

 Finance & Audit Scrutiny Committee 10th June 2014		Agenda Item No. 10
Title:	Business Plan Performance Management Report	
For further information about this report please contact	Abigail Hay, Business Support Manager	
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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No	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 	
Background Papers	<ul style="list-style-type: none"> • Housing Business Plan 	

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><u>must</u></i> be approved by the report authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	Date	Name
Deputy Chief Executive	30/05/2014	Andrew Jones
Head of Finance	06/06/2014	Mike Snow
Portfolio Holder for Housing and Property Services	30/05/2014	Councillor Norman Vincett
Consultation Undertaken		
The Interim Housing & Property Board has been consulted. The Board consists of Deputy Chief Executive, Business Support Manager, Principal Accountant, Portfolio Holder for Housing & Property Services, Shadow Portfolio Holders for Housing & Property Services, the Portfolio Holder for Finance and the Leader of the Council.		
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 Business Plan for 2013/14.
- 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

- 3.1 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.
- 3.2 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.
- 3.3 On 11th December 2012 a report was presented to Finance and Audit Scrutiny Committee with an update on the advisory project including who was appointed and the cost.
- 3.4 On 18th June 2013 a further report was presented to Finance and Audit Scrutiny Committee with an update on the progress of the report and that further work outside of the original scope was underway.
- 3.5 The report has now been concluded by PriceWaterHouseCoopers (PWC) which considers a range of options as to how the Council could maximise the number of new homes that the plan could build and also ensure that its own business was ran in the most efficient manner.
- 3.6 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; bringing the total cost of the project to £68,116 which remains well within the agreed £100,000 budget.
- 3.7 The Corporate Management Team are currently working with the Housing & Property Services Portfolio Holder and Executive to agree the approach for the Council around building of homes. A report is scheduled to be presented to Executive in September 2014 with proposals.

- 3.8 Since the original 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.
- 3.9 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.
- 3.10 The Business Plan Financial Framework for 2013/14 is attached at Appendix 1 which sets out the performance of the Business Plan for 2013/14.
- 3.11 Compared to the Housing Business Plan projections approved in December 2013, there is a projected positive variance of £1,470,000 for this financial year and a negative variance of £34,439,000 over the life of the 50 year life of the Business Plan.
- 3.12 The Business Plan Financial Framework Exception Report attached at Appendix 2 details reasons and mitigations for the significant variations.
- 3.13 The 'favourable' variance for 2013/14 year end resources against business plan predictions is largely due to £1,069,000 slippage on the Fetherston Court redevelopment project; these costs will be incurred in 2014/15 so there is no real saving to the business plan. Genuine favourable variances include performance above expected levels in rental income collection and void turnaround times.
- 3.14 The projected negative variance over the 50 year Business Plan largely relates to the rent increase that was approved by Members in February 2014, which was lower than the Government Guidance on rent setting, therefore reducing the income to the plan.

4 ALTERNATIVE OPTIONS CONSIDERED

- 4.1 The Committee may alternatively suggest that the monitoring of expenditure should be more frequent. However, the Interim Housing & Property Board currently provides this function with high level reports to the Committee when required.
- 4.2 The Committee may alternatively suggest more frequent updates than the proposed six monthly. However the Interim Housing & Property Board with its cross party membership, tenant representation and officer representation from Housing & Property Services and Finance adequately performs this function.

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 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 significant ambitions for the building of new homes.

- 5.3 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.
- 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 Interim Housing and Property Board on a quarterly basis
 - the Finance and Audit Committee six monthly
 - the Executive annually
- 5.6 More details on the HRA Outturn for 2013/14 can be found within the Final Accounts report being considered by the Executive on 11th June 2014.

