



HRA Business Plan Review & Future Options

Tamworth Borough Council

Ennerdale Consulting Ltd
Draft 3 - May 2018
Commercial in Confidence

Contents

Executive Summary	2
Introduction.....	5
Limitations	5
Our Work to Date	6
Methodology	6
Data sources	6
Your Existing Business Plan.....	8
Intended Key Outcomes	8
Actual Delivery.....	8
Ambition 1 - Meeting Decent Homes and Developing a Tamworth Standard	8
Ambition 2 - Environmental Improvement.....	10
Ambition 3 - Investment in Garage Sites	11
Ambition 4 - Invest in Service Delivery	12
Ambition 5 - Regeneration / New Build Projects and Area Based Renewal	12
Ambition 6 - Town Centre Development.....	13
What Has Changed?	14
National Policy	14
Rent Income	14
Right to Buy	15
Welfare Reform	15
Local Policy	15
Current Benchmarks.....	17
Stock Investment	17
Supervision and Management.....	19
Recharges	22
The Revised Business Plan	24
Baseline Assumptions.....	24
The Baseline Business Plan	26
Key Outcomes from the Baseline Plan	28
The Impact of Alternative Scenarios on the Baseline Plan	29
Key Messages from the Scenario Analysis.....	31
Delivering the Revised Plan	31
Options for Discussion.....	32
Overview.....	32
Technical Options	32
Investment Programme Options	32
Business Plan Scenarios	34
New Build and Acquisitions	34
Additional Borrowing.....	34
Issues and Risks for the new Draft Plan.....	35
Consumer Standards	35
Consultation Requirements.....	35
Impact Assessments	35
Appendices	36
Appendix 1 - Projected Investment Requirement (v6)	36
Appendix 2 - Action Plan.....	37

Executive Summary

The original Housing Revenue Account Business Plan was approved in 2012 and set out how the Council intended to achieve its ambitions to maintain and improve its existing housing stock, regenerate unsustainable property and build new homes. The plan was based on assumptions underpinning its self-financing settlement and stock condition data from 2009.

In broad terms, the plan envisaged spending £30m on the existing stock during the first four years including environmental works, investment in garage sites and improvements to high rise block, followed by investment of up to £30m on regeneration (new build) and area based renewal projects (such as Tinkers Green and Kerria) in years 5-10. The plan also envisaged some increase in costs in years 1-4 to support service delivery by adding staffing capacity to the housing service and healthy balances of £189m plus additional borrowing capacity of up to £11m to support further investment / new development from year 11 to year 30.

In 2014 the Council updated the Business Plan to advance its ambitions for regeneration and new build. The updated Business Plan assumed headline rent increases of 3.5% for 2015/16 and 3% for all years from 2016/7. Costs were projected to increase more slowly than income so updated plan continued to demonstrate a healthy increase in balances and available resources to meet current and new ambitions.

From 2015 the limitation on rent increases has significantly affected these plans, reducing resources by £156m. Additional Right to Buy Sales and not reducing budgets if stock numbers fall (a key assumption in the original Business Plan), have constrained the ability of the Council to meet its original and revised ambitions. The effects are explained and quantified below:

Change	Impact on Balances	Description
Changes in social rent policy	-£156m	The 2012 HRA Business Plan assumed rents would increase at 3% per annum for 30 years (retail prices index + ½%). This has proved highly optimistic, as successive policy changes have led to: rents being linked to the (lower consumer prices index); and early termination of the previous policy on rent convergence; the introduction of rent reduction from 2019/17 to 2019/20. We have allowed for above inflation rent increases from 2020/21 to 2024/25, in line with a rent guarantee provided by Government, but have assumed inflation-linked growth from 2025/26 is at a lower rate than assumed in the 2012 HRA business plan.
Additional RTB sales	-£23m	The 2012 HRA business plan assumed 5 RTB sales a year. In the six years since then the authority has sold 183 more dwellings than expected, which has reduced the amount of income generated by the HRA.
Fixed cost assumption	-£10m	The 2012 HRA business plan appears to have assumed that the authority would make corresponding cost reductions to compensate for loss of rental income through the right to buy. The current forecast takes a more prudent view, on the basis that there is no clear evidence of an approach for reducing costs in line with stock loss.

Other changes	+£9m	A wide range of other variables have changed since 2012, as a result of operational and policy changes made by the council. These include differences in the profile of capital expenditure, changes to the way the capital programme is financed (including use of 141 receipts), changes to operating budgets and the repayment of loans. Some of these work to the advantage of the HRA.
Total impact	-£180m	Current forecasts show the level of the HRA balance to be £180m lower at the end of 2041/42, when compared with the 2012 HRA business plan.

The key headlines from the revised HRA business plan forecasts are now:

Headline	£m
Opening debt (at 1 April 2018)	£68.0m
Closing debt (at 31 March 2048)	£72.2m
Debt Ceiling	£79.4m
Borrowing Headroom	£5.6m

Future Options

The Council still has a sustainable Business Plan, however its ability to fund future regeneration and new build council homes is now limited and cost pressures need to be proactively managed within the plan if it is to remain sustainable. Without making use of the additional £5.6m of borrowing headroom it has within the revised Business Plan, the Council has several options to allow it to respond to these new challenges. These will need to be discussed with its tenants and other relevant stakeholders.

Firstly, the Council has the ability to choose the assumptions it makes in its revised 2018 Business Plan and how its resources are spent. It can decide to base its plan on budgets that reduce as council homes are sold under the Right to Buy and it can decide to use HRA balances rather than borrowing in the early years of the plan. These ‘technical’ options potentially increase resources for the Business Plan.

Secondly, within the overall budget for investment in the existing housing stock, there are also options that allow the Council to introduce a ‘locally determined’ budget which can accommodate a reasonable amount of new expenditure without sacrificing Decent Homes investment and statutory maintenance requirements.

Thirdly, the revised Business Plan also allows the Council to complete existing regeneration projects at Tinkers Green and Kerria; however resources for future regeneration are limited. These can be increased if the Council chooses to adopt different technical assumptions in the Business Plan or if costs are reduced generally over the life of the plan

Fourthly, the revised Business Plan allows the Council to achieve its ambition to increase the supply of new affordable homes within the borough. In the early years of the plan, resources of £9.81m are available for new Council homes. After year 6 of the plan however, the Council lacks the resources to ‘top up’ the resources generated from Right to Buy sales and may need to consider ‘enabling’ the provision of new homes by grant aiding other social housing providers rather than through building council homes directly.

Introduction

Ennerdale Consulting Ltd has been appointed to provide assistance with updating the Council's Housing Revenue Account (HRA) Business Plan. The Council's brief specifies that the assistance is to facilitate

- "a high level strategic discussion on the Council's HRA business planning priorities"
- "setting out the direction of travel for 2018/19 to 2022/23 for its stock retained service to ensure compliance with the Landlord Regulatory Standards and in direct support of the Council's strategic ambitions"

including

- "...options for investment in the Council's own stock in the context of available funding and financing."

and providing

- "...evidence of comparative benchmarking with other providers' business plans demonstrating that it is fit for purpose"

with

- "...a high level action plan setting out the choices in terms of service offer"

This report provides the Council with a commentary on the emerging Business Plan, identifying issues and options for discussion with Members and Tenants. The report summarises

- The work we have undertaken to date to revise the Plan, taking account of current data and government policy
- Our initial impressions and observations regarding the Council's existing Business Plan
- The issues that are present in the new draft plan including Risks and Impacts
- Options for the Council to consider as it engages in consultation with its Tenants on the content of the new plan.
- A suggested Action Plan for the Council

Limitations

The principal limitation at this stage of the Business Plan review process arises from the need to estimate the Council's Investment Need in the absence of current stock condition data. This is a limitation on the accuracy of 63% of the £298m of Capital and Revenue expenditure on the existing stock as we have used a theoretical model to project component replacement costs over the 30 year life of the new Business Plan. While we believe that the overall total investment in component replacement will be at or around the figure of £189m identified in v6 of our draft Investment Programme we recognise that this total and expenditure profile may differ from that generated from the new Stock Condition Survey. Having said this, our estimate of the cost of component replacement does not differ significantly from the capital investment requirement suggested in the 2009 Stock Condition Survey (£184m) and the method used to generate estimated costs has been thoroughly discussed with the Council's Officers so we believe that the risk that the investment need is wrongly stated is low.

Our Work to Date

Methodology

Our consultants, Ian Gardner and Glenn Smith have worked with the Council's officers to gain an understanding of the Council's housing service, investment programme, new build and regeneration programmes and the housing revenue account. We have used this information to develop a 30 year projection of income and expenditure for the HRA. Our work has included:

- an initial project set up teleconference on 1st March
- modelling the current levels of HRA income and expenditure contained in the Council's Medium Term Financial Strategy (MTFS)
- a second teleconference on 13th March at which our initial modelling of the Council's MTFS was discussed along with some early thoughts on your investment programme
- a report on the investment programme referenced in the MTFS comparing this with the investment publicised in the 2012 and 2014 Business Plans and a theoretical level of investment for the next 30 years based on current prices and guideline component replacement timescales
- an 'on site' workshop on 5th April to discuss the draft Investment Programme and to consider additions and omissions to the 30 year projection of investment need
- modelling future levels of HRA income and expenditure based on a revised Investment Programme, commitments contained in the Council's MTFS and assumptions regarding inflation, rents, sales, demolitions and new build stock numbers
- a second 'on site' workshop on 10th April to illustrate the emerging results of the financial modelling for the Business Plan
- refining the financial modelling of the Business Plan including production of alternative scenarios reflecting possible financial threats and opportunities.
- Assessing the Business Plan review project against the Regulators' Consumer Standards; drafting a Community Impact Assessment, Risk Assessment and Communications Framework for the project
- Preparing this report for consideration by the Council.

Data sources

We have taken data from a number of sources including the following:

- Published documents such as the 2012 Business Plan and Business Plan Prospectus
- Official statistics such as <https://www.gov.uk/government/statistical-data-sets/local-authority-housing-statistics-data-returns-for-2016-to-2017> for Decent Homes compliance information and <https://www.gov.uk/government/collections/local-authority-revenue-expenditure-and-financing> for HRA expenditure benchmarking
- Official returns – such as the Council's Right to Buy Pooling return
- Published guidelines regarding Decent Homes https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/7812/138355.pdf
- The Council's published budgets – MTFS / HRA & budgetary assumptions (e.g. inflation / interest rates) and policy led expenditure reports (e.g. Fire Safety in Flats)
- The Council's published service standards – e.g. void lettable standard and repairs policy

- Activity / Performance reports – such as the Annual Report to Tenants / Landlord Services Annual Report for information such as void turnover, historic average void cost, average costs of response repairs, etc.
- Stock Condition reports and updates (2009 & 2013) including component costs and renewal frequencies adopted for the survey; Specialist condition surveys (Sheltered Housing) and the draft Asset Management Strategy
- Previous consultancy project outputs – Chartered Institute of Housing 2012
- Current contract prices and frequencies for cyclical maintenance and average replacement costs for key components (kitchens, bathrooms , heating systems etc.) based on current expenditure
- HRA closing / opening balances for stock numbers and discussions with officers regarding stock composition for investment planning purposes
- Outputs from the Council's Asset Management database – for details of individual property Decent Homes failures

Where information was not publicly available, we sought data on the above via an initial data request and we would like to thank officers for their prompt response to our request.

The assumptions in preparing our assessment of Investment Need have been recorded (via comments in specific spreadsheet cells) and discussed with officers via e-mail, telephone and during the on site workshop in early April. Our key assumptions used in the financial modelling have been discussed with the Council's Chief Accountant and have been recorded and circulated prior to and after our teleconference on 13th March and workshop on 10th April.

