decreased since 2012. This may be attributed to the introduction of Choice Based Lettings (CBL). CBL is a more transparent way of advertising and allocating housing and allows applicants to see how likely it is that they will be housed by the Council – this may deter people from joining the register if they would be a low priority.

3. 30 YEAR FINANCIAL MODEL

ASSUMPTIONS

Since the previous iteration of the business plan, a range of assumptions have been adjusted to reflect the current operating environment, future pressures and capacity. Table 3 shows the previous assumptions in the plan and the new assumptions whilst Table 4 shows the assumptions that are unchanged.

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	27 sales each year to year 11 then 20 each year for the remainder of the plan

Table 3

Description	Unchanged 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/MSDC	0.93%/1.26%
Repairs costs	Inflation long term at 2.5%

Table 4

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 previous Government's white paper made it clear that the rent reduction regime would continue as planned (until 2020) but that this might be eased subsequently. In the absence of a firm commitment, a prudent approach is appropriate.

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. BDC 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 11 followed by a tailing off of sales. The previous iteration of the plan had 4 sales per year for the final years of the plan. This has been adjusted to 20, 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 financial plans. The BMBS business plan projections have undergone detailed review as there were concerns about the projections and costs and the reliability of those figures in the original plan. A summary of the key elements of this review can be found in Section 7 below.

4. 30 YEAR FINANCIAL PLAN

Financial analysis shows that the Babergh HRA has deteriorated slightly since previous iterations. Despite this the medium term projections remain strong. The projections indicate a long term closing balance position well above the minimum policy £1,000,000 baseline and then increasing in strength over time. No debt cap breach is projected and capital expenditure remains fully covered for the life of the plan

It must be remembered that this is based upon revised and prudent assumptions, in reality the position is likely to improve slightly. No urgent action is required but normal good business practice is to require efficiencies to be identified continuously. The impact of these can be seen in the charts 1 and 2 below and include:

- A reduction of management and other overhead costs
- An improvement in performance especially in void management

BDC Specific Efficiency Savings

Beyond good business practice, no efficiency savings are required. Work has been focussed on directing resources within the HRA to build development capacity instead. In addition to existing known developments, the plan, at present, has the capacity for 30 new-build properties per year from 2018/19 and for a further 4 years; 150 additional new homes in total. Stress testing suggests that 40 per year over the same period break the plan and the debt cap is breached. Negotiation is already ongoing for 27 new homes in 2018/19 so the assumptions fit well with our emerging pipeline. A detailed analysis of the efficiency plan can be found in Section 6 below.

Charts illustrating the Babergh HRA financial position before and after efficiencies and development are applied;

Chart 1 – Pre efficiency plan (£m)

