

	<b>Finance &amp; Audit Scrutiny Committee</b> <b>8<sup>th</sup> March 2016</b>	<b>Agenda Item No.</b> <b>7</b>
<b>Title:</b>	Business Plan Performance Management Report	
<b>For further information about this report please contact</b>	Abigail Hay, Housing Strategy & Development Manager Email: <a href="mailto:abigail.hay@warwickdc.gov.uk">abigail.hay@warwickdc.gov.uk</a> Telephone: 01926 456044	
<b>Service Area</b>	Housing and Property Services	
<b>Wards of the District directly affected</b>	All	
<b>Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006</b>	No	
<b>Date and meeting when issue was last considered and relevant minute number</b>	<ul style="list-style-type: none"> <li>• 10.06.2014 Finance and Audit Scrutiny Committee (minute number 11)</li> <li>• 03.09.2014 Executive (minute number 36)</li> <li>• 11.03.2015 Executive</li> <li>• 13.01.2015 Finance &amp; Audit Scrutiny Committee (minute number 103)</li> <li>• 28.07.2015 Finance &amp; Audit Scrutiny Committee (minute number 31)</li> </ul>	
<b>Background Papers</b>	<ul style="list-style-type: none"> <li>• Housing Business Plan</li> </ul>	

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										
<b>Officer/Councillor Approval</b>											
With regard to officer approval all reports <i>must</i> be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).											
<b>Officer Approval</b>	<table border="1"> <thead> <tr> <th data-bbox="611 1603 858 1641">Date</th> <th data-bbox="858 1603 1445 1641">Name</th> </tr> </thead> <tbody> <tr> <td data-bbox="611 1641 858 1680">26.02.2016</td> <td data-bbox="858 1641 1445 1680">Bill Hunt</td> </tr> <tr> <td data-bbox="611 1680 858 1744">25.02.2016</td> <td data-bbox="858 1680 1445 1744">Andy Thompson</td> </tr> <tr> <td data-bbox="611 1744 858 1783">25.02.2016</td> <td data-bbox="858 1744 1445 1783">Mike Snow</td> </tr> <tr> <td data-bbox="611 1783 858 1892">25.02.2016</td> <td data-bbox="858 1783 1445 1892">Councillor Peter Phillips</td> </tr> </tbody> </table>	Date	Name	26.02.2016	Bill Hunt	25.02.2016	Andy Thompson	25.02.2016	Mike Snow	25.02.2016	Councillor Peter Phillips
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25.02.2016	Mike Snow										
25.02.2016	Councillor Peter Phillips										
Deputy Chief Executive											
Head of Housing & Property Services											
Head of Finance											
Portfolio Holder for Housing and Property Services											
<b>Consultation Undertaken</b>											
None											
<b>Final Decision?</b>	No										
<b>Suggested next steps (if not final decision please set out below)</b>											

## **1. SUMMARY**

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

## **2. RECOMMENDATION**

- 2.1. That Finance and Audit Scrutiny Committee notes the performance outturn of the Business Plan for quarters 1 to 3 of 2015/16.

## **3. REASONS FOR THE RECOMMENDATION**

- 3.1. Since the original HRA Business Plan was approved by Members in March 2012, performance reports have been presented to Finance and Audit Scrutiny Committee on a bi-annual basis.
- 3.2. In addition the base business plan has been revised to reflect changes in performance and assumptions, with the latest business plan having been approved by the Executive in March 2015.
- 3.3. A further review of the HRA Business Plan has taken place in 2015/16 and is being presented to the Executive for approval in March 2016. This review has:
  - Updated the base business plan with all changes that have taken place
  - Revised assumptions for the forthcoming period based on current information and knowledge.
  - Taken account of any housing policy changes being proposed by the Government.

The HRA Business Plan Executive report should be considered alongside this report.