Your Existing Business Plan

Intended Key Outcomes

The Council's original Business Plan was agreed in 2012 and updated in 2014. The original plan set out the plans and ambitions for the housing service over the thirty year period 2012-2042 as follows:

- Meeting Decent Homes and Developing a Tamworth Standard
- Environmental Improvement
- Investment in Garage Sites
- Invest in service delivery
- Regeneration and Area Based Renewal
- Town Centre Development

In broad terms, the plan envisaged spending £30m on the existing stock during the first four years including environmental works, investment in garage sites and improvements to high rise block, followed by investment of up to £30m on regeneration (new build) and area based renewal projects (such as Tinkers Green and Kerria) in years 5-10. The plan also envisaged some increase in costs in years 1-4 to support service delivery by adding staffing capacity to the housing service and healthy balances to support further investment / new development from year 11 to year 30.

Actual Delivery

This report does not attempt to evaluate progress against each of the ambitions cited in the original Business Plan. This will be undertaken in more detail during the final phase of the project when text of the new Business Plan is being prepared. However as there are significant differences between the original and new draft plans, some commentary on these differences would seem to be appropriate.

In summary, the Council's actual budget for 2012/13 was broadly in line with the Business Plan; however from 2013/14 onwards regeneration and new build activity have been brought forward and the budget for existing stock investment has been reduced somewhat. These changes were reported to Members in March 2014 through an update to the original Business Plan.

Ambition 1 - Meeting Decent Homes and Developing a Tamworth Standard

Decent Homes

In 2012 the Council reported that it had met the 'minimum Decent Homes Standard' and this is reflected in the Council's Housing Statistical Data Return. However, from 2013/14 the Council has reported high levels of non-decent homes each year:

Year	2013/14	2014/15	2015/16	2016/17
No of Non-Decent Homes	2286	1670	1595	1712

The 1712 properties reported in 2016/17 and highlighted on page 9 of the 2016/7 Annual Report to Tenants represented just over 39% of the Council's housing stock and we queried this in our tender as the figure seemed high. We have discussed this figure with the Council's Head of Asset

Management and understand that in 2017/8 the number will be much reduced after some 'data cleansing' and reassessment of failures within the Asset Management Database. Although a non-zero figure is the Council's ambition, it is possible that a small number of properties will still be classed as non-decent at the end of 2017/18. These should be addressed via existing budgets during 2018/19.

The Tamworth Standard

The Council wished to offer a higher Decent Homes Standard to elderly and vulnerable tenants and this was reported in the original Business Plan. However this ambition has not been realised as the budgets for investment in existing stock were reduced from 2013/14 to meet costs of regeneration and new build programmes. Notwithstanding this, the Council has introduced a tailored maintenance service for some of its older residents (those over 75 with specific vulnerabilities around health and disability and/or having complex needs).

As part of the Business Plan review it would be appropriate to re visit the Tamworth Standard ambition and review the tailored maintenance service to establish that the ambition and current practices are affordable and that they meet the Council's public sector equality duty.

Investment Programme

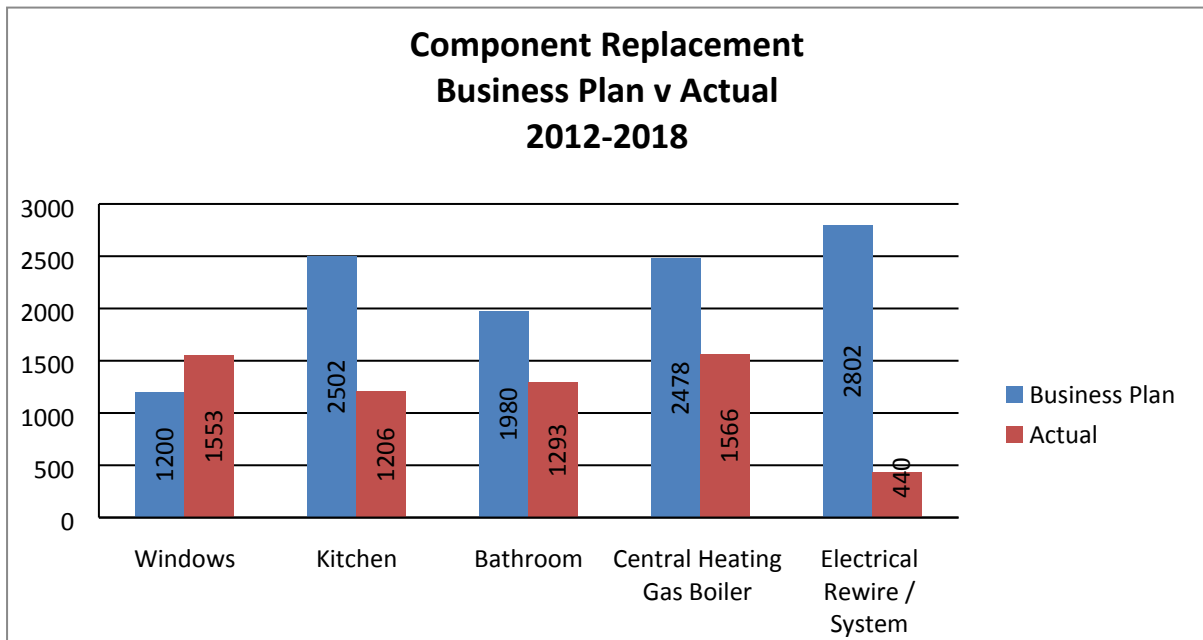
The £144m of non-revenue (i.e. excluding response, cyclical and void maintenance) expenditure on Decent Homes / component replacement referenced in the original Business Plan was based on the 2009 stock condition survey. However this survey indicated an investment requirement of around £177m excluding adaptations, capitalised salaries, regeneration / area based renewal projects and Decent Homes 'enhancements'. Although the survey did include around £10m for external wall insulation / cladding, it is apparent that the Investment Programme adopted from 2012 was somewhat smaller than indicated in the 2009 survey.

Notwithstanding this headline reduction, the Council's actual published programme was based on 'front loading' investment into the first four years of the programme, with plans to replace

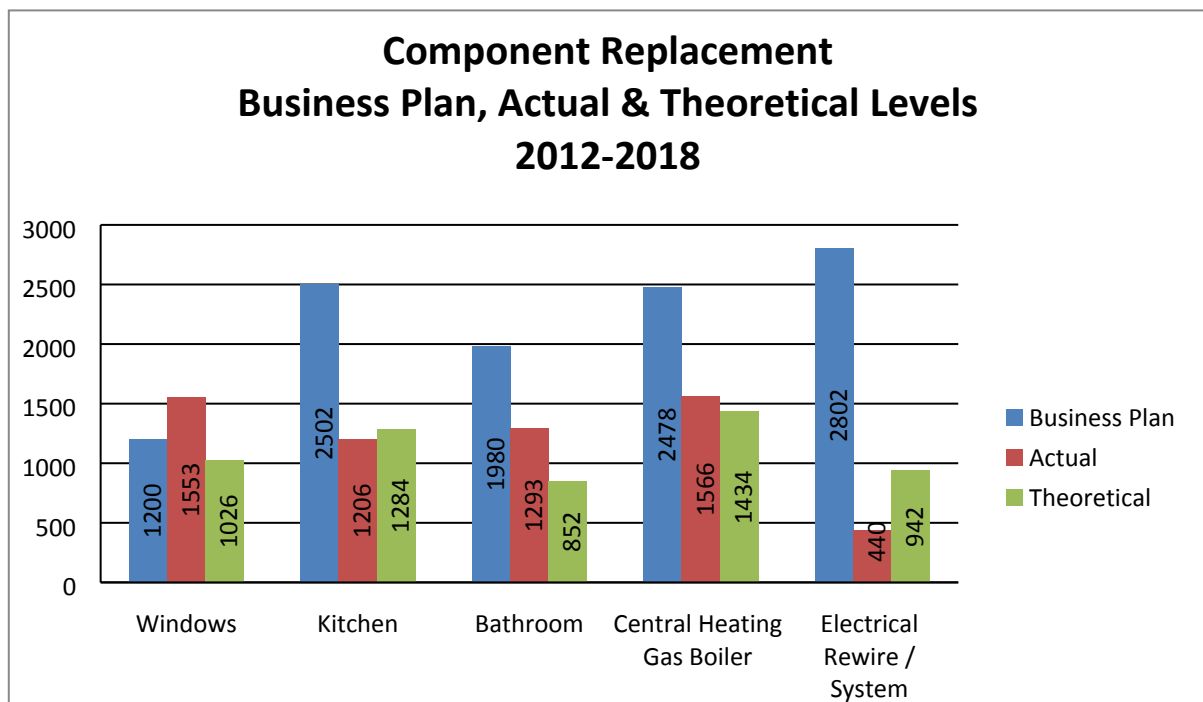
- 330 bathrooms
- 417 kitchens
- 413 heating systems
- 400 windows and to carry out
- 467 rewires

..each year until 2015/16. From 16/17 until 2018/19 the profile of investment underpinning the £144m in the Business Plan matched that for the first four years, other than for window replacement as that programme was scheduled for completion in 2014/15.

Actual delivery has differed from planned delivery as follows:



As indicated in the above chart, actual replacement has been generally lower than envisaged in the Business Plan. While the change appears to be quite significant and may not have been fully explained to tenants, the actual level of component replacement is only marginally different from the theoretical minimum required to achieve and maintain the Decent Homes Standard. Planned, actual and theoretical requirement levels of component replacement are shown in the following chart.



As part of the Business Plan review it would be appropriate to re visit the Investment Programme and enhance the Kitchen and Rewire / electrical upgrade programmes to ensure that replacement activities achieve minimum levels required to maintain the Decent Homes Standard.

Ambition 2 - Environmental Improvement

The budget for environmental improvements provided in the original Business Plan envisaged £750k per annum being available over 30 years. This was a significant investment and was enhanced for

one year in 2012/13 with an additional £200k. The £750k budget was increased in 2013/14 but was reduced to £256k from 2014/15 when the Business Plan was updated. This reduction clearly constrained the Council's ambition to deliver environmental improvements, however despite the reduction the Council has, with direct involvement from tenants, been able to fund multiple projects enhancing estates. These include improvements to garages, provision of drying areas, planting and landscaping together with energy efficiency work to sheltered housing.



Ambition 3 - Investment in Garage Sites

The Council has made steady progress in addressing the need for investment on its garage sites. A total of 19 sites have been gifted to other social housing providers to facilitate new build projects, around 600 garages located under flats and maisonettes have been refurbished to varying extent and the remaining garage sites have been subject to investment appraisal. Decisions on the remaining garage stock will need to be taken in the course of the 2018 Business Plan and provision has been included within the draft Investment Programme to address outstanding issues.



Ambition 4 - Invest in Service Delivery

Following an initial restructure in 2011, the Housing Service recruited staff to support its activities in relation to income collection, repairs and maintenance and Anti-Social Behaviour. As a consequence of these and other initiatives, customer satisfaction with the Council as a landlord has increased from 65% to 78% and the time taken to relet empty homes has fallen from 56 days to 17 days. However, satisfaction with how the Council deals with repairs and maintenance is still 'bottom quartile' at 68% and should be a priority for improvement in the next Business Plan.

Ambition 5 - Regeneration / New Build Projects and Area Based Renewal

The original Business Plan envisaged that £2.5m of resources would be placed in a Regeneration Fund during the first four years of the plan and that this would be used from year 5, together with balances and some borrowing, to fund regeneration projects during years 5-10. The Council has made more progress in this area than was anticipated in the original Business Plan with £20.7m being allocated to meet the cost of regenerating Tinkers Green and the Kerria Centre. The project involves the demolition of 136 unsustainable properties and the creation of 140 new homes on the same site.