6 POLICY FRAMEWORK

- 6.1 The recommendations of this report are in keeping with the approved Housing 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		Dec '13 Business Plan Assumption 2013/14	Projected Actual Outturn for 2013/14	Dec '13 Business Plan Assumption 2014/15	Latest Assumption 2014/15	2013/14 Variances From Revised BP Fav. / (Adv.) £'000	Projected Variances over 5 Years Fav. / (Adv.) £'000	Projected Variances over 50 Years Fav. / (Adv.) £'000
Average Net Management Cost per Home		£1,104	£1,027	£1,013	£1,049	340	232	465
Average Revenue Repairs & Maintenance Costs per Home		£943	£901	£896	£891	230	238	457
Average Capital Maintenance Cost per Home	<i>excluding slippage</i>	£823	£967	£956	£956	(794)	(816)	(1,608)
	<i>slippage from 2012/13</i>	£54	£54	£0	£0	0	0	0
	<i>slippage to 2014/15</i>	£0	-£83	£0	£83	455	0	0
	TOTAL	£877	£938	£956	£1,039	(339)	(816)	(1,608)
Bad Debts as a % of Gross Rents		0.74%	0.38%	1.27%	1.27%	88	91	142
Void Rent Loss as a % of Gross Rents		0.70%	0.36%	0.70%	0.70%	84	86	135
RPI for Rent Setting and assumed 2013/14 baseline inflation		2.60%	2.60%	3.20%	3.20%	0	0	0
Rents set in line with Central Government formulas		£85.08	£85.08	£90.24	£88.29	0	(1,991)	(14,045)
Void Homes moved to Formula Rent		n/a	n/a	400	200	0	(357)	(17,570)
No. of Garages Demolished to provide land for development		90	0	21	90	0	24	50
No. of Right-To-Buy Sales		40	39	22	22	0	14	386
No. of New Build Homes		0	0	0	0	1,069	(3,612)	(2,848)
Interest Rate on HRA Balances		0.7%	0.69%	0.63%	0.63%	(2)	(2)	(3)
Interest Rate on HRA Debt		3.50%	3.50%	3.50%	3.50%	0	0	0
OVERALL EFFECT OF ALL CHANGES ABOVE						1,470	(6,093)	(34,439)

Appendix 2 - Business Plan Financial Framework Exception Report 2013/14

Performance Measure	Average Revenue Repairs & Maintenance Costs per Home
Variance	Annual – £340,000 Favourable 50 Years - £465,000 Favourable
Cause	This favourable variance has been caused by underspends across a number of revenue budgets.
Mitigation	N/A – This is a favourable variance however improved budget review should ensure that underspends are identified early on the plan revised accordingly.

Performance Measure	Average Revenue Repairs & Maintenance Costs per Home
Variance	Annual – £230,000 Favourable 50 Years - £457,000 Favourable
Cause	The Business Plan assumed that the entire asbestos budget would be transferred from Capital to Revenue. In reality, due to a number of changes during budget review, a significant amount remained in capital; therefore the revenue budget was lower than anticipated, resulting in a favourable variance.
Mitigation	N/A – This is a favourable variance.

Performance Measure	Average Capital Maintenance Cost per Home
Variance	Annual – (£339,000) Adverse 50 Years – (£1,608,000) Adverse
Cause	The Business Plan had built in assumed savings as a result of the open book contracts which are in place for Repair and Maintenance. The anticipated savings did not materialise, and there was an overspend, resulting in an adverse variance.
Mitigation	In order to more effectively predict capital expenditure requirements and therefore future spend, a robust review of capital budget requirement based on sound stock condition data is required. This is now a key project in the 2014/15 Service Area Plan and a detailed timetable for completion will be drawn up over the next few months.

Performance Measure	Bad Debts as a Percentage of Gross Rents
Variance	Annual - £88,000 Favourable 50 Years - £142,000 Favourable
Cause	<p>When the Business Plan was originally approved by members in March 2012, significant welfare reforms had been announced to be implemented with effect from 2013/14 and due to the huge uncertainty of impact that this would have on our tenants ability to pay their rent, a very prudent assumption was made on the Bad Debt provision (BDP) projection which was set with effect from 2013/14 at 2.87%.</p> <p>Throughout 2013/14, the under occupation charge and the benefit cap were implemented and despite this performance remained stronger than previous years, resulting in a favourable variance on the Business Plan.</p> <p>When the Business Plan was revised in December 2013, the BDP was revised to 0.74%, which was again a prudent assumption. This was due to:</p> <ul style="list-style-type: none"> a) The fact that Universal Credit, which is considered to be the most significant change affecting rent collection, has yet to take effect b) The fact that the implementation of the under occupation charge and benefit cap are still in its early stages and although performance in this area remains strong, it is not yet clear what the long term impact may be upon rent collection.
Mitigation	N/A – this is a positive variance, however we will be maintain close monitoring of performance to review the longer term impacts of the under occupation charge and also the effects of new changes being implemented.

