	Finance & Audit Scrutiny Committee 28th July 2015	Agenda Item No. 8

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Is the report private and confidential and not for publication by virtue of a paragraph of schedule 12A of the Local Government Act 1972, following the Local Government (Access to Information) (Variation) Order 2006	No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	• 10.06.2014 Finance and Audit Scrutiny Committee (minute number 11) • 03.09.2014 Executive (minute number 36) • 11.03.2015 Executive • 13.01.2015 Finance & Audit Scrutiny Committee (minute number 103)
Background Papers	• 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 *must* be approved by the report author's relevant director, Finance, Legal Services and the relevant Portfolio Holder(s).		
Officer Approval	**Date**	**Name**
Head of Housing & Property Services	17.07.15	Andy Thompson
Head of Finance	17.07.15	Mike Snow
Portfolio Holder for Housing and Property Services	17.07.15	Councillor Peter Phillips
Consultation Undertaken		
None		
Final Decision?		No
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 Revenue Account (HRA) Business Plan Performance.

2. RECOMMENDATION

That Finance and Audit Scrutiny Committee notes:

2.1. The performance outturn of the HRA Business Plan for 2014/15.

2.2. The emerging Government policy changes detailed in section 3.10

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. This is now the base business plan against which performance is measured.

3.3. A further review of the HRA Business Plan will take place in 2015/16 and be presented later this year to the Executive for approval. This will:

- Update the base business plan with all changes that have taken place
- Revise assumptions for the forthcoming period based on current information and knowledge.
- Take account of any housing policy changes being proposed by the Government

The revised plan will be presented to Executive for approval.

3.4. The HRA Business Plan Financial Framework for 2014/15 is attached at Appendix 1 which sets out the performance of the Business Plan for 2014/15. All numbers reflect the principal change effect and the consequent impact on cash flows and interest over the fifty year life of the Business Plan.

3.5. Compared to the HRA Business Plan projections approved in March 2015, there is a projected favourable variance of £4,114,000 for 2014/15, predominantly due to unavoidable delays in the development of Sayer Court slipping costs into 2015/16. There is an adverse variance of £27,933,000 over the remaining life of the 50 year life of the Business Plan, which is the equivalent of approximately £140,000 per year on average in current prices.

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 is due to a combination of internal and external factors.

3.8. 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 the '1-4-1 replacement' policy, the formula has changed each year to increase the amount of sales needed to retain any income so on current projections it is unlikely any '1-4-1' receipts will be retained after the next few years. This has resulted in an adverse variance of £8.7m over the 50 year life of the business plan because the rental income that the council loses over time far exceeds any small element retained from sale proceeds.

3.9. Internal factors which have contributed to the overall adverse variance include:

An increase in management costs has resulted in an adverse variance of £13m after 50 years. This is due to inflation and other incremental increases across a range of budgets and no discretionary savings target in the current base HRA budget. An adverse variance for revenue repairs and maintenance of £6.5m over the 50 year business plan. This is as a result of reduced budgets, increased demand and complexities with the administration and management of the contracts.

3.10. Changes to national housing policy have been proposed by the Government since May 2015. Detailed regulations and implementation plans for these changes have not yet been published or agreed by the Government, and until these have been confirmed it is not possible to accurately assess their impact.

As long as detailed regulations are published by the third quarter of 2015/16, it will be possible to include the impacts in the annual review of the HRA Business Plan, which will be completed at the end of this year.

3.11. Some high level preliminary range of assessments have been undertaken to model what the impact of the changes might be, based upon broad assumptions and limited information available to the Council.

3.11.1. The rental income assumption in the March 2015 base HRA business plan was based on Department for Communities and Local Government (DCLG) Guidance which was issued in May 2014, setting out a 10 year rent formula of CPI + 1%.

In the July 2015 Budget, the Government announced a compulsory 1% reduction for four years in rent for tenants of registered providers, including local authorities, which is expected to apply from April 2016.

An initial assessment of the impact of this change suggests a possible reduction in assumed rental income in the range £200m to £500m over the life of the business plan, depending on a number of factors, particularly whether the formula social rent would also be reduced by 1%, which would permanently reduce the long term rents, and whether the rent reductions only apply to current tenants.