The Council has also made progress with its ambition to build or acquire new affordable homes. Between 2011 and 2015 a total of 54 new affordable homes were provided by Housing Associations on 14 formerly Council garage sites. In addition, a total of 19 new council homes have been built and 14 have been acquired over the course of the first six years of the business plan. A further 14 units of affordable housing will be acquired in 2018/19. With the possible exception of two properties in Bloomfield Way, the Council appears to have achieved value for money for both new build and acquisitions in terms of their costs.

Ambition 6 - Town Centre Development

The Business Plan has supported the Council's Town Centre Masterplan and Gateway Project through investment in the six multi storey blocks on the Balfour estate. Following detailed stock condition reports on each of the blocks, which confirmed their structural integrity, the Council has invested in fire safety and lift replacement work. Further lift replacement work is scheduled for 2018/9 and the Council intends to retrofit each block with fire suppression equipment (sprinkler systems).



What Has Changed?

As indicated in the previous section, the Business Plan has been adapted as a result of significant changes in policy – both nationally and locally.

National Policy

Rent Income

The most significant change which has directly affected the Business Plan is the succession of adjustments to the rent that the Council can charge. The Council's original Business Plan assumed that rents would increase according to the government's formula for rent convergence by 2016 and thereafter by the value of the Retail Price Index (RPI) plus 0.5%. RPI was assumed to be 2.5% for the life of the plan after 2012/13 so this provided a steady increase in rental income for the HRA and the capacity for income to outpace expenditure, resulting in the increase in balances and therefore available resources as shown in the original plan (p22).

In September 2012 the RPI used to calculate the rent increase for 2013/14 was 2.6% - slightly higher than the assumed rate of inflation adopted in the Business Plan (2.5%) so with a 0.5% addition the headline increase of 3.1% was positive. During 2013 however the government introduced proposals to replace the RPI with another (potentially lower) inflation measure for rent increases – the Consumer Price Index (CPI) and proposed that rents would be allowed to increase at CPI plus 1% for a period of ten years from 2015/16. The proposals also cut short the period for rent convergence from 2015/16 to 2014/15. At the time, CPI was approximately ½% lower than RPI, and so rent increases of CPI + 1% were expected to yield a similar level of rent income to increases at RPI + ½%. However, CPI and RPI soon started to diverge, with RPI rising at a faster rate than CPI. Forecasts by the Bank of England now expect RPI to be 1% or more above CPI, which means that CPI-linked rents rise at a slower rate in real terms, when compared with rents linked to RPI.

The 2014 Business Plan assumptions reflected this new framework with headline rent increases of 3.5% (2.5%+1%) for 2015/16 and 3% (2%+1%) for all years from 2016/7. Costs within the plan were projected to only increase by CPI not RPI from 2015/16 so the updated plan continued to demonstrate a healthy increase in balances and available resources to meet current and new ambitions.

Unfortunately this new certainty – a ten year rent settlement – was short lived and in the 2015 Autumn budget new measures to reduce the costs of housing benefit to the exchequer were introduced. These measures required social housing landlords to reduce rent by 1% for four years from 2016/17 until 2019/20. This has significantly impacted the 2018 Business Plan review and accounts for most of the reduction in income to the plan. An additional negative impact has arisen from the introduction of the government's newest inflation measure, the Consumer Price Index plus owner occupiers housing costs (CPIH) which is described as its 'lead' measure of inflation¹. The value of CPIH has been lower than CPI since March 2017 and has been used by government in calculating Local Authority limit rents. If used within the Business Plan (a prudent assumption) annual rent increases from 2020 will be approximately 0.3% lower than if CPI-linked rents are adopted in the plan. As a consequence of this change balances now grow far more slowly compared to the projections in 2012 and 2014 and there are consequently fewer resources to meet costs in the new plan.

¹ See

<https://www.ons.gov.uk/economy/inflationandpriceindices/methodologies/consumerpriceinflationincludesall3indicescpihcpiandrpigmi>

Right to Buy

The Council's existing Business Plan assumed the loss of 5 properties per year through the Right to Buy (RTB). This reflected a reduced interest in buying homes during the early part of the global financial crisis. From 2012/13 however, interest in the RTB started to increase with government's reinvigoration of the RTB and sales peaked in 2013/14 with 42 properties being sold.

The Business Plan update of 2014 reflected the increased interest in the RTB and assumed that 50 properties would be sold each year from 2014 to 2019 with a reduction to 24 sales from 2019 and 20 sales in the longer term.

The effect of increased sales – through the gradual recovery of the economy and the reinvigoration of the RTB has been to reduce rental income to the Business Plan while at the same time, increasing the value of capital receipts available to the Council. In 2012 the Council entered into an agreement to spend the value of increased capital receipts on 'one for one replacement' – i.e. new social housing. The updated Business Plan indicated that these additional receipts would be spent on the regeneration of Tinkers Green and Kerria when the scheme contained a larger number of additional new build properties. As this scheme developed, the number of additional homes reduced and the one for one receipts have been directed towards other new build and acquisition schemes.

Welfare Reform

While the full impact of the introduction of Universal Credit has yet to be seen, it is apparent that the Council has been successful in controlling the growth of rent arrears. Consequently the Updated Business Plan provision for bad debts was reduced in 2014/15 and 15/16 although this was not reflected in the MTFs until 2017/18.

Local Policy

The Business Plan has also been affected by local policy changes including:

- The decision to advance the regeneration of Tinkers Green and Kerria
- The decision to devote more resources to new housing development / acquisition
- Decisions to enhance fire safety in multi storey blocks
- Decisions to shorten the interval for periodic electrical testing (to support the Council's approach to Fire Safety)
- Decisions to include items of expenditure within the Capital Programme which were not reflected in the original or updated Business Plan (e.g. capitalised salaries; agile working; thermal upgrades; offices etc.)
- Decisions not to charge Leaseholders for rechargeable work (sprinkler systems)
- The introduction of activities with costs not funded from within the Business Plan (Golden Ticket, Handyperson Scheme, increases in tree maintenance costs, etc.)

Many if not all of the above represent valid policy choices to enhance services for tenants, however their inclusion within annual budgets has created a variance between the MTFs and the original Business Plan which was the subject of tenant consultation. To the extent that it is possible, these policy changes and commitments have been reflected in the 2018 Business Plan and it is recommended that the affordability of all future service enhancements is explicitly tested against the Business Plan as part of the decision-making process.

The combined effects of the changes outlined have reduced HRA balances by £180m as described in the following table:

Change	Impact on Balances	Description
Changes in social rent policy	-£156m	The 2012 HRA Business Plan assumed rents would increase at 3% per annum for 30 years (retail prices index + ½%). This has proved highly optimistic, as successive policy changes have led to: rents being linked to the (lower consumer prices index); and early termination of the previous policy on rent convergence; the introduction of rent reduction from 2019/17 to 2019/20. We have allowed for above inflation rent increases from 2020/21 to 2024/25, in line with a rent guarantee provided by Government, but have assumed inflation-linked growth from 2025/26 is at a lower rate than assumed in the 2012 HRA business plan.
Additional RTB sales	-£23m	The 2012 HRA business plan assumed 5 RTB sales a year. In the six years since then the authority has sold 183 more dwellings than expected, which has reduced the amount of income generated by the HRA.
Fixed cost assumption	-£10m	The 2012 HRA business plan appears to have assumed that the authority would make corresponding cost reductions to compensate for loss of rental income through the right to buy. The current forecast takes a more prudent view, on the basis that there is no clear evidence of an approach for reducing costs in line with stock loss.
Other changes	+£9m	A wide range of other variables have changed since 2012, as a result of operational and policy changes made by the council. These include differences in the profile of capital expenditure, changes to the way the capital programme is financed (including use of 141 receipts), changes to operating budgets and the repayment of loans. Some of these work to the advantage of the HRA.
Total impact	-£180m	Current forecasts show the level of the HRA balance to be £180m lower at the end of 2041/42, when compared with the 2012 HRA business plan.

The key headlines from the revised HRA and original business plan forecasts are shown below:

Headline	2018	2012
Opening debt (at 1 April 2018)	£68.0m	£68.0m
Closing debt (at 31 March 2048)	£72.2m	£72.2m
Debt Ceiling	£79.4m	£79.4m
Borrowing Headroom	£5.6m	£11m

The revised Business Plan now contains £5.6m of borrowing headroom which may be utilised over the lifetime of the plan. At this point we have not included this in baseline forecasts to minimise risk in the plan by allowing a buffer against future unplanned expenditure.

Current Benchmarks

As part of our brief we were asked to provide benchmarks for the new Business Plan to demonstrate that it is fit for purpose.

To assess elements of the plan we have undertaken benchmarking during the process of preparing elements of the plan and have shared the results with the Council's officers as the project has progressed. Our findings are summarised below:

Stock Investment

Component lifespans – we reviewed the lifespans of key building components (such as indicated in the Council's Asset Management database and identified some anomalies. In some instances (highlighted in **purple**) these were longer than the Decent Homes disrepair criterion and would lead to an artificially low estimate of renewal costs if the database was used to generate cost estimates for the Business Plan.

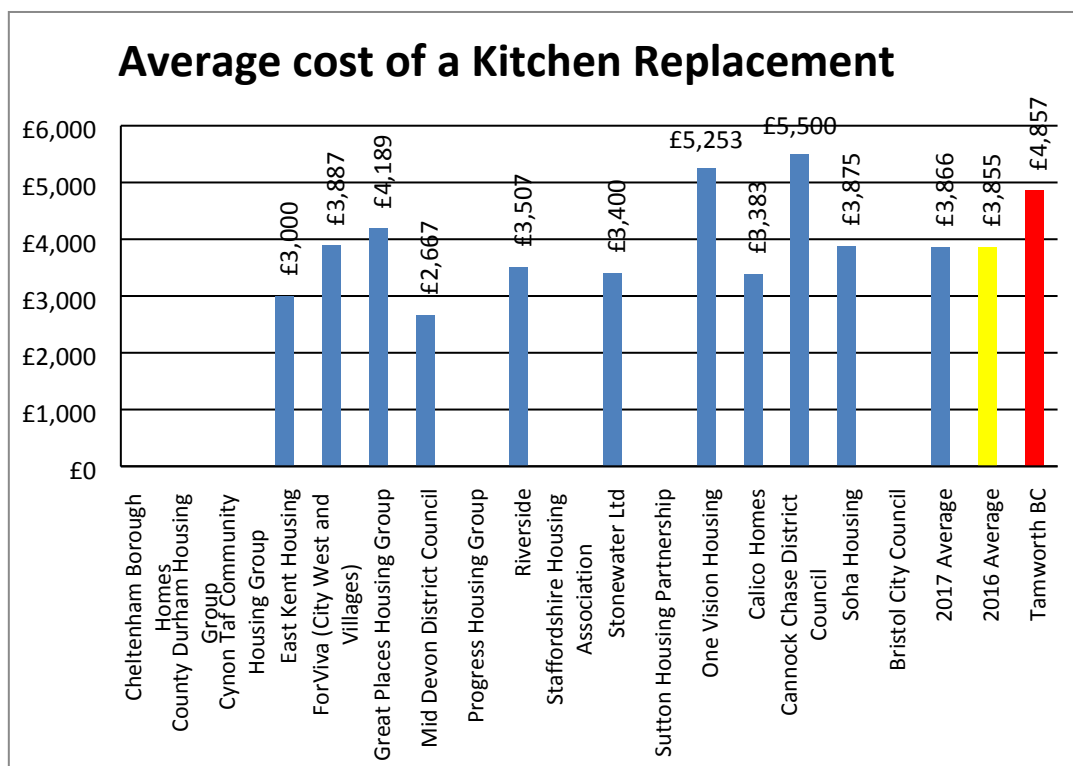
In some instances (highlighted in **red**), component lifespans were shorter than the Reasonably Modern Facilities criterion within the Decent Homes Standard and the effect would be to produce inflated cost estimates. We reported on this more fully in our review of the Council's Investment Programme and the details of individual component lifecycle variances are shown below:

