

	Finance & Audit Scrutiny Committee January 13th 2015	Agenda Item No. 6
Title:	Business Plan Performance Management Report	
For further information about this report please contact	Abigail Hay, Housing Strategy & Development Manager Email: abigail.hay@warwickdc.gov.uk Telephone: 01926 456044	
Service Area	Housing and Property Services	
Wards of the District directly affected	All	
Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	
Date and meeting when issue was last considered and relevant minute number	<ul style="list-style-type: none"> • 05.03.12 Finance and Audit Scrutiny Committee minute number 125 • 06.03.12 Executive minute number 134 • 19.06.12 Finance and Audit Scrutiny Committee minute number 25. • 11.12.12 Finance and Audit Scrutiny Committee minute number 100 • 18.06.13 Finance and Audit Scrutiny Committee minute number 15 • 10.06.2014 Finance and Audit Scrutiny Committee minute number 11 • 03.09.2014 Executive minute number 36 	
Background Papers	<ul style="list-style-type: none"> • Housing Business Plan • Warwick District Council House Building Executive Report 3rd September 2014 	

Contrary to the policy framework:	No
Contrary to the budgetary framework:	No
Key Decision?	No
Included within the Forward Plan? (If yes include reference number)	No

Officer/Councillor Approval		
With regard to officer approval all reports <i>must</i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Head of Housing & Property Services	30.12.14	Andy Thompson

Head of Finance		Mike Snow
Portfolio Holder for Housing and Property Services	30.12.14	Councillor Norman Vincett
Consultation Undertaken		
None		
Final Decision?		Yes
Suggested next steps (if not final decision please set out below)		

1 SUMMARY

- 1.1 The purpose of this report is to present to Finance and Audit Scrutiny Committee an update on the Housing Business Plan Performance.

2 RECOMMENDATION

That Finance and Audit Scrutiny Committee notes:

- 2.1 The performance outturn of the Housing Business Plan for quarters 1 and 2 of 2014/15.
- 2.2 The progress to date of the housing advisory project to accelerate and maximise the provision of new homes as part of the Housing Business Plan and to improve the value for money of the existing service.

3 REASONS FOR THE RECOMMENDATION – CURRENT PERFORMANCE

- 3.1 Since the original Housing Business Plan was approved by Members in March 2012, performance reports have been presented to Finance and Audit Scrutiny Committee in December 2012 and June 2013 and June 2014.
- 3.2 On 11th December 2013, a new Housing Business Plan was presented to Executive which had been updated to reflect the most recent changes in performance and business assumptions.
- 3.3 A further review of the business plan will take place in 2015 which will update the plan with all changes that have taken place since the last update as well as revising assumptions for the forthcoming period based on the current information and knowledge. The revised plan will be presented to Executive for approval.
- 3.4 The Business Plan Financial Framework for 2014/15 quarters 1 and 2 is attached at Appendix 1 which sets out the performance of the Business Plan for the first half of 2014/15.