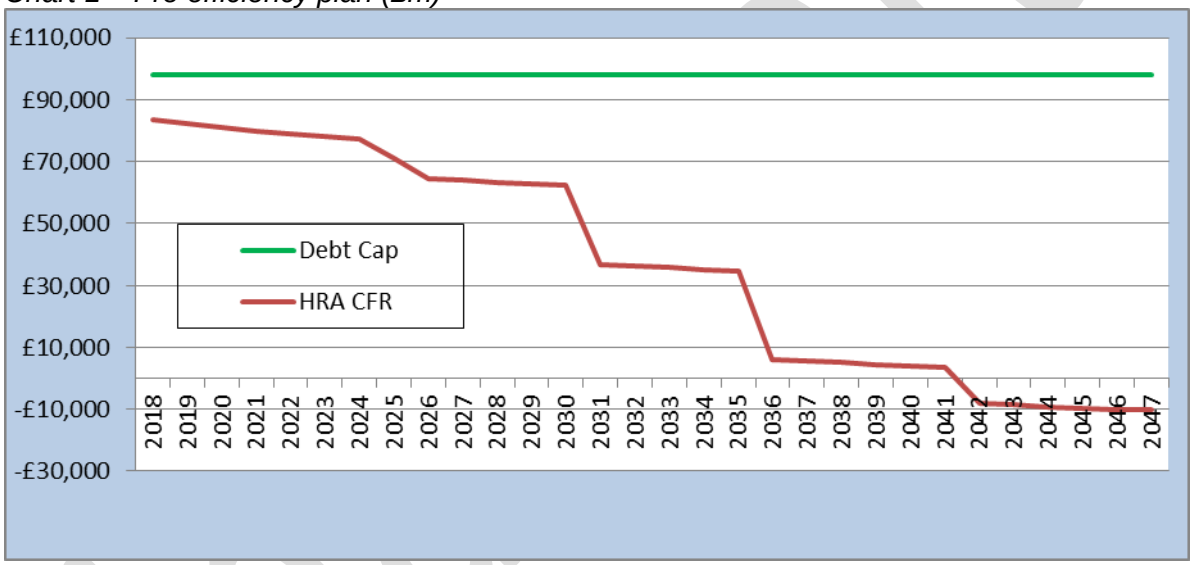
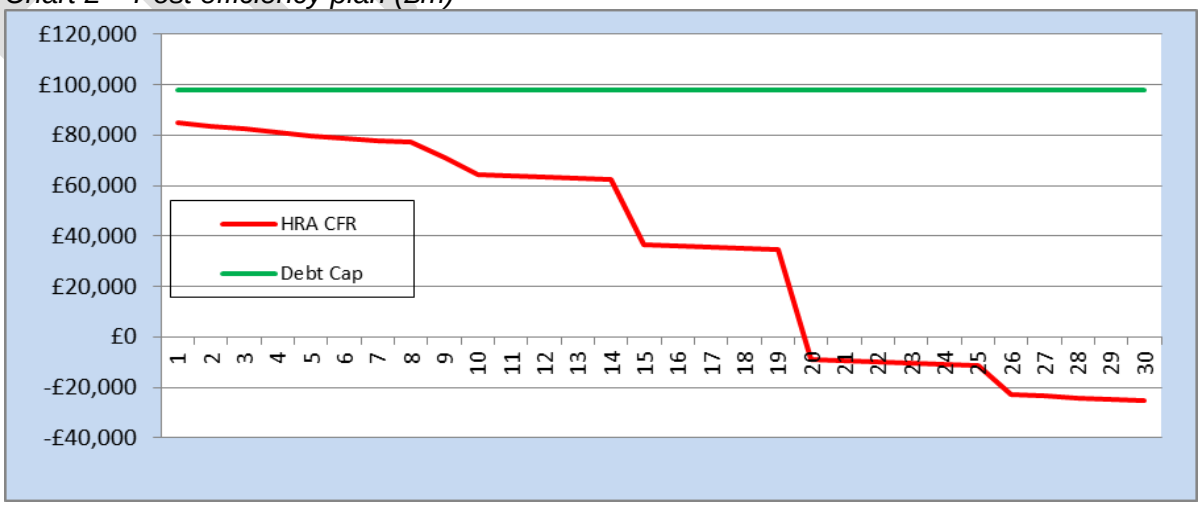


Chart 2 – Post efficiency plan (£m)



HOUSING REVENUE ACCOUNT 5 YEAR PROJECTIONS
Babergh District Council

Year	2017.18	2018.19	2019.20	2020.21	2021.22
£'000	1	2	3	4	5
INCOME:					
Rental Income	16,139	15,974	15,821	16,073	16,343
Void Losses	-150	-148	-147	-149	-151
Service Charges	540	540	540	540	540
Non-Dwelling Income	192	192	192	192	192
Grants & Other Income	38	38	36	37	38
Total Income	**16,760**	**16,597**	**16,444**	**16,693**	**16,962**
EXPENDITURE:					
General Management	-2,214	-2,026	-2,062	-2,078	-2,151
Special Management	-889	-916	-940	-968	-997
Other Management	-198	-188	-141	-84	28
Rent Rebates	0	0	0	0	0
Bad Debt Provision	-115	-154	-191	-194	-157
Responsive & Cyclical Repairs	-2,257	-2,186	-2,134	-2,168	-2,225
Total Revenue Expenditure	**-5,674**	**-5,470**	**-5,468**	**-5,493**	**-5,502**
Interest Paid	-2,803	-2,776	-2,727	-2,692	-2,662
Finance Administration	0	0	0	0	0
Interest Received	16	33	31	29	34
Depreciation	-2,721	-2,721	-2,721	-2,721	-2,789
Net Operating Income	**5,577**	**5,663**	**5,558**	**5,816**	**6,043**
APPROPRIATIONS:					
Revenue Provision (HRACFR)	-500	-500	0	0	0
Revenue Contribution to Capital	-5,605	-5,934	-5,796	-6,332	-3,294
Total Appropriations	**-6,105**	**-6,434**	**-5,796**	**-6,332**	**-3,294**
ANNUAL CASHFLOW	**-528**	**-771**	**-238**	**-517**	**2,749**
Opening Balance	7,536	7,008	6,237	5,999	5,483
Closing Balance	**7,008**	**6,237**	**5,999**	**5,483**	**8,232**

Table 5

The HRA Business Plan model is used to forecast dwelling rent and other income, loan interest payments and Revenue Contributions to Capital. The budget for the current year has already been agreed and shows general management costs dropping over the 5 year period as a result of efficiencies. There is a negative position on cash flow each year until year five but the closing balance remains strong over the period.