Component	DH	DH	Reasonably	TBC
	Lifespan of Component	Lifespan of Component	Modern Lifespan	Lifespan of Component
	House	Flat	(House or Flat)	House
Wall Structure	80	80	80	100
Brickwork (spalling)	30	30	30	100
Roof Structure	50	30	50	84
Wall Finish & Lintels	60	60	60	50
Central Heating Distribution System	40	40	40	29
Roof Finish	50	30	50	64 or 74
Chimneys (rebuild)	50	50	50	86
Windows	40	30	25	37
External Doors	40	30	25	30
Kitchen	30	30	20	15
Bathroom	40	40	30	20
Central Heating Gas Boiler	15	15	15	29
Other Heating System (Electric)	30	30	30	20
Electrical Rewire / System	30	30	30	40

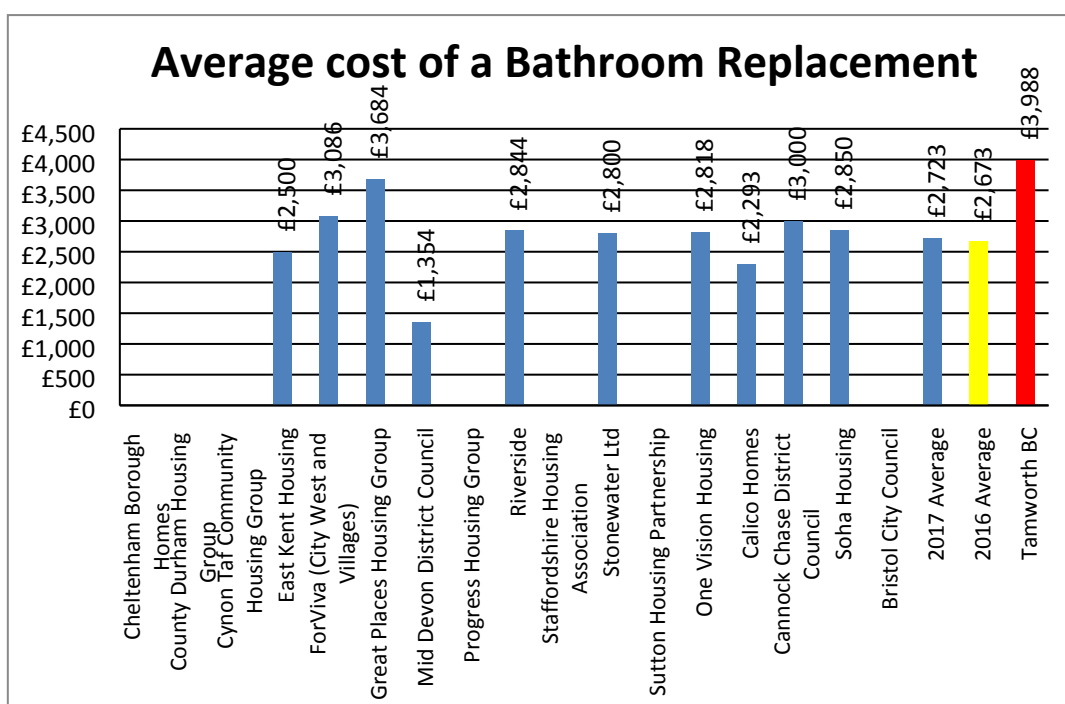
Our projection of Investment Need used for the Business Plan uses the Reasonably Modern Facilities lifespan where appropriate or lifecycles less than the disrepair lifespan to avoid over or under estimating costs.

Unit costs – we identified a number of unit costs which were at the upper end of benchmarks based on Housemark, TEAMnet and other sources. These included kitchen, bathroom, gas boiler replacements and void repairs

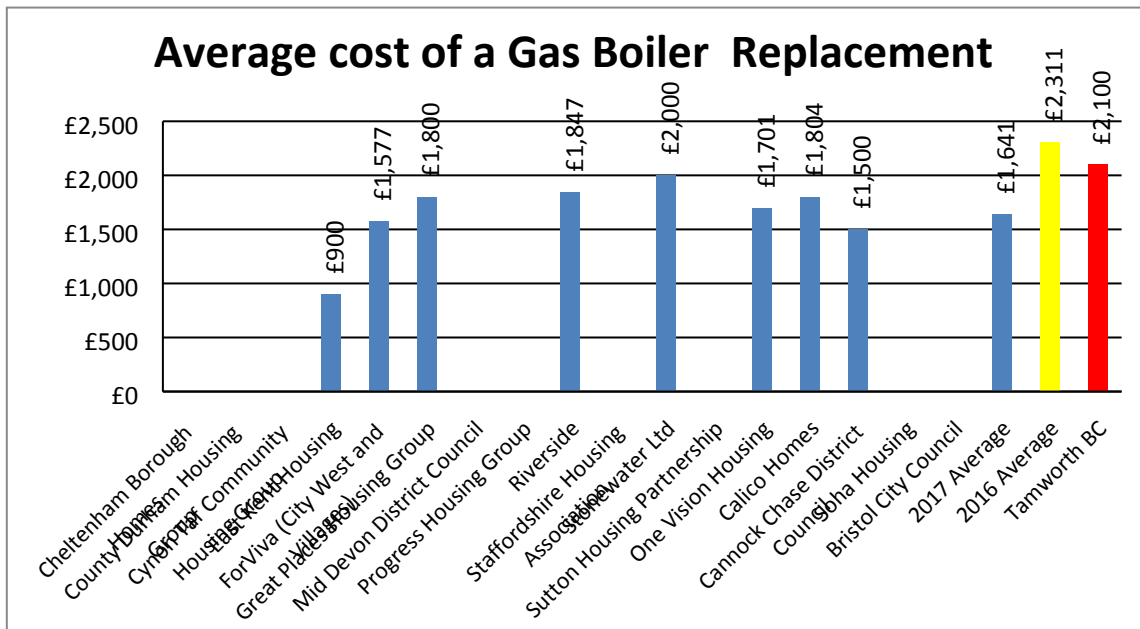
For kitchen replacements, using TEAMnet data, Tamworth spend around £1000 more than the average of those organisations supplying data for the last TEAMnet benchmarking survey



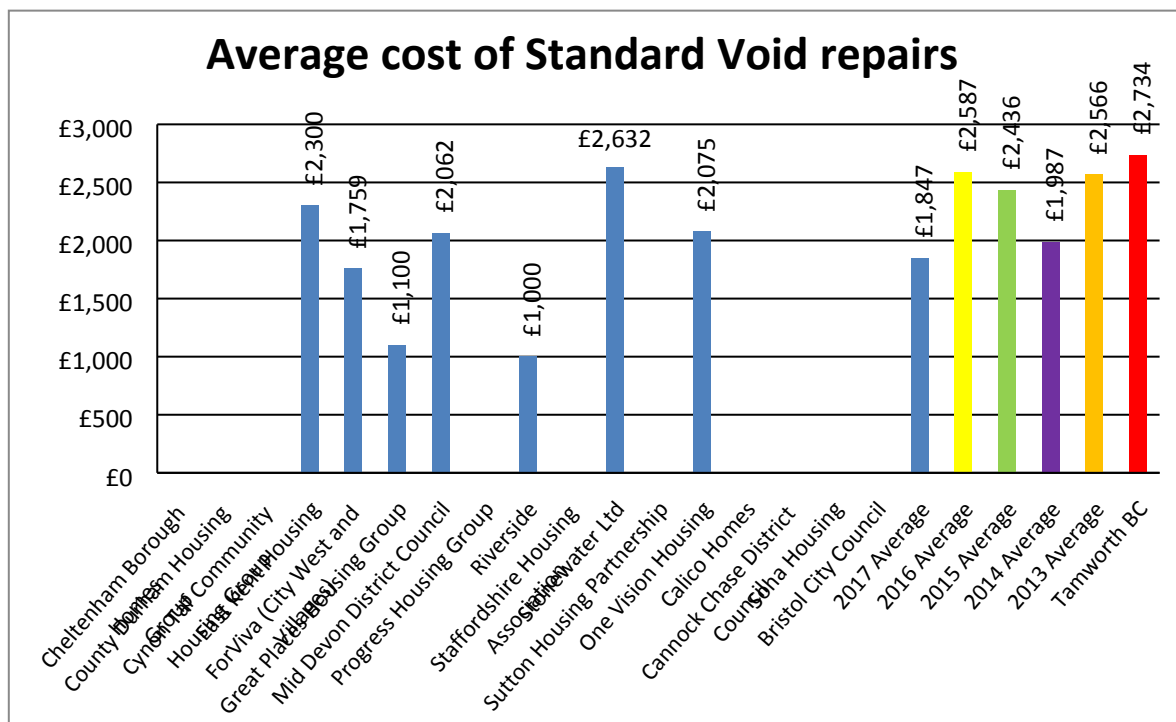
For bathroom replacements, using TEAMnet data, Tamworth spend around £1200 more than the average of those organisations supplying data for the last TEAMnet benchmarking survey



For boiler replacements, using TEAMnet data, Tamworth spend around £500 more than the average of those organisations supplying data for the last TEAMnet benchmarking survey, although the TEAMnet average is skewed because of one result. Without this result, the average is closer to £1750 which is still £350 less than Tamworth.



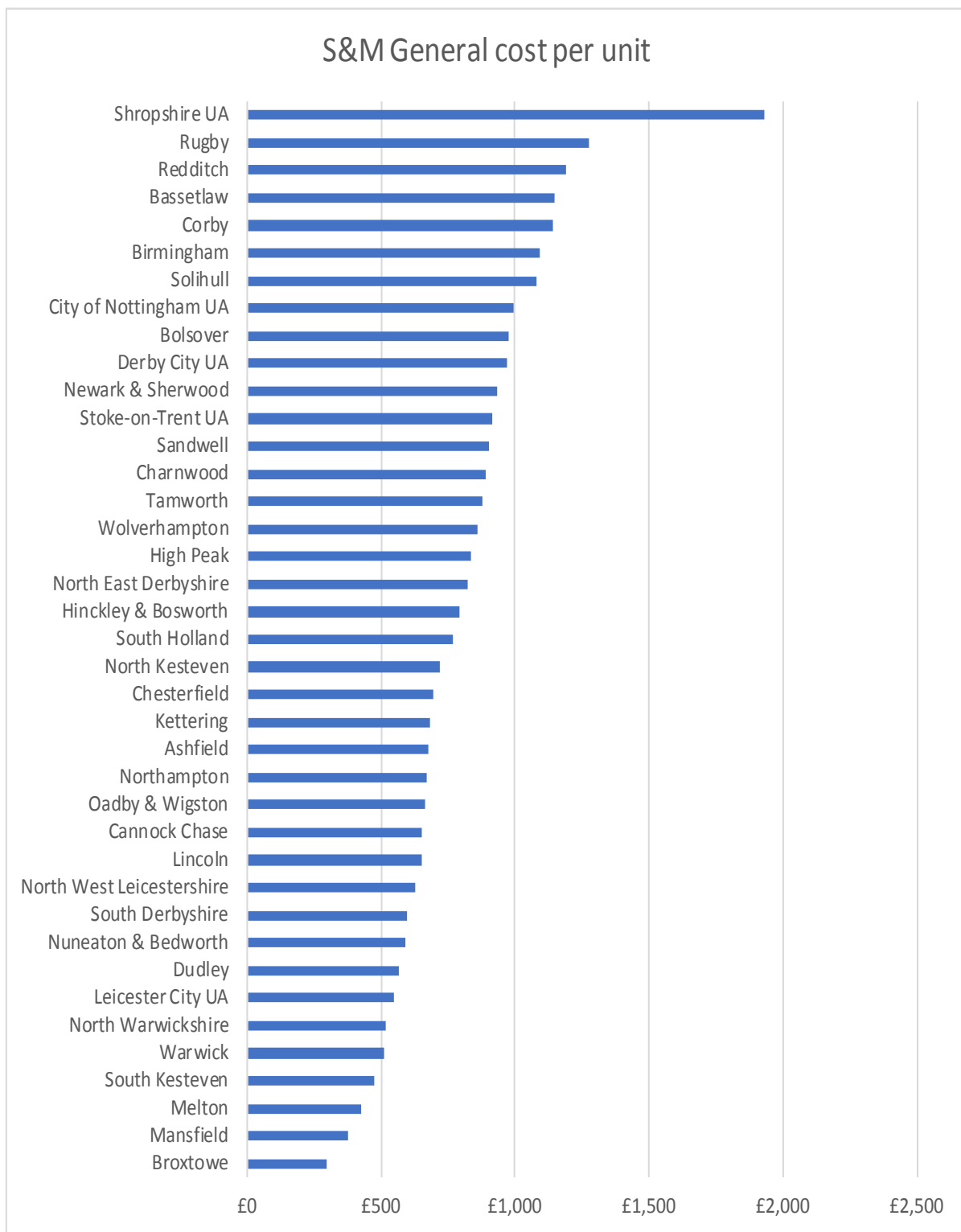
For void repairs, using TEAMnet data, Tamworth spend around £1000 more than the average of those organisations supplying data for the last TEAMnet benchmarking survey.



