

 <b>Finance &amp; Audit Scrutiny Committee</b> <b>- 18 June 2013</b>		<b>Agenda Item No.</b>  <div style="text-align: right; font-size: 2em;"><b>5</b></div>
<b>Title:</b>	<b>Business Plan Performance Management Report</b>	
<b>For further information about this report please contact</b>	Jameel Malik, Head of Housing and Property Services	
<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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006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>• 05.03.12 Finance and Audit Scrutiny Committee minute number 125</li> <li>• 06.03.12 Executive minute number 134</li> <li>• 19.06.12 Finance and Audit Scrutiny Committee minute number 25.</li> <li>• 11.12.12 Finance and Audit Scrutiny Committee minute number 100</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 authors relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
<b>Officer Approval</b>	<b>Date</b>	<b>Name</b>
Deputy Chief Executive	05.06.13	Andrew Jones
Head of Finance	05.06.13	Mike Snow
Portfolio Holder for Housing and Property Services	05.06.13	Councillor Norman Vincett
<b>Consultation Undertaken</b>		
Please insert details of any consultation undertaken with regard to this report.		
<b>Final Decision?</b>		Yes
<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 Business Plan Performance.

## **2 RECOMMENDATION**

That Finance and Audit Scrutiny Committee notes:

- 2.1 The performance outturn of the Business Plan for 2012/13.
- 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 6<sup>th</sup> and 7<sup>th</sup> 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 11<sup>th</sup> 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 Pricewaterhousecoopers (PWC) have now prepared a draft report for consideration by the Council. There has since been a further piece of work identified which is required to be completed which falls outside of the scope of the initial brief which PWC are undertaking at an additional cost of £7,000. The total cost of the advisory services is now £67,000, which still remains well within the agreed £100,000 budget.
- 3.5 As a result, the project timetable has been reviewed and the final report is now scheduled to be presented to Executive in December 2013. A high level project timetable is attached at Appendix 1.
- 3.6 On 19<sup>th</sup> June 2012, Finance and Audit Scrutiny Committee noted the monitoring arrangements for the agreed expenditure, and it was agreed that regular updates would be provided to Finance and Audit Scrutiny Committee through the Business Plan Financial Framework reporting structure.

- 3.7 On 11<sup>th</sup> December 2012, the Business Plan Financial Framework (BPFF) and exception report was presented to Finance and Audit Scrutiny Committee for the first half of 2012/13. The report showed that compared to the Housing Business Plan projections approved in March 2012, there was a projected positive variance of £1,049,000 for this financial year and £16,568,000 over the life of the 50 year life of the Business Plan.
- 3.8 The Business Plan Financial Framework for Quarter 4 is attached at Appendix 2 which sets out the performance of the Business Plan for 2012/13.
- 3.9 Compared to the Housing Business Plan projections approved in March 2012, there is a projected positive variance of £2,271,000 for this financial year and £5,337,000 over the life of the 50 year life of the Business Plan.
- 3.10 The significant favourable variance against business plan predictions in 2012/13 is largely due to a more favourable than expected interest rate payable on HRA Debt. There have however been some less significant variances across the business plan. The Business Plan Financial Framework Exception Report attached at Appendix 3 details the reasons and mitigations for these areas.
- 3.11 At quarter 2 the projected positive variance for 2012/13 was £1,049,000. At quarter 4 the positive variance has increased to £2,271,000. As a result of being able to outperform the assumptions in the first year of the business plan, the Housing Revenue Account (HRA) balances will increase and as a result additional resources will be directed to the HRA Capital Investment Reserve.
- 3.12 Housing & Property Services have recently undertaken a procurement exercise to retender most of its repairs & maintenance and gas servicing contracts which took effect on 1<sup>st</sup> April 2013. Early indications are that this will result in further positive variances against business plan predictions of approximately £1m in 2013/14, as a result of an average of approximately 15-20% reduction in costs.
- 3.13 Since quarter 2, the projected 50 year favourable variance has reduced from £16,568,000 to £5,337,000. This is largely as a result of the reduction of rent increase for 2013/14 as approved at Executive on 13<sup>th</sup> February 2013 and the revised projections for the number of Right-To-Buy sales.
- 3.14 The projection for the number of Right-To-Buy Sales for 2013/14 has been revised in view of the number sales completed last year (17) and the number completed to date this year (9). We have perhaps pessimistically assumed that the increase in number of sales compared to projections in 2012/13 and 2013/14 will not be offset by a decrease in future years, which has resulted in a significant adverse variance over 50 years. It is however important to note that this is a very long term projection and a variety of factors could certainly impact upon this. For example, a future change in Government Policy which significantly reduces discount levels could cause a significant drop in the number of sales in future years, therefore offsetting sales in the early years. It is difficult to say with certainty at this point, even over the next 5 years, how