- 3.4. The HRA Business Plan Financial Framework for 2015/16 is attached at Appendix 1 which sets out the performance of the Business Plan for quarters 1 to 3 of 2015/16. All numbers reflect the projected outturn for the current year and the variation from the March 2015 BP.
- 3.5. As the Business Plan has now been revised and is being presented to the Executive for approval in March, it is no longer necessary to reflect the long term impact, as the business plan has now been revised to take account of the changes in performance and future assumptions. The projected variances over 5 years and 50 years are not presented in this report. For comparison purposes, the table in Appendix 1 shows the revised base assumption for each performance measure.
- 3.6. Compared to the HRA Business Plan projections approved in March 2015, there is a projected adverse variance of £718,000 for 2015/16, predominantly due to higher than anticipated expenditure for revenue repairs and the slippage of capital repairs and maintenance from 2014/15 into 2015/16.
- 3.7. The Business Plan Financial Framework Exception Report attached at Appendix 2 details reasons and mitigations for the significant variations.

- 3.8. The adverse variance is due to a combination of factors. Most significantly, the average cost of revenue repairs and maintenance being higher than anticipated causing an adverse variance of £1,115,000 in 2015/16. This is as a result of a number of factors including increased demand and quality and administration challenges with open book accounting. A number of steps are being taken to manage the future demand and expenditure including the reintroduction of pre inspections of repairs and discussions to move from open-book accounting to schedule of rates which is scheduled to take effect in April 2016.
- 3.9. The average cost of capital maintenance per home has created an adverse variance in 2015/16 of £402,000. This is as a result of a number of capital programmes being moved from 2014/15 into 2015/16.
- 3.10. Right to Buy Sales have been higher than anticipated in the base business plan. Whilst this has resulted in some additional receipts which must be used to fund replacement homes under Government policy, the formula has changed each year to increase the amount of sales needed to retain any income. To date the retained receipts have been used to contribute towards the Sayer Court development, however on current projections it is unlikely any receipts will be retained after the next few years. This has resulted in a favourable variance of £575,000 as 16 more dwellings are expected to be sold than anticipated in the March 2015 BP, however this will impact adversely over the 50 year life of the business plan because the rental income that the council loses over time far exceeds any small elements retained in the year from sale proceeds.
- 3.11. In October 2015, the Government published the Housing and Planning Bill. This Bill is expected to get Royal Assent in April 2016 and makes provision for a number of policies that will impact on the financial viability of the HRA BP. The Housing Revenue Account Business Plan report that will be presented to the Executive in March 2016 sets out what the potential impact of the Bill might be.

#### **4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1. This report is for information only. There are no alternative options to the recommendation to note its contents.

#### **5. BUDGETARY FRAMEWORK**

- 5.1. 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
- 5.2. The move to a 'Self Financing' Housing Revenue Account (HRA) on 1<sup>st</sup> April 2012 involved taking on £136.2m of debt, which is due to be repaid in stages after 41 to 50 years (2053 to 2062).
- 5.3. 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 five 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.
- 5.4. 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.

- 5.5. The Business Plan Financial Framework is presented to:
- the Finance and Audit Committee six monthly
  - the Executive annually

## **6. POLICY FRAMEWORK**

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

## Appendix 1 – Business Plan Financial Framework (BPFF)

Performance Measure	Mar '15 Business Plan Base Assumption 2015/16	31-Mar-16 2015/2016 Year End Outturn	Actual Variances 2015/16 Fav./(ADV.) £'000	2016/17 Projections
Average Net Management Costs Per Home	£1,069	£1,057	66	£1,060
Average Revenue Repairs & Maintenance costs per Home	£987	£1,188	(1,115)	£1,034
Average Capital Maintenance Costs Per Home	£883	£955	(402)	£859
Bad Debts as a % of Gross Rents	1.70%	1.17%	140	1.71%
Voids Rent Loss as a % of Gross Rents	0.7%	0.7%	0	0.7%
Rent Set in line with Central Government Formula	£90.48	£90.41	(21)	£89.87
Void Homes Moved to Formula Rent during 2015/16	311	311	0	300
No of Garages Demolished for Redevelopment	6	0	2	0
No of Right to Buy Sales	28	44	575	37
Sale of High Value Void Properties	0	0	0	0
Construction & Acquisitions of New Homes				
Sayer Court	0	0	0	81
Repurchase of Ex Council Homes	0	0	0	0
Acquisition of SW Warwick	6	6	0	0
Shared Ownership	15	15	0	0
Total	21	21	0	81
Interest on HRA Balances	0.7%	0.7%	0	0.7%
Interest Rate on HRA Debt	3.5%	3.5%	0	3.5%
<b>OVERALL EFFECT OF CHANGES ABOVE</b>			<b>(755)</b>	