HOUSING 5 YEAR CAPITAL PROJECTIONS
Babergh District Council

Year	2017.18	2018.19	2019.20	2020.21	2021.22
£'000	1	2	3	4	5
EXPENDITURE:					
Planned Variable Expenditure	0	0	0	0	-7
Planned Fixed Expenditure	-4,441	-6,228	-5,299	-5,764	-3,037
Disabled Adaptations	-200	-200	-200	-200	-200
Other Capital Expenditure	-4,540	-3,200	-3,520	-3,840	-4,000
New Build Expenditure	-469	-53	0	0	0
Total Capital Expenditure	**-9,651**	**-9,681**	**-9,019**	**-9,804**	**-7,245**
FUNDING:					
Major Repairs Reserve	3,001	2,721	2,101	2,253	2,684
Right to Buy Receipts	66	66	66	66	66
HRA CFR Borrowing	0	0	0	0	0
Other Receipts/Grants	66	0	0	0	0
HRA Reserves	912	960	1,056	1,152	1,200
Revenue Contributions	5,605	5,934	5,796	6,332	3,294
Total Capital Funding	**9,651**	**9,681**	**9,019**	**9,804**	**7,245**

Table 6

Capital spending remains constant throughout the life of the plan although in the current year planned expenditure has been lowered pending the outcome of stock condition and asset appraisal work. This is then predicted to increase in year 2 and then drop from year 3 onwards.

SCENARIO TESTING

The Business Plan financial model created and supported by the Chartered Institute of Housing enables us to forecast income and expenditure and their impacts on the financial health of the HRA over a 30 year period.

There are a number of factors which will have a significant impact on the HRA finances. Scenario Testing is important in order to assess the relative scale and impact of changes from the base assumptions in the HRA Business Plan financial model.

The greatest risk to the sustainability of the HRA at this time is the levy on the sale of high value assets (HVAs). In the autumn statement 2016 the Government announced that the levy would not be introduced in 2017/18. The size of the levy remains unclear at the time of writing and, because of this uncertainty, we have not built any assumptions into the financial plan relating to it, on advice from the CIH.

Table 7 - Sensitivities against the base Business Plan

Sensitivity	**Year 30 HRA Base Position £m**	**Year 30 ("Cost") / Benefit to HRA £m**
30 Year Base Position	130.2	-
High Value Asset Levy £750k	108.4	(21.8)
1% increase in CPI	183.2	53
1% reduction in CPI	89.6	(40.6)
1% annual increase in capital programme building costs	108.9	(21.3)
Rents increased only by CPI	64.3	(65.9)
2 extra Right to Buy sales per year	126.2	(6)
5 fewer Right to Buy sales per year for four years	140.4	10.2

Table 7

5. GROWTH AND BUILDING NEW COUNCIL HOMES

BDC's HRA has headroom of £13.1million in 2017/18 rising to £18.9m in 2021/22, making a strong programme of new building and acquisition of council housing an option and a priority for the Council. The Council has already embarked on an ambitious grant funded new build programme that will deliver 27 new homes for rent and shared ownership by 2018. The Council has recently approved a new affordable homes development strategy which lays out a direction and methodology for the delivery of approximately 150 new build homes over the next three years.

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 Hadleigh may (amongst other things) provide opportunities for HRA investment in housing. Options for the site will be developed in late 2017.

We are 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

HRA EFFICIENCY IMPROVEMENTS

Unlike the Babergh DC HRA, the Mid Suffolk DC HRA needs to achieve efficiencies. The Mid Suffolk HRA is forecast to breach its debt cap in around 8 years' time if no corrective action is taken. There is no threat of the Babergh DC HRA breaching the debt cap.

Financial analysis shows that operational efficiency gains of £300,000 over a 3 year period starting from 2018/19 will prevent a breach of the debt cap in the Mid Suffolk HRA. The Supported Living team has developed an efficiency plan to deliver these savings.