many properties will be sold under Right-To-Buy; therefore at this stage we have adopted a prudent approach by forecasting a pessimistic outcome.

#### **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 1<sup>st</sup> 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 This is the fourth quarterly Business Plan Financial Framework report, and the second to be presented to the Finance & Audit Scrutiny Committee.
- 5.7 More details on the HRA Outturn for 2012/13 can be found within the Final Accounts report being considered by the Executive on 19 June.

## **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 – Advisory Services Project Timetable

Action	Start Date	End Date
<b>Review Report Findings - Preferred Option Analysis</b>	<b>01/05/2013</b>	<b>31/08/2013</b>
Accountants to build model to prove outputs	01/05/2013	28/06/2013
Legal Advice	21/05/2013	07/06/2013
Alternative JV review by PWC	10/06/2013	19/06/2013
Compare PWC preferred option and Alternative JV Options	20/06/2013	28/06/2013
Present options to CMT for discussion	01/07/2013	12/07/2013
Interim Housing & Property Board to agree preferred option for Executive Report	15/07/2013	31/08/2013
<b>Executive Report</b>	<b>01/08/2013</b>	<b>11/12/2013</b>
Drafting Report	01/08/2013	26/09/2013
Report Approval by Interim Housing & Property Board	16/09/2013	27/09/2013
Inform Committee Services of Report	31/10/2013	31/10/2013
Report Approval by HoS, Finance, Legal etc	07/11/2013	14/11/2013
Report Approval by CMT	19/11/2013	19/11/2013
Report Approval by Portfolio Holder	20/11/2013	20/11/2013
Deadline for Report to Committee	27/11/2013	27/11/2013
Executive Meeting	11/12/2013	11/12/2013

## Appendix 2 – Business Plan Financial Framework (BPF)

Performance Measure		Business Plan Assumption for Quarter 4	Actual Value for Quarter 4	Business Plan Assumption for Year	Provisional Value for Year	Actual Variance for Quarter 1 Fav. / (Adv.) £'000	Actual Variance for Quarter 2 Fav. / (Adv.) £'000	Actual Variance for Quarter 3 Fav. / (Adv.) £'000	Actual Variance for Quarter 4 Fav. / (Adv.) £'000	Variance for Year Fav. / (Adv.) £'000	Projected Variance for 50 Year Plan Fav. / (Adv.) £'000
Net 2011/12 underspend after slippage not in Base Business Plan		n/a	n/a	£0	£299,000	299	0	0	0	309	1,279
Average Management Costs per Home	<i>excluding slippage</i>	£279	£168	£902	£793	114	101	(215)	612	612	(6,843)
	<i>slippage from 2011/12</i>	£2	£5	£8	£18	0	0	0	0	0	0
	<b>TOTAL</b>	£281	£174	£910	£810	114	101	(215)	612	612	(6,843)
Average Revenue Repairs & Maintenance Costs per Home		£173	£155	£688	£740	264	(148)	(504)	98	(290)	(1,224)
Average Capital Maintenance Cost per Home	<i>excluding slippage</i>	£375	£190	£1,140	£963	(277)	18	222	1,033	996	4,139
	<i>slippage from 2011/12</i>	£28	£158	£82	£328	0	0	0	0	0	0
	<i>slippage into 2013/14</i>	£0	-£17	£0	-£53	0	0	200	100	300	0
	<b>TOTAL</b>	£403	£331	£1,222	£1,238	(277)	18	422	1,133	1,296	4,139
Bad Debts as a % of Gross Rents		0.84%	0.24%	0.84%	0.87%	(45)	(6)	7	35	(9)	(38)
Void Rent Loss as a % of Gross Rents		1.08%	0.85%	1.08%	0.71%	31	15	27	16	89	377
RPI for Rent Setting and assumed 2013/14 baseline inflation		n/a	n/a	2.50%	2.60%	0	0	0	0	0	524
Rents set in line with Central Government formulas		£82.14	£82.14	£82.14	£82.14	0	0	0	0	0	(5,532)
No. of Garages Demolished to provide land for development		6	0	22	0	0	0	1	1	2	8
No. of Right-To-Buy Sales		2	6	11	17	1	(2)	(5)	64	58	(7,534)
No. of New Build Homes		0	0	0	0	0	0	0	0	0	0
Interest Rate on HRA Balances		1.0%	0.95%	1.0%	0.95%	0	0	0	(6)	(6)	(1,819)
Interest Rate on HRA Debt		3.65%	3.5%	3.65%	3.5%	53	53	53	53	210	22,000
<b>OVERALL EFFECT OF ALL CHANGES ABOVE</b>		as above	as above	as above	as above	440	31	(215)	2,006	2,271	5,337