**Appendix 2 - Business Plan Financial Framework Exception Report  
2015/16 – Quarters 1 and 2**

<b>Performance Measure</b>	<b>Average Revenue Repairs and Maintenance Cost</b>
<b>Variance</b>	2015/16: <b>-£1,115,000 Adverse</b>
<b>Cause</b>	<p>A number of factors have contributed to additional expenditure on repairs and maintenance, including:</p> <ul style="list-style-type: none"> <li>• An increase in both the quantity and cost of repairs and maintenance work has required additional expenditure to ensure that tenant’s homes are repaired and maintained to an acceptable standard.</li> <li>• Budgets were reduced to reflect projected savings as a result of Open Book contracts which did not materialise. In addition no reference was made to RPI and building cost inflation when setting budgets due to the expectation that savings and efficiencies would offset any inflationary costs.</li> <li>• Administration and Management issues were introduced as a result of the new contracts which resulted in a lack of control for the council in determining what jobs are carried out. In addition due to the complex reconciling process that is required with these contracts, it is extremely difficult to track expenditure and therefore manage budgets effectively.</li> </ul>
<b>Mitigation</b>	<p>A number of measures have been introduced and planned in order for the service to be able to better manage and control expenditure on repairs and maintenance, including:</p> <ul style="list-style-type: none"> <li>• Monthly budget reports are being presented to the Housing &amp; Property Management Team from August 2015 setting out annual budget, budget to date, committed to date, actuals to date and remaining budgets across the primary budget areas.</li> <li>• Each team within Asset Management from July 2015 has a monthly budget report setting out budget, actuals and remaining budgets across its budget codes and work is being progressed so that known commitments can be factored in.</li> <li>• Monthly budget reviews with Portfolio Holder and Head of Service has been in place since the end of the second quarter of 2015/16 to introduce more accountable budget management supported by monthly production of financial data.</li> <li>• Techniques are being introduced in order to manage demand and customer expectations, including pre-inspections, cyclical visits, recharge policy, tenant’s repairs handbook and a revised void standard.</li> <li>• A review of the contract arrangements is underway to consider how we can best control and administer them in the future with a view to moving towards a Schedule of Rates type contract to allow for closer control of expenditure.</li> </ul>

<b>Performance Measure</b>	<b>Average Capital Maintenance Cost Per Home</b>
<b>Variance</b>	2015/16: <b>-£402,000 Adverse</b>
<b>Cause</b>	A number of capital programmes including Electrical Fitments, Housing Aids and Adaptations and Environmental Improvements were slipped from 2014/15 into 2015/16. Although this represents an increase in the average costs per property for 2015/16 this is a one off event which affects this year only.
<b>Mitigation</b>	Housing & property Services will be completing a 100% stock condition survey in order to assist us in understating our ongoing liability and support us in planning capital programmes more effectively and efficiently.

<b>Performance Measure</b>	<b>Number of Right to Buy Sales</b>
<b>Variance</b>	2015/16: <b>£575,000 Favourable</b>
<b>Cause</b>	There were 16 more properties sold under Right To Buy than assumed in the base business plan presented March 2015. The Council can retain some of the monies from the sale for homes where proceeds exceed the level assumed in the 2012 Self Financing Settlement, as long as they are used to fund new social or affordable homes within 3 years. This causes a favourable variance in the year the property is sold, however long term there is an adverse variance due to the loss of rental income from the property.
<b>Mitigation</b>	The assumption for the number of homes sold over the next year in the business plan being presented to Executive in March 2016 has been adjusted to reflect the additional sales in 2015/16 but have maintained the trend for 2017-18 onwards to take account of and even out the unusually high sales in 2015-16. The number of applications and sales will be continually monitored and the business plan will be updated accordingly.