There is no pressing financial need for the Babergh HRA to operate more efficiently and one approach could be to deliver different service level to residents in the two Councils based on what the HRA can afford. The approach being taken, however, is to avoid differential service level, because of the operational complexities and inefficiencies this would create. The aim instead is to maintain the same service levels across the two Councils and for Babergh to also benefit from any operational efficiencies achieved.

There will continue to be very different levels of new Council house building/acquisition across the two Councils because of the underlying differences in financial capacity.

In summary, the operational efficiencies that the Supported Living team have identified and plan to deliver over the 3 year period are:

Sheltered Housing Service Charges
The recent review showed that existing sheltered housing service charges fell far short of recovering the cost of delivering sheltered services.

For 2017/18, a 30% increase with a £4 cap has been approved by the Council. The charges could be increased by the same amount in 2018/19. This will result in additional income to BDC of £48,000 in 2017/18 and £60,000 in 2018/19.

Sheltered Housing Salary Costs
A review of the staffing levels was also undertaken as part of the changes proposed to sheltered housing schemes. The approved changes will result in a reduction in staff numbers resulting in a saving of £17,000 in 2017/18.

BMBS/Property Services
Savings of around £100k per council for the 3 financial years 2018/19 to 2020/21 can be realistically achieved through improved procurement.

Lettable Standard
The lettable standard for both councils has been aligned but is currently being value engineered as part of this review.

Rechargeable Work and Enforcement
An improved tenant recharge process will ensure that costs incurred through abuse of Council properties will be recovered whenever possible. An estimated additional income £7,500 per year is expected.

Introduction of Service Charges for General Needs Stock
The Councils do not currently charge for services provided over and above those required by statute. Costs incurred by the HRA for services such as grounds maintenance, cleaning, and communal utilities could be recovered from tenants in the form of a service charge. Additionally there are opportunities to consider the introduction of management or caretaking fees that could enhance the service offered to residents.

Further work is required to fully understand the steps and implications of this but there is the potential to recover significant costs from residents receiving services rather than being subsidised by the HRA as a whole.

Void Turnaround Improvement
On average, 200 Council properties are vacated and relet each year in Babergh DC. During the time they are untenanted no rent is received and the councils are liable for council tax. Whilst the average time to re-let properties has reduced over the last three years it remains higher than average for social landlords. The table below shows the re-let time for all types of property from April 2014.

	2014/15	2015/16	2016/17
Babergh (days)	45	43	29

The table below shows the total lost rent due to void periods. These figures include rent loss relating to properties awaiting sale and those which are vacant pending demolition.

	2014/15	2015/16	2016/17
Babergh (£)	180,570	212,378	163,146

A reduction of 7 days in the average void time would reduce rent loss by around £16,000. It would also reduce the amount of council tax payable by the HRA by around £3,500.

Improvement Plan
The re-let process involves a number of different activities and members of staff in different teams and roles. It involves administrative tasks relating to the ending of one tenancy and the commencement of a new one, visiting the property prior to vacation, carrying out safety checks and bringing properties to the councils' agreed lettable standard and allocating to a new tenant.

Ensuring that the new process is lean and efficient and minimises delays is key to reducing the void time and is the first area of performance improvement focus following the launch of BMBS.

Target for reduction of void turnaround days

	2017/18	2018/19	2019/20
Babergh (days)	29	25	21

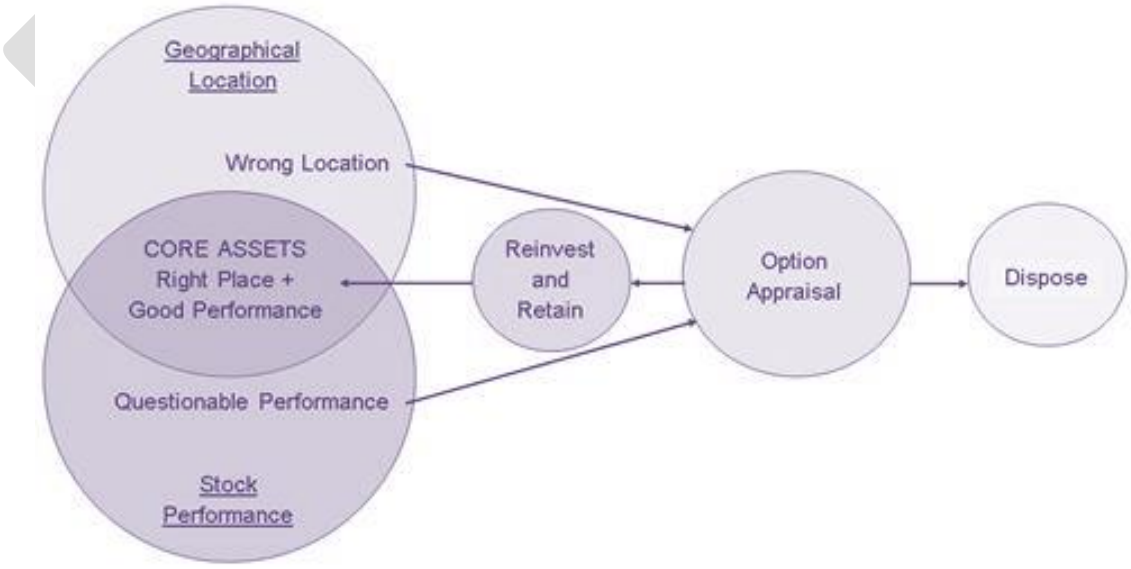
Understanding the contribution of individual assets