**Appendix 3 - Business Plan Financial Framework Exception Report  
2012/13**

<b>Performance Measure</b>	<b>Average Management Costs per Home</b>
<b>Variance</b>	Annual - £612,000 (Favourable) 50 Years - (£6,843,000) (Adverse)
<b>Cause</b>	<p>There is a positive variance reported this year which has been caused by a series of small underspends across multiple budget lines. The variations between quarters are as a result of budget profiles not being in line with actual outturn.</p> <p>As reported at the end of quarter 2, with effect from 1st April 2013, a new contract will take effect for the Grounds Maintenance and Cleaning contracts. This has resulted in increased costs starting in year 2013/14 onwards.</p>
<b>Mitigation</b>	The new contract will allow for a complete redesign of the cleaning and grounds maintenance service which will in turn deliver significant savings to recoup the additional costs of the contract. Please refer to the BPF Exception report for Quarter 2 for a more detailed explanation of the mechanisms which will be used to recoup costs.

<b>Performance Measure</b>	<b>Average Revenue Repairs &amp; Maintenance Cost per Home</b>
<b>Variance</b>	Annual - (£290,000) (Adverse) 50 Years - (£1,224,000) (Adverse)
<b>Cause</b>	Following a review of repairs and maintenance requirements it was identified that the allocated budget was not sufficient; as a result the budget for 2012/13 onwards was revised in February 2013. The outturn has come within the new budget.
<b>Mitigation</b>	A review of the budget has been carried out to ensure that the budget is adequate for future years.

<b>Performance Measure</b>	<b>Average Capital Maintenance Cost per Home</b>
<b>Variance</b>	Annual - £1,296,000 (Favourable) 50 Years - £4,139,000 (Favourable)
<b>Cause</b>	The initial business plan forecasts for capital expenditure were based on a sample stock condition survey. At the beginning of the year, the properties identified for improvements are surveyed to assess the level of works required, and this is monitored throughout the year. In February 2013 the budgets for capital maintenance were reduced in line with the latest requirements and the budget updated. Overall the level of works required this year were been lower than the initial business plan projections, resulting in a favourable variance.



	The profile of works throughout the year was noticeably different to the initially projected quarterly profile.
<b>Mitigation</b>	This is a favourable variance; however we will be looking to increase the level of stock condition data which will in the future provide more accurate levels of investment.

<b>Performance Measure</b>	<b>Bad Debts as a % of Gross Rents</b>
<b>Variance</b>	Annual - (£9,000) (adverse) 50 Years - (£38,000) (adverse)
<b>Cause</b>	There has been a significant improvement in performance over the past 12 months which has reduced the variance significantly.  The mitigation as agreed at the last quarter by the Interim Housing & Property Board has now been implemented and as a result, performance has started to drastically improve.
<b>Mitigation</b>	Temporary additional staff members have now been recruited and are having a positive impact. Preparation for the welfare reforms continues and we are working with affected customers to help, support and advise them so that rent arrears are either prevented or minimised for both the tenant and the business.  The Service Redesign Phase 1 is underway and the new service area "Sustaining Tenancies" will enable the service to focus on maximising the collection of rent.