While all these benchmarks should be treated with caution as the sample against which Tamworth is compared is small and there is no standardisation of component or works specification, the results do indicate that current unit costs for some aspects of the Investment Programme are relatively high and would bear further examination.

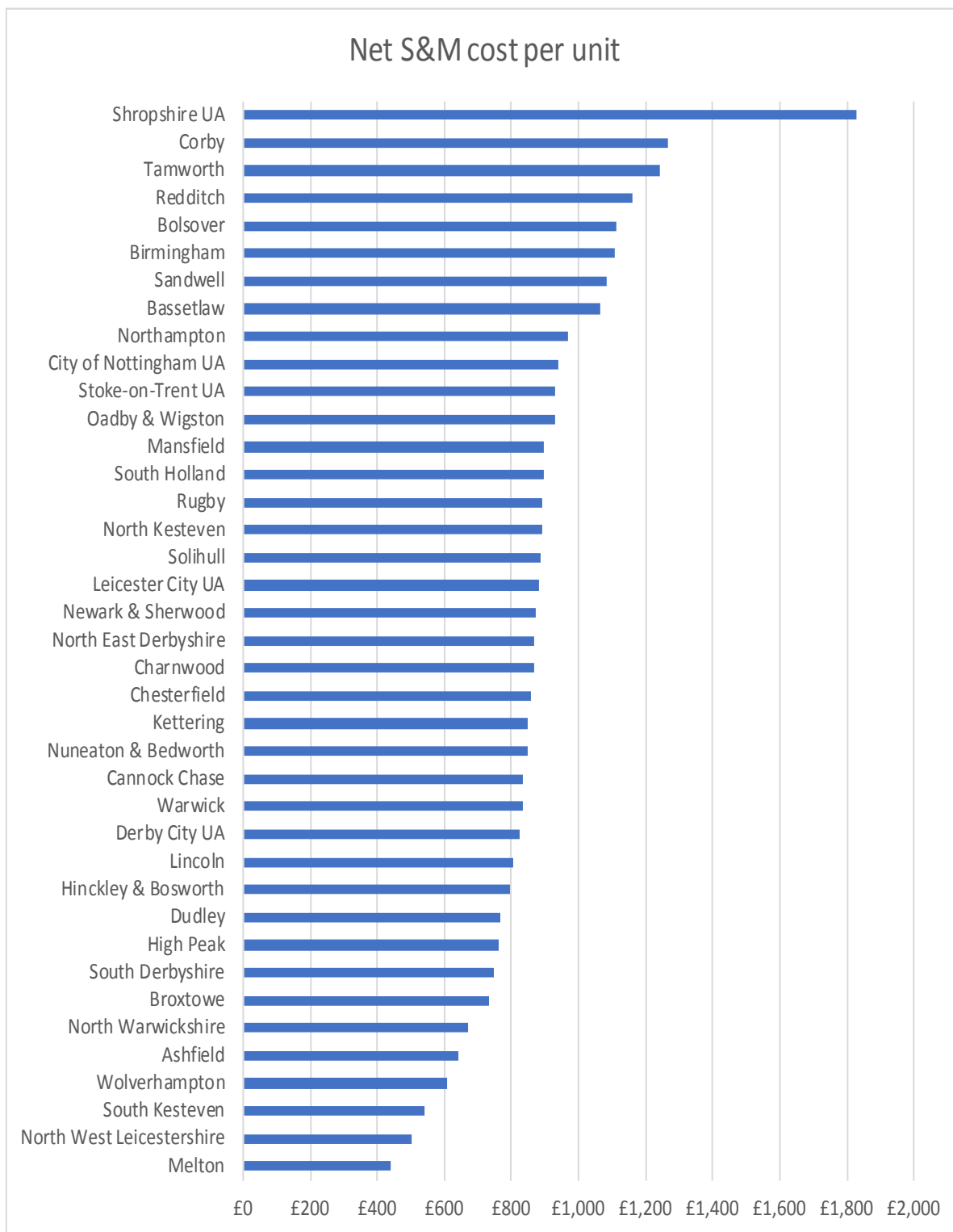
Supervision and Management

We have compared the costs per unit of Supervision and Management among local authorities in the West Midlands and East Midlands regions of England. The first chart below shows the ranked cost per unit of Supervision & Management (General) for each authority. This excludes the costs of special services:



Tamworth’s unit cost (£876) ranks 15th out of 39 authorities, suggesting that the cost per unit of housing management is just above the median for the region. This is just above the all-England shire district average of £861 per unit.

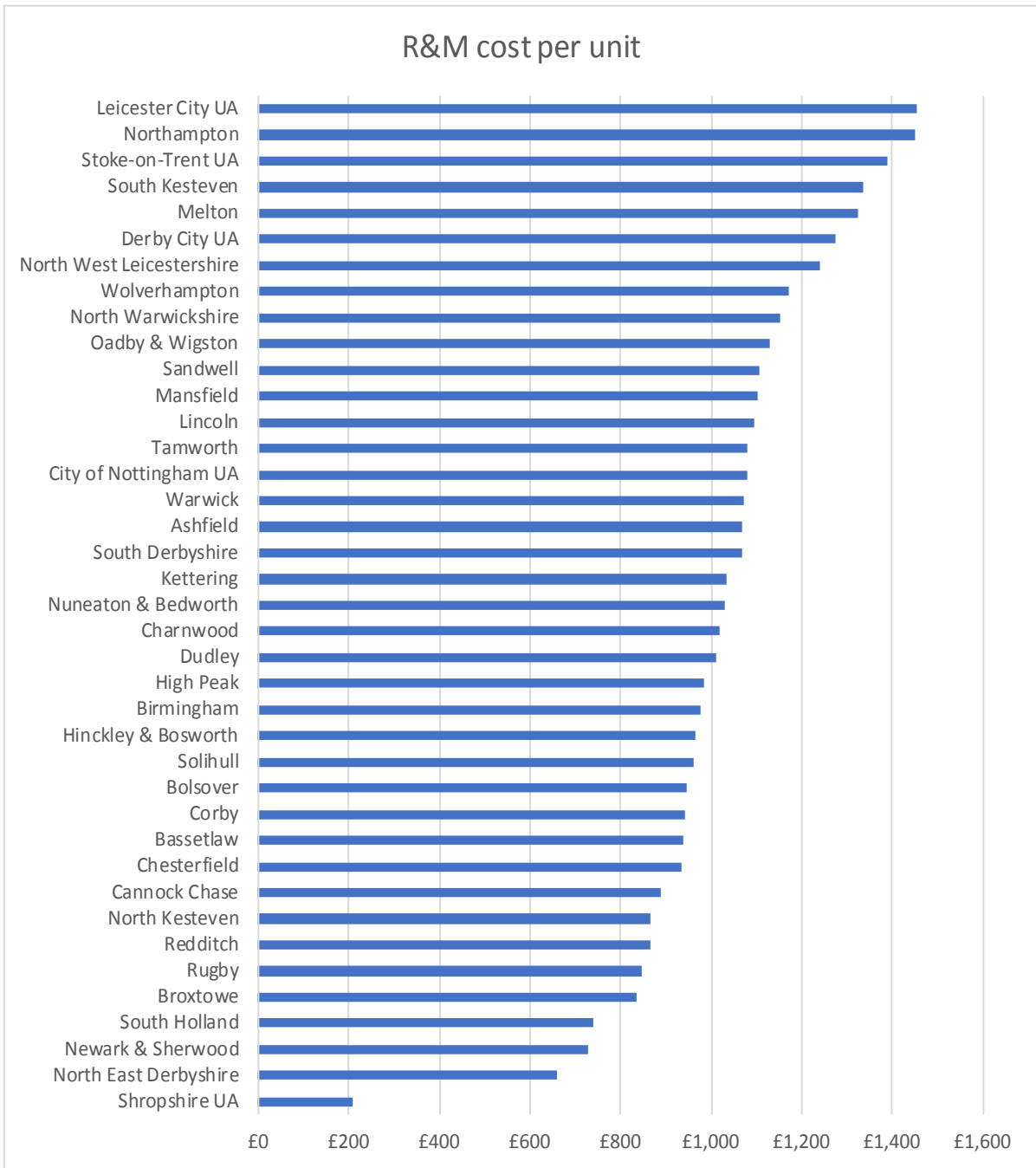
The next chart shows the ranked net cost per unit of Supervision & Management for each authority. This includes the costs of special services, net of service charges:



The cost per unit for Tamworth of £1,241 ranks much higher in this chart, coming 3rd of 39 authorities. The all-England average for shire districts is much lower, at £897 per unit.

The increase, relative to S&M General costs, reflects an additional £529 per unit in service costs, for which the authority expects to recover £164 per unit. The authority's relative position would improve, with fuller recovery of the cost of services through service charges.

The final chart shows the ranked cost per unit of revenue repairs and maintenance for each authority:



Tamworth ranks 14th out of 39, suggesting that its budgeted cost per unit of revenue repairs for 2017/18 was high in relation to other Midlands authorities, though this does not take into account differences between each authority’s capitalisation policy. From the Investment Programme benchmarking it is apparent that costs for aspects of the programme could be targeted for reduction and this would help to improve the ranking above.

Recharges

The final area we have considered is that of recharges to the HRA. These relate to both corporate management and direct service delivery to tenants by other departments of the Council. We have reviewed the corporate management recharges for 2018/19 and compared these, so far as we are able, to the benchmark costs for similar activities as reported by Housemark. The benchmark used by Housemark expresses the value of overheads as a percentage of adjusted turnover and we have interpreted the Council’s recharges along similar lines, as a percentage of the gross rent debit.

As Tamworth does not participate in Housemark’s annual cost benchmarking exercise it has been necessary to compare the Council’s current costs with historic information we have collected when carrying out previous assignments. Comparisons at a global level have been made with traditional housing associations and LSVT housing associations in the North West and Midlands. In 2018/19 the HRA receives recharges from the General Fund totalling £2.068m. This represents 11.84% of the gross rent debit of £17,462,460. In global terms this figure is less than the median for corporate management costs reported to Housemark by:

Benchmark Comparator	Year	Median %
20 No Large Scale Voluntary Transfer Housing Associations in the North West of England	2015/16	12.3%
115 Traditional Housing Associations	2014/15	12.11%
27 No Housing Associations in the West Midlands	2014/15	11.96%

We have reviewed the core corporate management costs of Finance, IT and Premises and the results support the general position above – costs are below the median when compared with housing associations undertaking similar activities.

There are three areas that we would highlight for further consideration.