Currently we have no comprehensive HRA asset management strategy. We cannot determine where and how best to invest in our stock and although we are 'data rich' we are 'business intelligence poor'. Although it might be tempting to solve immediate funding issues with sales, selling the 'right' stock is the key to good asset management. Our proposed approach to asset management planning will be based around an asset management wheel (set out below). Simplistically, this requires that we:

- Understand where we currently are with our assets
- Decide where we want to be
- Agree what resources are available
- Establish the options for moving from where we are to where we want to be
- Prioritise and plan (on the basis they will never have enough resources or time to do everything), and
- Implement agreed plans

All these activities must link back to the business plan, funding arrangements and strategic options appraisal. In order to start this planning process effectively, we need to have a detailed understanding as to how all our HRA assets perform. This mirrors the work that has been undertaken on the General Fund assets side. Such an assessment will need to draw data from different sources as shown in the diagram below:

The outcomes of this model will inform the strengths and weaknesses of the different stock groupings, using a series of Asset Strategic Efficiency Tests. Once the model is completed, it will provide us with a range of asset groupings, which will inform future option appraisals beyond this initial work. This is shown diagrammatically below:



Effective asset management requires a complete and thorough understanding of the contribution that each asset makes. It will be the case in any portfolio that some assets will contribute strongly financially, others on the margin of profitability and a smaller percentage will be loss making. We plan to grade our assets in the same way that we achieved with general fund assets and carry out options appraisals on those that are loss making. This may result in a re-configuration, regeneration, redevelopment or a disposals programme of assets once complete.

This work can be carried out in advance of new stock condition data being available since this data forms only a small element of the overall analysis. This work will be commenced in early summer 2017.

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
- More 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 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 BDC in 2018/19.

Increasing Rental Income
There are restrictions on rental income increases and the current rent regime requires a 1% reduction in rent payable until 2019/2020. This may change with any new Government but cannot be guaranteed.

As with service charges, our processes for charging and collecting rent and the policy of increasing rental income needs improving. There may be opportunities with a strong new build programme to increase rental streams on wider stock as some Councils appear to have done. A review of the opportunity for this and the development of a comprehensive 'Rent and Service Charge Policy' will be undertaken in 2017.

In particular we will review the way in which void properties are treated and how and when rents can be raised on re-let. This is linked to capacity and grant funding for new build homes and our development programme might facilitate that. It is not possible simply to raise all rents on re-let to 80% of market rent without a link with capacity for new homes being established.

It will be possible to consider some homes for conversion to shared ownership where planning considerations and any historic covenant and funding considerations allow. Permission and guidance will be sought from DCLG on larger scale transfer of stock into shared ownership to inform a policy discussion.

Summary HRA Efficiency Gains Plan

Identified actions	17/18	18/19	19/20	20/21
Sheltered Housing				
Increase in Service charges as part of Budget setting process	(48)	(60)		
Reduction in salaries following sheltered scheme review	(17)			
Rents from GF for using Sheltered Housing Accommodation as Landing Points		(9)		
Leaseholders				
Increase in Service charges as part of leaseholder review		(8)		
General Service Charges Increase		(60)	(60)	(57)
Rechargeable works to be invoiced to private tenants		(8)		
Voids				
Reduction in number of void days to 21 over four years thereby increasing rental income		(3)	(4)	(4)
Property Services				
Recharging Health and Safety employee costs when used by other ODT's		(7)		
Components costs reduction following tender coming up for renewal		(30)	(30)	(40)
	(65)	**(185)**	**(94)**	**(101)**

7. BABERGH AND MID SUFFOLK BUILDING SERVICES (BMBS)

The BMBS business plan and its operations have been the subject of a rigorous review and the financial projections originally reported have been revised and incorporated into the HRA financial plan. The revised projections can be found below and describe a more challenging position than that anticipated when agreed in June 2016.