<b>Performance Measure</b>	<b>Void Rent Loss as a % of Gross Rents</b>
<b>Variance</b>	Annual - £89,000 (Favourable) 50 Years - £377,000 (Favourable)
<b>Cause</b>	This positive variance has been as a result of high performance in void management. Properties are being repaired, advertised and let in an average of 39 days at the end of quarter 4. As a result the level of rent that we would have lost through properties being empty is less than then Business Plan prediction.
<b>Mitigation</b>	None Required.  Note however, that in the first half of the year we have seen a slight trend towards increase in the levels of void rent loss. This is attributed to a new Asbestos Management procedure at the point in which a property becomes empty, resulting in a delay to the time in which it takes to let a property and also a decline in contractor performance. We still remain however well within the levels predicted within the Business Plan.

<b>Performance Measure</b>	<b>Rents Set in Line with Central Government Formula</b>
<b>Variance</b>	Annual - £0 50 Years - (£5,532,000) (Adverse)
<b>Cause</b>	<p>The Housing Business Plan, as approved by Council in March 2012 assumed that rents increase in line with the Governments Policy on Rent Convergence. In February 2013 Executive approved that housing dwelling rents increase by an average of 3.36%, which was 31% lower than the Governments Policy. This approach reduces the rent increase tenants face, whilst still ensuring that housing rents continue to move towards the formula rents recommended by Central Government.</p> <p>The 'Self Financing' system that commenced April 2012 gives the Council the financial freedom to revise this policy to ensure rent increases remain affordable for tenants.</p>
<b>Mitigation</b>	<p>To increase rents by less than the rent restructuring formula has no effect upon the viability of the Housing Business Plan; there are sufficient resources to meet all projected future expenditure on managing and maintaining homes, as well as building new homes as agreed in the Housing Business Plan 2012-2062. However, had the rent increase been in line with rent restructuring this would have increased the amount of funds available to build more new homes.</p> <p>At the point of approving the rent increase, the latest projection for the Housing Business Plan was a £16.6m favourable variance after 50 years. This saving is largely due to taking out the Self Financing debt at better than expected interest rates. Therefore this change in Rents Policy is affordable within the approved Business Plan.</p> <p>If it were decided to return to rent restructuring from 2014/15, taking account of annual limits on rent increases within the formula, the estimated cost to the 50-year Housing Business Plan is projected to be £5.5m after 50 years.</p> <p>In addition it will be possible to implement larger increases in future years to move more quickly towards what future rents would have been under the current Business Plan. This would reduce the cost to the Housing Business Plan.</p>

<b>Performance Measure</b>	<b>Number of Right-To-Buy Sales</b>
<b>Variance</b>	Annual - £58,000 (Favourable) 50 Years - (£7,534,000) (Adverse)
<b>Cause</b>	<p>In April 2012 the Government introduced changes to the Right to Buy rules, including significantly increasing the levels of discount available to tenants. As a result, there has been an increase in the numbers of properties which are being sold.</p> <p>The Business Plan projections are based on central Government forecasts contained within the November 2011 debt settlement calculation.</p>
<b>Mitigation</b>	<p>All current Business Plan projections for RTB sales do not assume receipts are retained to repay the debt linked to the properties sold. However, the Council has entered into an agreement with the Department for Communities and Local Government (DCLG) which enables the Council to retain a portion of the receipt to be used for new homes. In 2012/13 this equated to c£70,000; however over time this one-off income is more than offset by the loss of rental income.</p> <p>In addition, our Business Plan also retains 100% of capital expenditure associated with any RTB property and 50% of revenue. In reality, it is expected that there would be a significant reduction in repairs and maintenance costs associated with these properties.</p> <p>As explained in paragraph 3.14 this is a very long term prudent prediction which is subject to a number of external factors which could change.</p>

<b>Performance Measure</b>	<b>Interest Rate on HRA Balances</b>
<b>Variance</b>	Annual - (£6,000) (Adverse) 50 Years - (£1,819,000) (Adverse)
<b>Cause</b>	<p>The Council has reviewed interest rate forecasts the next 5 years.</p> <p>The forecast in the business plan is an overall long term average; it is to be expected that over the 50 years it may be slightly higher or lower, as long as the overall average is close to the projections there will be no significant effect upon the Business Plan.</p>
<b>Mitigation</b>	None