Firstly, recharges to the HRA comprise corporate management and service delivery costs and we have included the latter in the total for the comparison. In the Housemark benchmarking exercise these service delivery recharges would be allocated to particular areas – Housing Management, Estate Management or Repairs and Maintenance leaving pure corporate costs as the basis for comparison. When recharges for things like street scene (grounds maintenance etc.), OAP gardens and things like gully emptying are removed, the overall 11.84% falls and true corporate management costs become even more favourable. It would be beneficial for the Council to participate in the Housemark cost benchmarking exercise each year to refine understanding of HRA recharges.

Secondly, while costs may be relatively low, this does not indicate good quality or performance and we understand that Service Level Agreements (SLA’s) or Service Specifications have not been favoured by the Council in the past. There is a strong argument to support the reintroduction of these mechanisms to ensure that services are properly defined, delivered and monitored - even between departments in the same organisation, as ultimately costs to the HRA and General Fund must be kept under tight control. The reintroduction of SLA’s need not be ‘an exercise without discernible benefit’ – the argument for not having such a framework governing recharges, but could lead to enhanced customer involvement and value for money if the exercise is approached positively.

Lastly, the benchmarking results do not address the question of correct cost apportionment between HRA and General Fund. This is typically a difficult subject to explore as the General Fund may be perceived as being under greater financial pressure compared to the HRA. However, regularly and transparently reviewing cost apportionments should form part of the Business Planning process – especially when the number of Council homes is reducing over time.

The Revised Business Plan

Baseline Assumptions

Stock

The forecasts assume an opening stock of 4,269 dwellings at 1 April 2018. Of these, the majority (4,250) are assumed to be let at a social rent, with 19 let at an affordable rent. The draft investment programme is based on a marginally higher stock figure of 4272 due to timing differences in the preparation of reports.

Rents & service charges

Average social rents have been assumed at £85.85 per week, and affordable rents at £125.60. Both of these are on the basis of 48 rent weeks in a year. The equivalent 52 week rents are £79.24 (social) and £1115.94 (affordable). This is in line with the HRA rent roll.

The current average social rent is slightly lower than the average formula rent. In line with the authority's rent policy, the forecasts assume that approximately 5% of the social rented stock will be re-let at the formula rent each year.

Rent loss from void properties has been assumed at 1% of gross rents. Rent loss from bad debts has been assumed in line with the authority's medium term financial strategy.

Service charge income has been assumed in line with the authority's MTFS. This suggests a substantial under-recovery of service costs as noted in the previous section of this report.

Operating costs

Costs of housing management and special services are in line with the MTFS.

The revenue costs of repairs and maintenance have been assumed in line with the 2018/19 budget for year one of the MTFS. Thereafter, they reflect 29/30ths of the draft Investment Programme as outlined in **Appendix 1**, pending the results of the authority's updated stock condition survey.

For the purposes of the baseline forecast, all operating costs have been treated as fixed costs that do not vary with changes in stock numbers. This is a key assumption and is discussed later in the report under the heading of Options for Discussion.

Existing Stock Investment

Year one of the forecast assumes that stock investment is in line with the capital programme for 2018/19. Thereafter, they reflect 29/30ths of the draft Investment Programme as outlined in **Appendix 1**, pending the results of the authority's updated stock condition survey.

The forecasts assume that stock investment costs are fixed, and that budgets would not vary with changes in number of dwellings. This is a key assumption as outlined above.

Regeneration and stock acquisition

The following regeneration projects have been accommodated within the baseline forecast:

- Retention of garage sites (scheme CR5017 - £500k budget in 2018/19)
- Strode House car park and garages (scheme H3 - £530k budget in 2018/19)
- Tinkers Green (scheme CR7001 - £5.373m during 2018/19 and 2019/20, after allowing for slippage and known additional costs)
- Kerria (scheme CR7002 - £4.405m during 2018/19 and 2019/20, after allowing for slippage and known additional costs)

Other capital expenditure

The forecasts assume the delivery of all works that are not related to stock investment in year one of the projections.

New Build Projects & Acquisitions

The following new build / new supply projects have been accommodated within the baseline forecast:

- Redevelopment of garage sites (scheme CR7003 - £7.4m from 2018/19 to 2022/23, after allowing for virement of £2.6m for use at Tinkers Green)
- Other acquisitions (scheme CR7004 - £2.41m from 2018/19 to 2022/23, after allowing for virement of £90k for use at Tinkers Green)
- Additional provision and resources have been allowed in 2018/19 for slippage on schemes at Kettlebrook, Dosthill and Coton Lane. The cost of these schemes in 2018/19 is assumed at £1.894m.

Financing

Financing of the capital programme has been assumed in line with the 2018/19 budget, plus resources that have subsequently slipped from 2017/18. From 2019/20 onwards the forecasts assume that resources identified by the medium term financial strategy continue to be available, and that resources generated from the sale of council houses are used to help pay for the HRA capital programme.

Use of 141 Right to Buy receipts has been assumed in line with the MTFs, and the budgets for schemes that have slipped into 2018/19. The plan currently assumes no use of 141 Right to Buy receipts after 2022/23 and implies that any unused receipts will be returned to the Government. This is in line with the assumptions within the MTFs.

The forecast assumes that the authority will borrow any additional sums it needs to finance the HRA capital programme, subject to the cap on debt of £79.4m, set by the Government.

Debt

The baseline assumes that debt is repaid in line with the current schedule of loans related to HRA assets. No allowance has been made for additional sums to be set aside for debt repayment, or for the repayment of any additional debt that is borrowed during the forecast period.

Inflation

The baseline assumes that revenue budgets for management and service costs increase in line with the medium term financial strategy, then in line with the CPIH index (which was adopted in 2017 as the Government's preferred measure of inflation). For revenue repairs and capital maintenance the baseline forecast assumes that costs rise in line with CPIH.

Other assumptions

The forecasts assume that the authority would wish to maintain a minimum balance of £500k on its HRA. They also assume that no use is made of revenue contributions to help pay for the capital programme for the first five years, which is in line with the authority's MTFs. From year six, the forecasts assume that the authority will use revenue balances to help deliver its capital programme in preference to borrowing, subject to maintaining a minimum HRA balance of £500k.

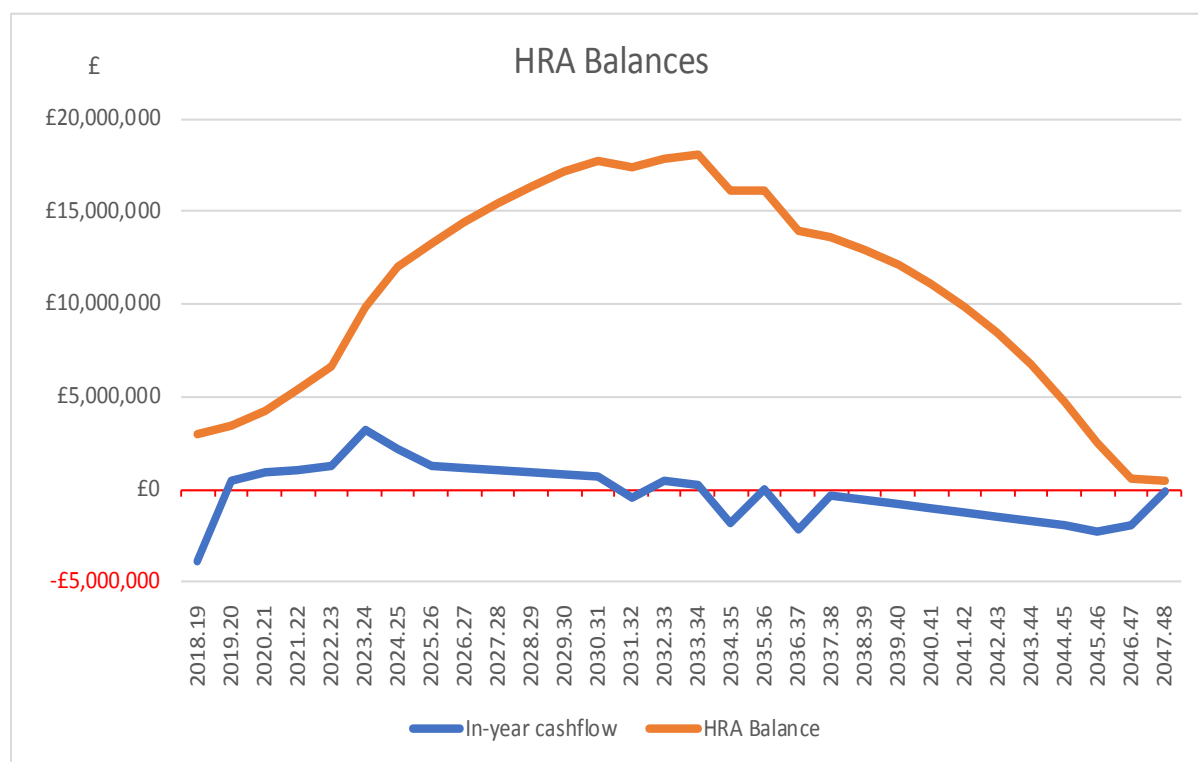
The Baseline Business Plan

The sections below summarise the baseline business plan for the HRA by looking at the forecasts from three different perspectives. These are:

1. The position of the HRA, as measured by the level of balances at the end of each year. This perspective is relevant because it would be unlawful under the Local Government Act 1989 for the authority to budget for a deficit on its HRA.
2. The capital programme for each year, including any projected resource shortfalls. This perspective can help to identify potential “pinch points” during the planning period as a result of expected works schedules, as well as the potential affordability of the programme within the expected resources.
3. The level of debt maintained by the HRA. This perspective helps to identify the potential for the authority to borrow more to deliver additional outcomes, as well as showing whether there is sufficient capital headroom for the authority to deliver the investment required.

Housing Revenue Account

The chart below projects the level of HRA balances at the end of each year, based on the business planning assumptions:

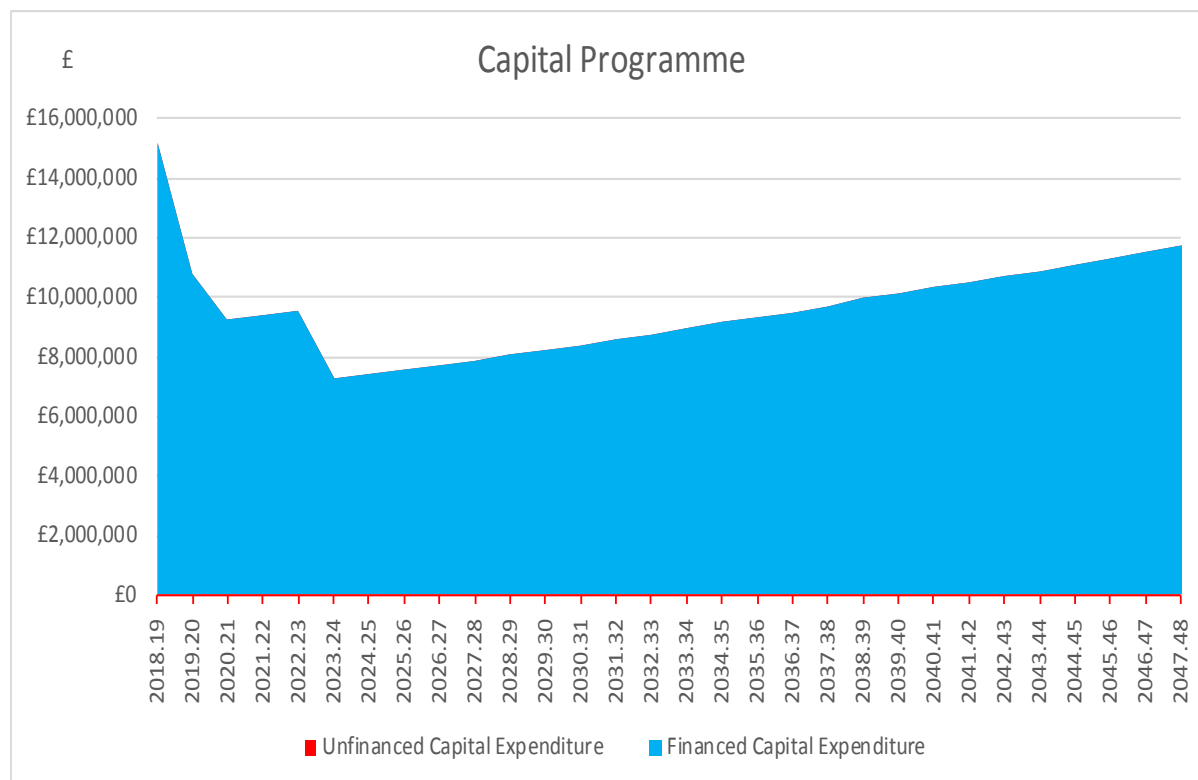


In this chart the blue line represents the contribution or use of the HRA balance for a given year. If the blue line is above zero, the authority increases its HRA balances in that year. On the other hand, the authority uses balances in any year where the blue line is below zero. The orange line shows the cumulative balance at the end of each year. When the blue line is above zero, the orange line rises and when the blue line is below zero the orange line falls.