BMBS, launched from April 2017, is in a state of transition bringing together, as it does, two different organisations with diverse operating practices. There was an implementation plan produced in advance of amalgamation, and the critical tasks in that plan are being worked through by the new Service Manager recently appointed. The team is aware that for BMBS to be successful, this plan will have to widened and re-visited regularly at a granular level with new tasks added and specific tasks allocated to named individuals.

The original financial projections have been reviewed by the Corporate Manager on joining the team and these updated predictions now push ‘breakeven’ from the originally predicted trading year 2 to a revised year 4. This presents an undoubted challenge for the team but one that could still result in breakeven being brought forward where there is strong leadership, commitment to change and commercial diligence.

The revised financial projection is as follows;

Type of Works	Year 1	Year 2	Year3	Year4	Year 5
Income					
Capital & Planned Maintenance	1,200,000	1,320,000	1,452,000	1,597,200	1,756,920
Responsive	1,374,989	1,374,989	1,374,989	1,374,989	1,374,989
Voids	745,548	745,548	745,548	745,548	745,548
Other Housing Projects	75,000	82,500	90,750	99,825	109,808
Aids & Adaptations	100,000	110,000	121,000	133,100	146,410
Corporate works (General Fund)					50,000
External Income					50,000
Total	**3,495,537**	**3,633,037**	**3,784,287**	**3,950,662**	**4,233,675**
Expenditure					
Office Employee Costs	265,000	267,650	270,327	273,030	275,760
Manual Employee Costs	1,300,000	1,313,000	1,326,130	1,339,391	1,352,785
Other Employee Expenses	1,800	1,818	1,836	1,855	1,873
Premises	12,000	12,120	12,241	12,364	12,487
Transport	160,000	160,000	160,000	160,000	160,000
Materials External Purchase	1,400,000	1,470,000	1,543,500	1,620,675	1,701,709
Sub Contracted Services	463,526	417,173	375,456	337,910	304,119
Support Service charges	147,287	148,760	161,922	163,541	165,176
Other Supplies & Services	57,000	57,570	58,146	58,727	59,314
Training costs	5,255	5,308	5,361	5,414	5,468
Total	**3,811,868**	**3,853,399**	**3,914,918**	**3,972,907**	**4,038,693**
Surplus/(Deficit)	**-316,331**	**-220,362**	**-130,631**	**-22,245**	**194,982**

These projections have been revised for the latest predicted capital programme and other income including the removal of external income and a reduced pipeline of work on general fund assets as a result of the move to Endeavour House.

Bringing the service in-house offers more control over the quality of repairs and removes the risks associated with outsourcing. But given the geography and the number of properties, BMBS will require strong and detailed management and oversight. The throughput of planned works, a major component of turnover is of great importance. The plans for new stock condition surveys and the potential for a resulting strong planned programme of improvements will help with this viability.

There is a back-log of repairs to be tackled accounted for within the financial plan. The senior BMBS team are working with the in-house procurement team to set up framework agreements with Sub-Contractors, which when combined with the potential to increase efficiencies through the adoption of work scheduling software, will allow for the work to be completed more quickly.

The level of staff resources is appropriate to discharge the volume of work projected however extra admin, technical and strategic support might be required in the short term to deliver earlier successes. This extra support is allowed for within the plan and held currently as vacant posts. The new Corporate Manager will be exploring what this means practically and request support as the need emerges. The improvement in comprehensive performance and management information at both a commercial and operative level will be also necessary to achieve short term productivity improvements.

Other commercial decisions will have to be taken over the first few years of trading to support the business. Spend on materials is currently high and the differential salaries between the existing team and TUPE'd staff also has a significant impact. Reducing the impact of these overheads could see an earlier improvement in surplus and productivity. A summary list of actions to support BMBS trading is as follows:

1. A major issue to consider is that, on the one hand, BMBS employ staff based upon Council Terms and Conditions whereas TUPE transfer staff are on quite different and less preferential terms. In addition to potential discontent that this might cause, this disparity over time will lead to increasing costs rather than a reduction. Terms and conditions will therefore need reviewing.