- 3.5 Compared to the Housing Business Plan projections approved in December 2013, there is a projected favourable variance of £14,456,000 for this financial year and an adverse variance of £197,827,000 over the life of the 50 year life of the Business Plan.
- 3.6 The Business Plan Financial Framework Exception Report attached at Appendix 2 details reasons and mitigations for the significant variations.
- 3.7 The adverse variance over the 50 year period is largely due to two factors.
- 3.8 The first factor is the average management cost per home which has an adverse variance of £79,833,000 over 50 years. This is as a result of the assumed savings from the service redesign which were built into the December 2013 business plan not being met, compounded by an actual increase in costs to the service.
- 3.9 The second factor has been contributed to by adverse variances of £25,215,000 in the Average Revenue Repairs & Maintenance Costs per Home and of £67,839,000 in the Capital Maintenance Cost per Home. Due to the complexity of the Open Book approach to managing repairs and maintenance adopted for 2013-2014 onwards, final accounts have not yet been completed for the first year of the new arrangements (2013-2014). This means that it is not yet possible to provide a definitive figure on comparative costs between 2012-2013 and 2013-2014. However, work to date suggests that savings assumptions were optimistic. This has informed a decision to reverse the assumed savings in maintaining the condition of the Council's housing stock arising from a need to reverse assumptions made on the savings predicted to arise from the Open Book system.
- 3.10 In 2015-2016, Housing & Property Services will be undertaking a thorough review of how the Council's housing is maintained to both increase the quality of customer service and take greater control over costs. As part of this work, Committee is asked to note that all Project Partnering Contracts (PPC) and Term Partnering Contract (TPC) documentation has now been issued in those cases where such documentation did not previously exist.
- 3.11 Favorable variances have however been secured from revising Bad Debts as a Percentage of Gross Rents and Void Rent Loss as a Percentage of Gross Rents to take account of the changes being introduced to the social security system such as the phasing in of Universal Credit. A cautious approach has been taken to both Bad Debt and Void Rent Loss as there still remain uncertainties as to the full impact of changes being experienced by our clients as a result of changes to social security and the wider employment market.
- 3.12 The return of the Council to being a developer and provider of new homes has already begun to make a positive contribution to the Housing Business Plan so far calculated as being worth £4,744,000 over 50 years.

4 REASONS FOR THE RECOMMENDATION – PROVISION OF NEW HOMES

- 4.1 Increasing the availability of affordable housing remains a major challenge. The number of properties that are becoming available from our own stock is slowing down from an average of c400 per year to an average of c300 per year as the options for people to move on are limited. This is set against a backdrop of 1,718 (as at 12th December 2014) households being registered as having a housing need and are in Bands 1 to 3 on 'Home Choice', with a further 1,759 in band 4. With a backdrop of rents and property prices increasing at a rate faster than incomes – the average property price to income ratio for Warwick is 9:1, above the average for the West Midlands as a whole and the highest in the County¹ - and continued tenure insecurity in the private rented sector², it is unlikely that this demand will abate.
- 4.2 The delivery of new affordable housing in the district, although improved of late still remains small with only 10 new homes delivered in 2012/13 and 47 new affordable homes built in the district so far this year by housing associations.
- 4.3 The Council however is now in a position to once again become a direct provider of new homes starting with the redevelopment of Fetherston Court. This scheme – to provide 81 homes - will replace ageing flats with modern, purpose built active elderly flats and family bungalows, as well as increasing the overall numbers of properties provided for on the site. The Council has through planning powers (Section 106 of the Town and Country Planning Act 1990) secured 21 properties in South West Warwick, six for social rent and 15 for low cost home ownership.
- 4.4 However, the Council will only be able to continue developing new homes as long as it is able to maintain a viable and sustainable Housing Business Plan and a prudent and pragmatic approach to any alternatives that may be available to develop outside in addition to investment within the Housing Business Plan.
- 4.5 On the 6th and 7th March 2012 Executive and Council approved the Housing Business Plan. Alongside this Council also agreed up to £100,000 of expenditure from Housing Revenue Account (HRA) balances to prepare a Business Case to maximise the provision of new homes.
- 4.6 Finance and Audit Scrutiny Committee suggested a need to closely scrutinise this £100,000 of expenditure and the monitoring arrangements to be explained to members as soon as possible.
- 4.7 The Finance & Audit Scrutiny Committee has been provided regular updates on the progress of this work which included commissioning external advisors,

¹ Source: Home Truths 2014-2015 (National Housing Federation, December 2014)

² Sources: Evictions increase number of homeless (The Independent, December 2014), Renters turn to Shelter as revenge evictions soar (Shelter, June 2014); Thousands of tenants without rent arrears face eviction (Inside Housing, July 2014)

PriceWaterHouseCoopers (PWC). Their report considered a range of options as to how the Council could maximise the number of new homes that the council could build and also ensure that its own business was ran in the most efficient manner.