The draft Welfare and Reform Bill has been published which outlines some of the proposals at a high level. However the regulations which will set out the detail, particularly any effect on formula rent, have yet to be published.

3.11.2. The Government has announced plans to extend the 'Right to Buy' for housing association tenants. To fund this, local authorities will be required to sell 'high value' void properties. A Draft Bill has not yet been issued and we therefore await further detail of this legislative proposal.

To date, the only detail that has been announced is the value thresholds for each region at which homes should be sold. Based on this information, analysis shows that Warwick District could be required to sell around 30% of the homes that become void, unless value thresholds are set at a more local level.

There has not been any information published in relation to the extent to which local authorities will be compensated for the sale of these homes. It might be expected that local authorities will be able to retain an amount of the receipt for administration along with a sum equal to the value of the remaining debt on the property following the 2012 self-financing settlement (assuming that, in line with Government expectations, this debt reduces to zero over the first 30 years of self-financing), but there is no guidance as yet.

The impact on the business plan will vary significantly depending on assumptions, a likely range is from approx. £200m at year 50 (for example if fewer homes are below the threshold (10%), up to approximately £450m if new homes have to be sold on first re-let and no additional compensation is available.

3.11.3. The Government announced as part of the July 2015 Budget further welfare reforms which may have an impact on bad debt provision. These include a reduction in the Benefit Cap to £20,000, amendments to the Tax Credit system, restrictions on 18-21 year olds claiming support for their housing costs and the introduction of higher rents for households with incomes in excess of £30,000 per annum. Further details are awaited to allow for a more informed assessment to be made of the likely impact upon the HRA business plan.

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 1st 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 2014/15**	**31-Mar-15 2014/15 Year End Outturn**	**Actual Variances 2014/15 Fav./(Adv.) £'000**	**Projected Variances over 5 Years 2018/19 Fav./(Adv.) £'000**	**Projected Variances as at Year 50 2062/63 Fav./(Adv.) £'000**
Average Net Management Cost per Home	£1,103	£1,050	**243**	(338)	(13,031)
Average Revenue Repairs & Maintenance Costs per Home	£875	£992	**(647)**	(1,100)	(6,470)
Average Capital Maintenance Cost per Home	£897	£818	**505**	41	150
Bad Debts as a % of Gross Rents	1.27%	1.29%	**(5)**	(5)	(19)
Void Rent Loss as a % of Gross Rents	0.60%	0.56%	**10**	11	40
Void Homes moved to Formula Rent during 2014/15	167	156	**(2)**	(15)	(192)
No. of Garages Demolished for redevelopment	130	88	**3**	19	78
No. of Right-To-Buy Sales	22	27	**234**	330	(8,717)
Construction / Acquisition of New Homes (Specific schemes)					
Redevelopment of Fetherston (Sayer) Court area (2015/16)	81	81	**2,879**	(25)	(91)
Repurchase of Ex-Council Homes (completed)	1	1	**0**	0	0
Acquisitions SW Warwick (completion 2014/15)	21	21	**894**	192	279
TOTAL	103	103	**3,773**	167	188
Interest Rate on HRA Balances	0.70%	0.70%	**0**	0	0
Interest Rate on HRA Debt	3.50%	3.50%	**0**	0	0
OVERALL EFFECT OF ALL CHANGES ABOVE			**4,114**	**(890)**	**(27,973)**

Appendix 2 - Business Plan Financial Framework Exception Report 2014/15

Performance Measure	**Average Management Costs per Home**
Variance	2014/15: £243,000 Favourable Year 50: -£13,031,000 Adverse
Cause	The ongoing revenue costs for the service have increased incrementally across the service resulting in a long term reduction in business plan resources. This is partly driven by inflationary increases, the business plan assuming no inflation in the early years and partly by discretionary budget savings targets being excluded from the base HRA budget to allow the service redesign to be completed and budgets reassessed in light of the new structure.
Mitigation	The ongoing annual variance is small, but added up over 50 years with inflation this gives a more significant effect. Budgets will be reviewed throughout the year and identified saving included when 2016/17 budgets are set. Updated projections will be reported through the Business Plan Performance Reporting process.