This chart shows that the HRA is in a healthy position for the first half of the forecast, when it generates additional balances. However, in the second half of the forecast these balances reduce, until the HRA reaches its minimum balance position at the end of the period. This is consistent with underlying increases in costs, which are greater than the increases in income.

Capital Programme

The projected capital programme is as follows:



This chart shows a higher level of expenditure in the early years of the forecast, which is down to completion of existing projects (such as Tinkers Green and Kerria), plus continuation of a programme of acquisitions and garage site redevelopment for the first five years. Thereafter, the capital programme only includes the costs of stock investment.

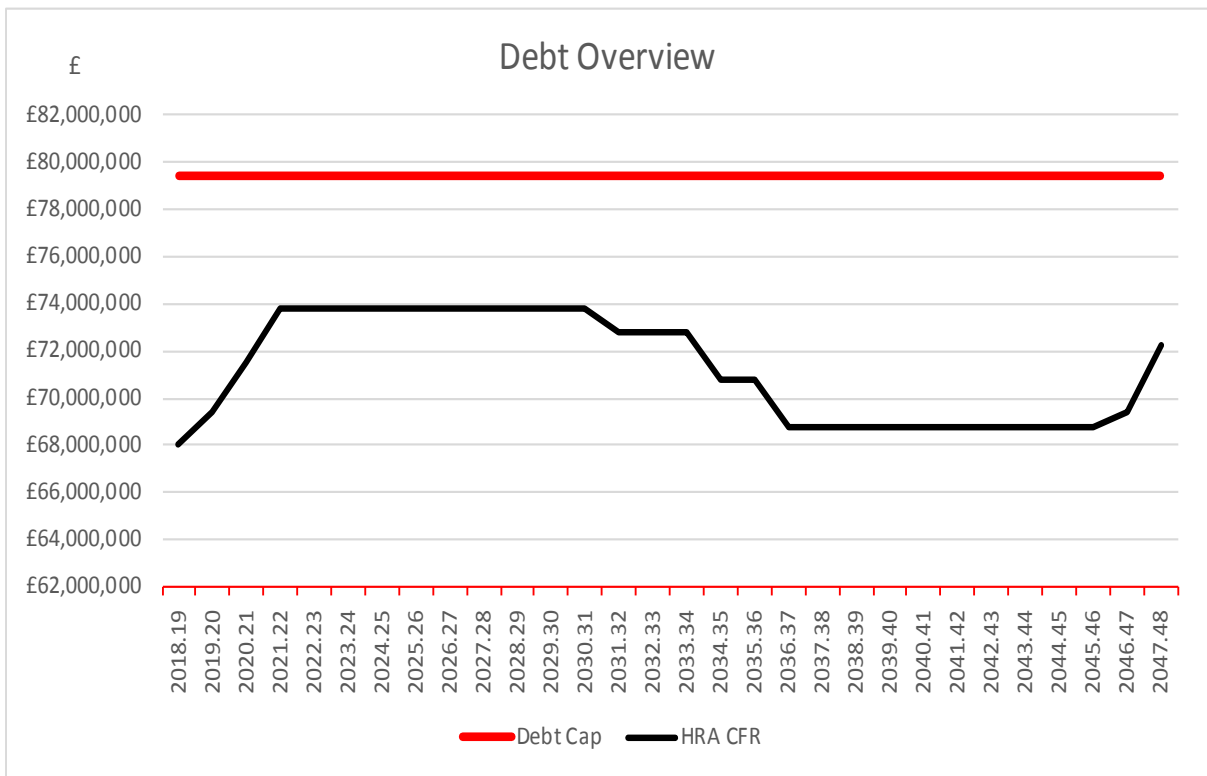
One feature of the stock investment programme is that it assumes even spending throughout the planning period. As a consequence, the expenditure profile rises in a straight line (reflecting inflation) and does not allow for any peaks and troughs in investment. This is an interim situation, while the authority generates more detailed information on the condition of its stock. Future iterations of the business plan forecasts can be expected to show peaks and troughs in investment, which will impact directly on the HRA business plan forecasts.

Debt

The final chart shows the effects of the baseline assumptions on HRA-related debt, as measured by the HRA capital financing requirement.

The red line along the top of this chart shows the debt cap, set by Government. This is the limit of any HRA-related borrowing that the authority can undertake. The black line shows the projected level of HRA-related borrowing at the end of each year. When the black line drops, debt is being repaid. When the black line rises, the authority needs to borrow to deliver its capital programme.

This chart shows the authority borrowing to deliver the early part of its capital programme, and then reducing debt as its existing HRA loans become due for repayment. However, the authority needs to start borrowing again in the last two years of the forecast because there are insufficient other resources available to deliver the levels of stock investment needed.



Key Outcomes from the Baseline Plan

Viability

The draft business plan is viable and provides for an appropriate level of stock investment, the completion of existing regeneration projects and the continued development of new build / new supply in the early years of the plan.

Stock & Activity Levels

The baseline HRA business plan allows for 219 new dwellings to be provided over the first five years of the plan, through a combination of ongoing regeneration schemes, acquisitions and redevelopment of garage sites. Over the same period the plan includes the demolition of 36 properties at Kerria and provides for 250 sales under the right to buy. These stock movements mean that the number of units reduces slightly from 4,269 to 4,202 dwellings. From year six onwards the business plan allows for 35 sales under the right to buy and no additions, which reduces the stock to 3,327 dwellings after 30 years.

Throughout the business plan we have assumed that management activity remains at current levels. The costs of repairs and capital maintenance after 2018/19 have been based on figures provided by Ennerdale Consulting for the current level of stock. This approach results in a set of prudent forecasts, which the authority should be able to out-perform, through optimising income and careful management of costs.

Impact on Benchmarks

The plan maintains supervision and management costs at current levels, however as outlined previously, we have benchmarked these costs with the equivalent costs for authorities in the West and East Midlands regions. We have also provided some benchmarking of recharges and of unit costs for key components in the Investment Programme.

Maintaining current costs will mean that the authority continues to have relatively higher supervision and management costs and the new plan needs to focus on reducing the net cost per unit of supervision and management. The options for doing this include:

- Reviewing the costs of services and service charge policy, with a view to improving service cost recovery
- Maintaining tight control of operating costs and reducing these where they are above relevant benchmarks

In addition, the benchmarks we have used suggest that the authority could achieve lower costs for key component replacement and void property reinstatement. The new plan should address these aspects and also realign its repair budget to facilitate a greater emphasis on planned programmes of work. The draft Investment Programme outlined in **Appendix 1** has been prepared on the basis that the response repair budget has been realigned to achieve the second of these objectives.

The Impact of Alternative Scenarios on the Baseline Plan

Alongside the baseline projections we have prepared eight further scenarios, which reflect the effects of alternative assumptions. This is an important part of the business planning process, as it helps to identify the underlying strengths and weaknesses of the HRA and is a useful way of revealing key risks and opportunities.

The alternative scenarios are:

- A. Notional re-profiling of stock investment works, so that £10m assumed in years 11 to 15 of the forecast is brought forward to years 6 to 10.
- B. A more pessimistic assumption on inflation for repairs and stock investment costs, which sees them increase in line with RPI (which is currently 1.3% a year higher than CPIH)
- C. The effects of increasing inflation by ½% throughout the model. This scenario increases inflation on income, as well as on expenditure
- D. What happens if the authority decides not to increase rents in 2020/21 (the year following the end of the current 1% rent reduction period)
- E. Allowing for the authority to generate additional service charges of £50k each year for five years, which produces extra income of £250k pa from year 6
- F. Introducing a five year programme of efficiency savings, which reduces the costs of housing management cumulatively by 2% a year from 2019/20 until 2023/24
- G. The effects of bad debts rising by 1% more than expected by the medium term financial strategy as a consequence of tenants moving onto universal credit
- H. Each of the above scenarios is independent of each other, and show the impact of changing a single key assumption on the HRA business plan. Scenario H shows what happens if a combination of factors change by modelling the cumulative effects of scenarios B, E, F and G

The results from each of these scenarios are shown in the table below, which gives snapshot figures for HRA balances, any capital shortfall and HRA-related debt levels after 5, 10, 20 and 30 years:

Scenario	Closing Revenue Balances				Capital Shortfall				HRA CFR			
	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year	Year
	5	10	20	30	5	10	20	30	5	10	20	30
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Baseline	6.6	15.5	13.6	0.5	0.0	0.0	0.0	0.0	73.8	73.8	68.8	72.2
A - Reprofiled works	6.6	3.5	13.5	0.5	0.0	0.0	0.0	0.0	73.8	73.8	68.8	72.3
B - RPI investment cost inflation	6.6	11.3	0.5	0.6	0.0	0.0	-1.6	-70.8	74.3	74.3	79.4	79.4
C - Higher inflation overall (+0.5%pa)	7.0	16.3	16.5	1.8	0.0	0.0	0.0	0.0	74.0	74.0	69.0	69.0
D - No rent increase in 2020/21 (year 3)	4.9	10.6	0.7	0.5	0.0	0.0	0.0	-18.3	73.8	73.8	68.8	79.4
E - Additional Income (+50k pa for 5 years)	7.1	17.4	19.3	8.2	0.0	0.0	0.0	0.0	73.8	73.8	68.8	68.8
F - Efficiency gains (2% pa for 5 years)	7.4	18.6	22.7	14.7	0.0	0.0	0.0	0.0	73.8	73.8	68.8	68.8
G - Additional bad debts	5.8	13.5	8.8	0.5	0.0	0.0	0.0	-1.9	73.8	73.8	68.8	79.4
H - Scenarios B, E, F & G, combined	7.1	14.5	0.6	0.6	0.0	0.0	0.0	-48.1	74.3	74.3	70.5	79.4

Scenario A shows that the HRA would be able to bring forward a reasonable level of investment (£10m) from later years, if that is required as a result of the revised stock condition survey. Bringing costs forward would benefit the HRA by reducing the impact of inflation on later years, and this level of brought forward costs could be met from accumulated balances, instead of requiring additional borrowing.

The effects of investment and repairs costs rising at a higher rate than rents (**Scenario B**) show a substantial negative impact, with HRA-related debt reaching the HRA debt cap in year 20. At this point the capital programme costs £1.6m more than the available resources, and the cumulative shortfall increases to £70.8m by the end of year 30. Clearly, the HRA business plan would not be sustainable, in the event that repairs and investment costs rise at the rate of RPI, instead of CPIH.