- 4.8 Following this report, the Chartered Institute of Housing (CIH) were commissioned to facilitate a session with Corporate Management Team, Housing and Property Services Portfolio Holder and Housing and Property Services staff to set the strategic direction for the service in relation to its approach to delivering affordable housing in Warwick District. The facilitation cost £1,116; brought the total cost of the project to £68,116 which remains well within the agreed £100,000 budget.
- 4.9 The Corporate Management Team worked with the Housing & Property Services Portfolio Holder and Executive to agree the approach for the Council around building of homes and a report was approved by Executive in September 2014 which recommended that further work was carried out to consider opportunities for delivering new council homes, included the possible setting up of a Council Housing Company. A project team has been set up comprising officers from Housing & Property Services, Finance, Procurement and Legal to assess opportunities and risks of establishing a Council Housing Company. This work includes a thorough assessment of any legal constraints that may impact on the structure, governance and capability of a Council Housing Company and an assessment of available council and third party owned sites to support the development of new Council-owned homes. A further report will be presented to Executive in February 2015.

5 ALTERNATIVE OPTIONS CONSIDERED

- 5.1 The Committee may wish to suggest more frequent updates than the proposed six monthly cycle. However, in November 2014 Council approved the establishment of a Housing Advisory Group (HAG) which, whilst its terms of reference are yet to be approved, will have a remit to consider and advise on policy and practice relating to the way the Council discharges its housing duties and responsibilities.
- 5.2 It is proposed that the HAG will replace the Interim Housing & Property Board and take on responsibility for monitoring the Housing Business Plan and related activity. A report will be presented to Executive in February 2015 for approval of the exact terms of reference. However it is envisaged that the HAG will provide sufficiently robust monitoring to make unnecessary more frequent updates to the Finance and Audit Committee.

6 BUDGETARY FRAMEWORK

- 6.1 The effective monitoring and control of expenditure and income is a fundamental part of the proper financial management for the Council, enshrined within the Code of Financial Practice and monthly Budget Review process

- 6.2 The move to a 'Self Financing' Housing Revenue Account (HRA) on 1st April 2012 involved taking on £136.2m of debt, which is to be repaid in stages after 41 to 50 years (2053 to 2062). The fixed annual interest charge payable is significantly lower than the amount that was previously paid to central government under the former 'subsidy' system, so there are additional resources available each year, allowing the Housing Business Plan to include a significant provision to fulfil the Council's ambitions to build new homes.
- 6.3 The Housing Business Plan projects considerable capital expenditure on providing new homes, and allows for the eventual repayment of debt. Therefore it is essential to project Business Plan expenditure over the full 50 year term of the Plan rather than just the short to medium term (up to 5 year) horizon more commonly considered. Small variations in the early years may, if not identified and addressed, have a significant impact on the ability to meet the ambition for the provision of new affordable homes in the district - and potentially the ability to repay the debt within 50 years.
- 6.4 Therefore the ongoing Budget Review and Performance Management processes continue - but with the addition of a longer term 'Business Plan Financial Framework' report identifying potential longer term variations, and projecting the likely financial effect over 50 years. The financial summary is accompanied by exception reports explaining the causes of and mitigations for any significant variances.
- 6.5 The Business Plan Financial Framework is presented to:
- the Interim Housing and Property Board on a quarterly basis
 - the Finance and Audit Committee six monthly
 - the Executive annually

7 POLICY FRAMEWORK

- 7.1 The recommendations of this report are in keeping with the approved Housing Business Plan.
- 7.2 Effective monitoring and control of expenditure and income is essential for the proper financial management for the Council.

Appendix 1 – Business Plan Financial Framework (BPF)