2. The cost of materials is currently budgeted at 38% which is high for an organisation of BMBS's size and scale of operation. Early consideration will be given to gaining access to a buying consortium to reduce the costs to a more industry standard 22-25%.

3. One of the key principles of establishing and running an efficient business surrounds the approach to management culture and how the business is managed and operated. It must have a commercial focus and this demands the introduction of a trading account and management information systems to ensure it is properly populated and interrogated.

4. In order that the organisation over time can take advantage of external business opportunities consideration will be given to where the organisation 'sits' in the Councils' structures in future. The case for taking BMBS outside of the HRA will be considered within the first 3 years of trading as performance becomes understood. This will take the form of a full market assessment.

5. A number of operational issues will need to be reviewed to ensure that BMBS operates efficiently in early years of trading, in practice this will require an analysis and understanding of the geography of the operation, where subcontract work might be best deployed, an agreement on repairs processes, service agreements and the specification to be applied to activity such as voids and repairs.

6. Although the operational team is considered appropriate for the size of operation the Service Manager will need some additional support in the short term to deliver some of the key strategic, implementation and business planning outcomes required to make the operation a success. A recommendation for the extent of that support will come forward in the first 6 months of trading. In particular this support will help with points 9) and 10) below.

7. The BMBS team will work with the wider HRA team to develop a clear and appropriate pipeline of planned works for the years ahead. Not only is a strong planned programme important to maintain high quality homes but a well-defined 'order book' is essential to maintain the trading strength of BMBS and help it plan for its future. Stock condition surveys planned for 2017 and 2018 will inform these new programmes.

8. The BMBS team will in future work closely with the business and financial planning team to ensure that when the HRA plan is reviewed annually that all implications of BMBS can be taken into account in its development.

9. A rigorous external review has been undertaken of BMBS and the team will now develop an implementation plan to take the operational recommendations of that review forward in a planned way and developed within 6 months of trading.

10. All the above will need to be incorporated in a 5 year Business plan specifically for BMBS reviewed annually and completed within year 1 of trading.

8. THE HOUSING SERVICE

Public access and accommodation – All Together

The world of government and the public service sector is being transformed by technology, new ways of working, a severely constricting financial environment and public expectations. We have to enable our communities to become more resilient and to rely less heavily on public sector services and resources by being more efficient, flexible, agile, innovative, collaborative and accessible.

Our objective is for the Councils to have improved ways of working that are better for our residents, simpler for our staff and more cost effective for the tax payer, which make it easy for anyone to do business with the Councils, through channels that:

- Are effortless to navigate
- Promote individual and community self-service
- Are available when the customer requires them
- Make work more straightforward and enjoyable for staff
- Reduce confusion for the public about who does what across the Suffolk System.

The Councils' Public Access Strategy devolves control and responsibility to residents. It fosters community resilience and will enable us to learn from each interaction through utilisation of CRM software. It is customer focused, and promotes an evidenced understanding of the bespoke requirements of individuals, a culture of collaboration and continuous refinement of the way we do business. Together with developing self-service options, this will mean we can focus more attention on those that really need our help, be more productive, thereby increasing the capacity within the HRA.

Tenancy Services Review
We plan to review the way we are structured to deliver tenancy services. This will include 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.

Home Ownership Project
The Home Ownership project will implement the recommendations of the HQN review of Leasehold and Right to Buy services. The review recommends the alignment of processes across Babergh and Mid Suffolk, the introduction of clear performance measures and a refresh of leaseholder service charging to ensure that the Council's charge and collect the cost of works to leasehold flats. The anticipated deliverables are:

- Reduced costs
- Increased revenues
- Improved service delivery
- Mitigating risk through compliance with legislation

Older Persons Housing Vision
The importance of appropriate and good quality housing to the short and long term health and wellbeing of individuals is widely acknowledged in Suffolk. The Suffolk Health and Wellbeing Board have formally launched a Housing and Health Charter recognising the importance of collaborative working between housing, health and social care, including a set of commitments that will inform and influence the future direction of all partners throughout the Suffolk System.

This collaborative approach is crucial to ensuring that future housing provision across all tenures meets the needs and aspirations of older people living in Suffolk. The recent strategic review of specialist housing in Suffolk drills down into variables that enable us to gain some understanding of which proportion of the current population of Suffolk are likely to be in need of the care and support services aligned to specialist housing. These variables have then been used to create projections as to how that level of need may change over time, which has also been compared and contrasted with more generalised population changes. The Review enables us to quantify likely demand over time broken down in relation to district and borough areas.