Performance Measure	**Average Revenue Repairs and Maintenance Cost**
Variance	2014/15: -£647,000 Adverse Year 50: -£6,470,000 Adverse
Cause	A number of factors have contributed to additional expenditure on repairs and maintenance, including: • 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. • 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. • 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.
Mitigation	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: • Monthly budget reports are being presented to the Housing & 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. • 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. • Monthly budget reviews with Portfolio Holder and Head of Service will be in place by the end of the second quarter of 2015/16 to introduce more accountable budget management supported by monthly production of financial data. • 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. • 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.

Performance Measure	**Bad Debts as % of Gross Rents**
Variance	2014/15: -£5,000 Adverse Year 50: -£19,000 Adverse
Cause	The March 2015 base business plan set Bad Debt Provision at 1.27% in anticipation of the impending welfare reforms, specifically Universal Credit, and the likely impact on rent collection. Although Universal Credit is yet to roll out in Warwick District, there has been an increase in bad debts. This has not been caused by the introduction of welfare reforms but by significant staffing issues including staff turnover and long term sickness in the Income Recovery Team which has caused a negative impact on performance. Although the impact is relatively negligible, the fact that we are yet to witness the impact of the introduction of the welfare reforms which were known at the time of the base business plan in March 2015, in addition to further changes announced in the July 2015 Budget, there is a significant risk that we could experience a further increase in bad debts.
Mitigation	The staffing issues in the Income Recovery Team have recently been resolved and the team is now getting back to full strength. Vacant posts have been filled and long term sickness employee has returned to work. This should assist the team to be able to operate at its intended capacity to ensure that sufficient resources are directed to supporting tenants to pay their rent. In addition, there has been much work taking place for a significant period of time to prepare for the implementation of the welfare reforms. A Financial Inclusion Officer has been in post for four years whose main focus is supporting tenants

	affected by the changes to welfare and preparing them for the changes. The changes that have been thus far introduced have been managed extremely well resulting in limited impact on rental income recovery, for example there was not an increase in rent arrears following the introduction of the removal of the spare room subsidy. However it is acknowledged that there are further and potentially more significant changes to come, including Universal Credit and a further reduction in the overall benefit cap which potentially could see performance affected. Further work will take place to support our tenants in the transition period.

Performance Measure	**Void Rent Loss as % of Gross Rents**
Variance	2014/15: £10,000 Favourable Year 50: £40,000 Favourable
Cause	Performance on management of voids has been better than anticipated which has resulted in a favourable variance.
Mitigation	N/A – Favourable variance

Performance Measure	**Void Homes moved to Formula Rent during 2014/15**
Variance	2014/15: -£2,000 Adverse Year 50: -£192,000 Adverse
Cause	All void homes are now moved for formula rent which is the mechanism for which the council is able to achieve rent convergence so that similar social rented homes in the same area have comparable rent levels irrespective of the landlord. There have been slightly fewer homes void during 2014/15 than assumed in the March 2015 base business plan resulting in a slight adverse variance.
Mitigation	The council does not have any control over the number of homes which become void during the year. We will continue to monitor trends and set assumptions in the business plan based on this information.

Performance Measure	Number of Garages Demolished for Redevelopment
Variance	2014/15: £3,000 Favourable Year 50: £78,000 Favourable
Cause	A garage site had been earmarked for demolition for use by contractors who are developing Sayer Court however this did not come to fruition and the garages were not demolished.
Mitigation	N/A – this is a favourable variance because we will continue to collect rent on these garages. The business plan however assumes that they will ultimately be demolished but at a revised timescale.

Performance Measure	Number of Right to Buy Sales
Variance	2014/15: £234,000 Favourable Year 50: -£8,717,000 Adverse
Cause	Due to sales late in 2014/15 there were five 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.
Mitigation	The assumption in the business plan for the number of homes sold over the next four years has been increased to reflect the additional sales in 2014/15. The number of applications and sales will be continually monitored and the business plan will be updated accordingly.

Performance Measure	Construction/Acquisition of New Homes
Variance	2014/15: £3,773,000 Favourable Year 50: £188,000 Favourable
Cause	Annual variance represents 'slippage' due to unavoidable delays in the Sayer (Fetherston) Court development and the accounting treatment of South West Warwick acquisitions agreed with external audit (no significant genuine delays). Over the long term the projected variance is minor, and predominantly due to increased confidence of the sale value of shares of shared ownership homes in South West Warwick.
Mitigation	Continue to monitor cost and progress for projects.