Performance Measure	Dec '13 Business Plan Base Assumption 2014/15	Apr '14 BPF Year End Assumption 2014/15	Latest Assumption 2014/15	2014/15 Variances Fav. / (Adv.) £'000	Projected Variances over 5 Years Fav. / (Adv.) £'000	Projected Variances as at Year 50 Fav. / (Adv.) £'000	
Total of variances brought forward from 2013/14 Year End BPF				2,198	(6,704)	(34,439)	
Average Net Management Cost per Home	£1,013	£1,049	£1,118	(342)	(1,984)	(79,833)	
Average Revenue Repairs & Maintenance Costs per Home	£896	£891	£887	20	103	(25,215)	
Average Capital Maintenance Cost per Home	<i>excluding slippage</i>	£956	£956	£834	668	267	(67,839)
	<i>slippage from 2013/14</i>	£0	£83	£83	0	0	0
	<i>slippage to 2015/16</i>	£0	£0	-£8	44	0	0
	TOTAL	£956	£1,039	£909	712	267	(67,839)
Bad Debts as a % of Gross Rents	1.27%	1.27%	1.27%	0	172	592	
Void Rent Loss as a % of Gross Rents	0.70%	0.70%	0.60%	25	27	92	
Rents set in line with Central Government formulas	£90.24	£88.29	£88.29	0	0	0	
Void Homes moved to Formula Rent during 2014/15	400	200	170	(5)	(43)	(627)	
No. of Garages Demolished for redevelopment	21	90	130	(3)	(34)	(134)	
No. of Right-To-Buy Sales	22	22	22	0	0	0	
Construction / Acquisition of New Homes (Specific schemes)							
Redevelopment of Fetherston Court area	76	76	81	7,668	(3,181)	(4,073)	
Repurchase of Ex-Council Homes	0	0	1	(170)	(162)	45	
Acquisitions SW Warwick	0	0	21	(1,580)	(2,099)	8,772	
TOTAL	76	76	103	5,918	(5,442)	4,744	
Interest Rate on HRA Balances	0.63%	0.63%	0.70%	15	0	88	
Interest Rate on HRA Debt	3.50%	3.50%	3.50%	0	0	0	
OVERALL EFFECT OF ALL CHANGES ABOVE				14,456	(19,080)	(197,827)	

**Appendix 2 - Business Plan Financial Framework Exception Report
2014/15 – Quarters 1 and 2**

Performance Measure	Average Management Costs per Home
Variance	Annual: -£342,000 Adverse Variance 50 Years: -£79,833,000 Adverse Variance
Cause	<p>In December 2013, a revised housing business plan was approved by Executive which had been updated to reflect the most recent changes in performance and business assumptions. At this stage Tier I of the service redesign had been completed which had delivered a 24% reduction in management cost and a net recurring saving of approximately £66,000 per annum. It was anticipated that the Tier II redesign would also be able to deliver savings and an assumed reduction of 10% across the rest of the services staffing costs were built into the revised business plan.</p> <p>The Tier II redesign which was approved by Employment Committee on 18th June 2014 has now been completed, however the anticipated savings were not been achieved which has led to a significant variance over the business plan period. For the sections of the service that have been redesigned to date, (Sustaining Tenancies and Strategy and Development), the overall cost of the service increased by £20,900 per annum. Although the overall cost of the service increased following the redesign, it was considered necessary in order to ensure that the redesigned service was able to meet all three of its objectives in line with the Councils Fit for the Future strategy:</p> <ol style="list-style-type: none"> 1. improving customer services, 2. delivering efficiencies, and 3. enabling a positive culture change <p>The final section of the service, the Asset Management Team will form Tier III of the redesign which will be presented for approval to Employment Committee in January 2015, and any changes to the cost of this section will be built into the review of the business plan which will take place in 2015.</p>
Mitigation	<p>Although this presents a significant adverse variance to the December 2013 base business plan, the business plan remains viable.</p> <p>The business plan will be undergoing a major review in 2015, by which time the entire service will have been redesigned and we will have certainty around the long term management costs of the service.</p>