Performance Measure	Void Rent Loss as a Percentage of Gross Rents
Variance	Annual - £84,000 Favourable 50 Years - £135,000 Favourable
Cause	Performance in the time taken to let a property when it becomes void has been better than anticipated resulting in a favourable variance.
Mitigation	N/A - This is a favourable variance.

Performance Measure	Rents Set in Line with Government Formulas
Variance	Annual - £0 50 Years – (£14,045,000) Adverse
Cause	<p>The Business Plan Assumption was that rents for 2014/15 would increase in line with the Government Rent Restructuring formula of RPI + 0.5% + up to £2.00 (an average of 5.99%)</p> <p>In February 2014, Members approved a rent increase of CPI + 1% (an average of 3.7%). This was so that the applied rent increase would remain affordable for current tenants, whilst continuing to allow the provision of new homes within the Housing Business Plan without compromising service quality.</p>
Mitigation	<p>Although the reduced rent increase does significantly reduce income over the 50 year period, the plan still remains viable and is able to maintain service and deliver new homes.</p> <p>Both base and latest Business Plan expect future rent increases are in accordance with the Governments proposed future rent increase formula of CPI + 1%.</p> <p>The recommendations presented to Members for rent increases will be reviewed each year to ensure they remain affordable for both tenants and the Housing Business Plan.</p>

Performance Measure	Void Homes Moved to Formula Rent
Variance	Annual - £0 50 Years – (£17,570,000) Adverse
Cause	<p>In February 2014, the HRA Rent Setting Report was presented to Members which recommended that in accordance with the Governments consultation on Social Rent Setting Policy, all void properties would be moved to capped formula (target) social rent with effect from April 2014.</p> <p>At the Finance and Audit Scrutiny Committee on 11th February 2014 the Committee put forward an alternative to the recommendation so that if an existing Warwick District Council tenant transfers to a void property, the tenant should still be eligible for the current level of rent and not the capped formula (target) social rent.</p> <p>As this recommendation required further investigation and legal advice it was agreed at Council on 26th February 2014 that neither the original or amended proposal would be adopted so that further legal advice could be obtained in relation to the recommendation and that a report would be brought back to Executive in due Course.</p> <p>As a result of this, the properties which have become void since 1st April 2014 have not moved to the capped formula (target)</p>

	social rent which has resulted in a reduction in the rental income that will be received from these properties compared to what was assumed in the Business Plan. In addition the likely speed of convergence from this policy has been reassessed, and is likely to be slower than initially projected.
Mitigation	<p>A report has been prepared for Executive in June 2014 to consider this matter. The report recommends that all void properties should be moved to capped formula (target) social rent. The revised Business Plan assumes that this takes effect from August 2014.</p> <p>If this policy is not implemented there will be a significant additional variance, £180m Adverse over 50 years, unless rents are increased towards formula rent by a different mechanism.</p>

Performance Measure	Number of New Build Homes
Variance	<p>Annual – £0</p> <p>50 Years – (£2,848,000) Adverse</p>
Cause	The costs associated with the redevelopment of Fetherston Court have been revised in the Business Plan to reflect the increased specification and a slight increase in the number of units which will be provided on the site, as well as inflation due to a longer than expected project duration. The costs are higher than anticipated, resulting therefore in an adverse variance.
Mitigation	The Business Plan has been revised to reflect the latest cost projections for the redevelopment project. The Project Team will continue to report to Executive on progress including costs projections as the specification's become more detailed and costs become clearer. The Business Plan will continue to be updated to reflect any changes approved by Executive.