The review examines different models of housing to aid understanding of what currently works well in supported housing and will help the Councils to design future supply to meet the needs of those needing specialist/supported housing, including older people.

Babergh DC sheltered housing

The County wide Older Persons Housing Vision will guide future recommendations Members will receive regarding its sheltered housing. In December 2016, the Councils approved a new strategy for sheltered housing. Key deliverables of the new strategy are:

- To withdraw sheltered services where there is no demand and convert to general needs housing
- A reduction in the number of schemes to 9 in Babergh, comprising 191 sheltered homes
- Providing independent living for the over-60s with minimum housing related support.
- A cost effective service that remains within budget through a more robust service charging regime.
- Where a scheme is identified as having potential for full or partial redevelopment, recommendations will be brought to members when a full appraisal has been undertaken.

Fixed term tenancies

The Council currently offers new tenants a secure tenancy under the Housing Act 1985. The Localism Act gave local authorities the power to offer fixed term tenancies to new tenants. Subsequent provisions in the Housing and Planning Act will prevent local authorities in England from offering a secure tenancy to people of working age in most circumstances. Offering fixed term tenancies will require new ways of working. Changes include:

- An amended tenancy agreement
- New processes for carrying out reviews during the fixed term and an appeal procedure for challenges to decisions
- Provision/encouragement of a range of housing tenures including shared ownership, low cost home ownership and private affordable housing.

Mandatory fixed term tenancies are expected to be implemented in April 2018.

9. BUSINESS PLAN OWNERSHIP AND REPORTING

The Assistant Director (Supported Living) owns and is responsible for the HRA business plan. This involves:

- Maximising the contribution the HRA makes to delivery of the outputs in the JSP
- Producing the HRA business plan
- Keeping the business plan up to date with changes in the operating environment
- Identifying and mitigating new risks
- Engaging with and informing members, senior staff and residents on HRA performance and annual business plan reviews
- Reporting on HRA outputs to members and the senior leadership team as required
- Maintaining a knowledgeable and responsive HRA business plan team instigating training as required
- Engaging with internal and external advisors
- Benchmarking HRA business plan performance

Appendix A – Summary Improvement Plan

Ref	Item	Detail	Target Completion
A	HRA Business Plan Assumptions	Review annually in light of the prevailing policy and market environments	January 2018
B	Scenario Test	Devise and test scenarios annually in light of the prevailing policy and market environments	January 2018
C	Development Pipeline	Work with the Investment and Commercial Delivery team to take results from HRA land assessment work and develop a pipeline for new home delivery	September 2017
D	Sheltered Housing Review	Deliver findings from December 2016 review	April 2018
E	Property Services/BMBS materials procurement	Review local and regional opportunities for membership of buying consortia with the aim of making £100,000 of savings in materials costs each year for 3 consecutive years from April 2018	April 2018 and annually thereafter until 2021
F	Lettable Standard	Complete a review of the 'lettable standard' and implement new standard	December 2017
G	General Needs Service Charges	Undertake review of charges to GN tenants and develop a methodology for de-pooling rents and service charges.	January 2018
H	Voids	Undertake a complete review of the voids process with a view to achieve a maximum 21 day turnaround of all voids.	September 2017
I	Asset Understanding	Complete a comprehensive asset grading exercise and understand the contribution that each asset makes to the overall portfolio in both financial and qualitative terms.	September 2017
J	Asset Options Appraisal	Undertake options appraisal on the bottom 10 worst performing assets and devise a strategy for each	December 2017
K	Stock Condition	Undertake a stock condition survey	April 2018
L	Asset Management Strategy	Develop and seek approval for a comprehensive HRA asset management strategy	December 2017
M	Rent and Service Charge Policy	Review of how and to what extent rents are set including following void periods. Develop and seek approval for a comprehensive rent and service charge setting policy. Assess the market and options to convert void homes to shared ownership.	December 2017
N	Tenancy Services	Undertake a review of the way in which tenant services are delivered to include a review of costs and delivery mechanisms	December 2017
O	Tenancy Agreement	Undertake a review with a view to moving towards fixed term tenancies for tenants. Develop new policy and implement	April 2018
P	Compliance	Undertake a review of all regulatory compliance within the HRA and develop a plan for improvement.	June 2017