Performance Measure	Average Revenue Repairs & Maintenance Costs per Home
Variance	Annual: £20,000 favourable 50 Years: -£25,215,000 adverse
Cause	<p>The favourable variance in 2014/15, which is also shown in the average unit costs for 2014-2015 being below those assumed for the Business Plan has been caused as a result of a one-off reduction of planned maintenance programmes being carried out in 2014-2015 compared to the forecasted requirements. This is because the capacity of the department has been insufficient to complete the work, a matter that is being addressed by the Tier III Redesign.</p> <p>When the housing repairs and maintenance contracts were renewed it was anticipated that there would be savings generated as a result which were built into the Business Plan. The new contracts have been in place since April 2013 and the first year accounts are still being reconciled. However it appears that the assumed savings are unlikely to be met. Therefore all savings have been removed from the plan at this stage and when the Business Plan is reviewed, revised assumptions will be included.</p>
Mitigation	<p>The housing stock condition information is now out of date and is not reliable to forecast the required investment programmes to sustain our stock. The department is investing in the ICT infrastructure required to enable its officers to carry out comprehensive stock condition surveys, to be completed during 2015, which will reliably inform the investment required in our stock.</p> <p>The current contract arrangements are being reviewed in 2015/16 to ensure that they deliver value for money.</p> <p>The Housing Business Plan will be reviewed in early 2015 and continuously thereafter to ensure that the data underpinning the plan is robust.</p>

Performance Measure	Average Capital Maintenance Cost per Home
Variance	Annual – £712,000 favourable 0 Years – -£67,839,000 adverse
Cause	<p>The favourable variance in 2014/15 has been caused as a result in the reduction of planned maintenance programmes being carried out this year compared to the forecasted requirements.</p> <p>When the housing repairs and maintenance contracts were renewed it was anticipated that there would be savings generated as a result which were built into the Business Plan. The new contracts have been in place since April 2013 and the first year accounts are still being reconciled, however it appears that the assumed savings are unlikely to be met. Therefore all savings have been removed from the plan at this stage and when the Business Plan is reviewed, revised assumptions will be included.</p>

Mitigation	<p>The housing stock condition information is now out of date and is not reliable to forecast the required investment programmes to sustain our stock. The department is investing in the ICT infrastructure required to enable its officers to carry out comprehensive stock condition surveys which will be completed during 2015 and which will reliably inform the investment required in our stock.</p> <p>The current contract arrangements are being reviewed in 2015/16 to ensure that they deliver value for money.</p> <p>The Housing Business Plan will be reviewed in early 2015 and continuously thereafter to ensure that the data underpinning the plan is robust.</p>
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Performance Measure	Void Homes Moved to Formula Rent
Variance	Annual: -£5,000 adverse variance 50 Years: -£627,000 adverse variance
Cause	<p>In January 2014, the Government issued new rent guidance for social housing, which brought about the end of rent restructuring through annual rent increases. The new policy recognised that in many cases rent convergence had not been achieved and therefore proposed that in order for this to be achieved that providers should increase the rent to formula rent as properties become void.</p> <p>In February 2014, as part of the rent setting report that was presented to Executive, a recommendation was made that with effect from April 2014, all void properties were transferred to formula rent. At Council on 26th February 2014, this recommendation was withdrawn due to concerns raised about the potential impact of increased rent charges for existing tenants who wish to transfer to alternative accommodation, in particular those affected by the under occupation charge.</p> <p>In June 2014, a further report was put before Executive who approved the adoption of the policy which will see all void properties moved to capped formula ('target') social rent when re-let, to be implemented as soon as practicably possible. It was assumed in the business plan that all void homes would be moved for formula rent with effect from August 2014 and an assumption was made about the number of properties that would become void.</p> <p>Due to alterations required to the housing management IT systems to enable the changes to rent charges to be applied in this way, we were unable to implement this policy until November 2014 which means those properties which were void between August and October were not transferred to formula rent and as a result the rental income for the life of those tenancies will be reduced compared to business plan projections.</p>
Mitigation	This is a small adverse variance and the business plan remains viable. All void properties will now transfer to formula rent.

Performance Measure	Construction / Acquisition of New Homes (Specific schemes)
Variance	Annual – £5,918,000 favourable variance 50 Years – £4,744,000 favourable variance
Cause	The annual favourable variance has been caused as a result of a delay in starting the Fetherston Court redevelopment which means that expenditure will be incurred later than anticipated. A The acquiring of South West Warwick units has resulted in additional rental income which will deliver a positive variance.
Mitigation	N/A – this is a favourable variance. However acquiring new council homes provides the potential to increase income to the business plan.