A ½% increase in general inflation (**Scenario C**) benefits the HRA business plan overall, as it increases rents as well as increasing costs. Since rent (at £17.5m in 2018/19) is much higher than operating costs (£11.4m in 2018/19), this means that rental income increases by more than operating costs, leading to an increase in financial capacity.

Scenario D shows the long term effects of implementing a rent freeze in year 3, instead of a rent increase of CPI + 1%, in line with Government policy. Such a decision not only suppresses rental income in the year of the rent freeze, it also reduces the income that may be generated in future years. This scenario results in significantly weaker HRA revenues, with balances dropping to the minimum level from year 21 (seven years earlier than in the baseline forecast). This reduces the authority's ability to use revenue balances to pay for its capital programme, and means that it also has to start borrowing seven years earlier. Under this scenario, HRA-related debt would reach the authority's debt cap in year 26, resulting in a cumulative capital shortfall of £18.3m by the end of the business planning period.

Scenarios E and F both show slightly more optimistic situations, in which the authority is able to generate cumulative additional income of £50k a year for five years (Scenario E) or make cumulative 2% reductions in its management costs (Scenario F). Since both of these scenarios reduce net expenditure by the HRA, the result is an increase in HRA balances and a healthier financial position at the end of the forecast.

By allowing for an increase in bad debts of 1% a year, Scenario G reduces net income to the HRA. As a result, we see lower revenue balances throughout the forecast, which reduces the authority's ability to deliver its capital programme without recourse to borrowing. Under **Scenario G** the authority would need to start borrowing in year 26 and would reach its HRA debt cap in year 30, leaving a £1.9m investment shortfall.

Scenario H shows that the positive effects of generating additional income (Scenario E) and making efficiency gains (Scenario F) would reduce the combined effects of higher repairs and investment costs (Scenario B) and an increase in bad debts (Scenario G), but would not be sufficient to eliminate them.

Key Messages from the Scenario Analysis

The baseline position indicates a sustainable position for the HRA, on current assumptions. However, the scenario analysis shows that this situation comes under threat if costs rise at a faster rate than has been assumed, or if income generation falls.

The scenarios also show how the revenue position of the HRA, the scale of the capital programme and the need to borrow are all interconnected. In particular, any weakening of the HRA revenue position (whether through increased costs or reduced income) reduces the authority's long term capacity to deliver investment, and could make the HRA unsustainable.

It is important that the authority identifies ways in which it can minimise costs while optimising income generated by the HRA. Options for doing this might include:

- Investigating the scope for generating additional income, particularly in respect of services where costs are not covered by service charges
- Implementing a long term programme for reducing costs by improving efficiency. This could take the form of annual efficiency targets, scaling of budgets so that they reflect any reductions in stock numbers as a result of the right to buy, reviewing service standards or exploring alternative service delivery models.

Delivering the Revised Plan

Linking future budgets to the business plan

As outlined earlier in this report, the original Business Plan and MTFS have diverged somewhat over time as a result of national and local policy changes resulting in different levels of resources and different types of expenditure to those originally envisaged. It is important that the MTFS and Business Plan are fully aligned going forward and that annual HRA revenue and capital budgets reflect the assumptions and constraints within the revised plan.

Continuous monitoring against the business plan

The Business Plan should be continually monitored as new projects and expenditure is contemplated by the Council, during routine budget monitoring, and as new initiatives and policy changes are introduced by Government. New policy driven expenditure should be modelled within the plan to show its long term effects and end of year reporting should include performance against the assumptions and budgets within the plan.

Updating the business plan

Finally, the plan should be updated at least annually to review past performance and the appropriateness of plan assumptions – such as inflation – as well as to reflect changes in circumstances (e.g. shifts in local and Government policy).

Options for Discussion

Overview

Starting from the position that while there are long term cost challenges, the Council has a viable Business Plan and can still achieve some of its original ambitions. Our review highlights two areas where ambition and resources are not aligned; these relate to the

- regeneration of estates other than Tinkers Green and Kerria together with
- ambition to increase the supply of affordable housing.

The revised Business Plan contains a number of options that support continued delivery of existing services as well as meeting (to some extent) the two ambitions above. This section of the report outlines some of the options to increase or redirect resources to meet the challenges above.

Technical Options

The Business Plan has been prepared on a set of prudent assumptions, however these are not set in stone and the Council can choose to vary these. The two most significant changes to the assumptions within the revised plan would be to

- assume that costs of management and maintenance are not fixed but vary (and reduce) if stock numbers fall. The revised Business Plan is based on costs incurred for the number of properties at 1 April 2018. However over the life of the plan, the Right to Buy and planned regeneration projects are projected to reduce the stock to around 3300. Assuming that costs reduce in line with stock numbers could increase the resources available within the Business Plan by up to £16m. However the Council would need to plan proactively to achieve these cost reductions and this would mean changing the annual budgetary logic of incremental growth to incremental reductions.
- utilise HRA balances in the early years of the plan. Currently the MTFS and hence the baseline Business Plan does not utilise HRA balances in the early years of the plan and consequently balances rise in those years. The current plan assumes debt will also increase in the initial years of the plan and hence, interest is higher than would be the case if the plan was funded from balances. The Council may wish to consider the benefit of adjusting its resource plans to minimise interest costs in the plan by making more HRA balances available in the first five years.

It should be noted that these two assumptions may have formed the basis of consultancy advice to the Council in 2017 which indicated that the Business Plan could generate additional capacity for new build.

Investment Programme Options

While the draft Investment Programme detailed at **Appendix 1** has not been adopted by the Council and has been prepared to indicate costs for long term planning purposes, it does contain a number of options based on costs staying within an envelope of £298m. These include:

Option	Effect on Business Plan over 30 years
Establishing a Locally determined priority budget for Member and Tenant priorities @£250k per annum	+£7.5m
Change window replacement multiplier to 1 (or lifecycle to 30 years) as programme has been completed recently	-£1.738m
Change external door lifecycle to 30 years and multiplier to 1 to align with windows	-£1.507m
Provide for sprinkler renewal in next business plan (lifecycle > 30 years)	-£1.3m
Replace rewire programme with Upgrade programme (50% saving on unit rates)	-£5.43m
Revise Periodic Electrical Testing Frequency after first 5 year period and extend interval based on risk assessment	-£4.595m
Align internal and external painting programme with interval of 10 years	-£64.2k
Halve Garage Improvements budget based on rationalisation and disposal of sites	-£3.25m
Halve Environmental Improvements and Communal Area Improvements budget	-£4.25m
Halve Thermal Comfort Budget based on works to low SAP properties only and advice on condensation etc.	-£1.05m
Charge Leaseholders fully for Sprinklers	-£100k
Omit Cavity Wall and Loft Insulation renewal	-£0.537m

If the Council adopted the Investment Programme set out at **Appendix 1** or one similar to it, there would be scope to introduce a Locally Determined Budget to meet Member and Tenant Priorities. This would assist in ‘solidifying’ the remaining elements of the Investment Programme which would become relatively fixed and therefore predictable between revisions following stock condition surveys (every 5 years). This would provide greater certainty to contractors and to tenants who would be able to know with increased certainty when improvement works to their homes are scheduled.

Clearly the Council could also choose to implement reductions to the core Investment Programme to meet costs arising from future regeneration activities. This would need to be carefully balanced against the requirements to meet statutory obligations (in respect of disrepair and safety), compliance with the Decent Homes Standard, the Regulator’s Home Standard and any ambition to improve customer satisfaction with the repairs and maintenance service (which is currently in the bottom quartile for STAR benchmark participants).

Business Plan Scenarios

Option A as discussed illustrates how the Business Plan can cope with re-profiled capital expenditure of up to £10m arising from the results of the new stock condition survey. Strictly this is not an option but rather an illustration of the sensitivity of the revised plan.

As indicated earlier, **Scenarios E and F** both generate additional resources for the HRA. If the authority is able to generate cumulative additional income of £50k a year for five years (Scenario E) or make cumulative 2% reductions in its management costs (Scenario F) the result is an increase in HRA balances by £7.7m and £14.2m respectively over the minimum £0.5m requirement by the end of the plan. Options to generate additional income include further extension of eligible service charges, reviewing all fees and charges that are not included in the dwelling rent limit (e.g. charges for mortgage references, garage rents, ground rents, etc.). Options to reduce costs include targeted procurement of components within the Investment Programme, asset sales where costs of reinvestment are unsustainable, exploration of alternative delivery vehicles including insourcing, outsourcing, cost sharing and the introduction of alternative service delivery methods – specifically digital service channels which reduce transaction costs to the Council.

NB The technical option to implement variable costs instead of fixed costs within the Business Plan as discussed earlier is an alternative to Scenario F and is not additional to it.

New Build and Acquisitions

The Business Plan allows for a programme of new build or property acquisition over the first four years – until 2022/23. Resources of £9.81m (£7.4m +£2.41m) are built into the plan in line with provisions of the MTFS. After this there is no provision for new build / new supply of affordable housing as the plan assumes all 141 Right to Buy Receipts are returned to the government since the 70% of matching funding from the HRA is not available (unless cost reductions are achieved). Clearly the Council would not wish to lose the value of 141 receipts and so alternative options within the Business Plan need to consider how additional resources may be released.

If the Council wishes to use 141 receipts directly – to build homes itself, it will need to find resources to match receipts from year 6 (2023/24). This could be from a combination of options previously outlined. The main risk to this is that the Council will be committing resources that may need to be used to offset risks within the Business Plan (i.e. cost inflation).

An alternative to using HRA resources would be to use 141 receipts and grant aid other social housing providers to construct new affordable homes to which the Council has nomination rights. The Council is permitted to use 141 receipts in this way and a number of authorities have done so already. Guidance on options has been published by Trowers and Hamlins². As there is some time before the Council stands to lose 141 receipts it would be sensible to explore the various alternative options involved in ‘enabling’ rather than ‘providing’ new supply.

Additional Borrowing

The revised Business Plan does contain headroom of £5.6m and this would be available if the Council chooses to make use of this during the plan. We have not included this in the baseline to minimise risk within the Business Plan and to provide a buffer against future unplanned expenditure.

² See

https://www.trowers.com/uploads/Files/Publications/2017/Bulletins/Right_to_buy_receipts_-_use_them_or_lose_them.pdf

Issues and Risks for the new Draft Plan

Consumer Standards

We have reviewed the Business Plan review project against the Consumer Standards as issued by Homes England. These provide a framework for assessing the Business Plan review process and emerging content. Our review highlights the need for capacity building for Members and Tenants and a requirement to involve tenants in the review process. The review also highlights the requirement for the Investment Programme (a key part of the Business Plan) to meet the requirements of the Home Standard. Copies of the assessments have been provided under separate cover.

Consultation Requirements

The Council's brief called for consultants to set out the requirements for tenant engagement, involvement and scrutiny of the Business Plan. We have reviewed the Tenant Consultation and Involvement Standard and after discussion with the Council's Tenant Regulatory and Involvement Manager, have developed a possible Communications Framework for the project. The framework includes consultation with Council staff, Tenants, Members and other stakeholders however, due to the relatively short timescale for consultation over the summer period, the framework should be treated as a menu from which consultation exercises can be selected.

As a minimum the Council will need to carry out the following consultation on the Business Plan

- Capacity building with the Tenants Consultative Group (TCG) – providing basic information on the Business Planning process
- Structured discussions with the TCG on priorities and options within the revised plan
- Internal staff consultation on draft documents such as Impact and Risk Assessments
- Information provision to and opportunities for feedback from specific interest groups using the Council's Tenant Involvement database and existing Partnership Groups
- Member and tenant scrutiny – of this report, the emerging draft Investment Programme and the impacts and risks associated with the revised plan
- Cabinet consideration of the Council's ambitions and options in the light of revised financial modelling and consideration of risks associated with the revised plan

Impact Assessments

We have completed a draft Community Impact Assessment and draft Risk Assessment for the Business Plan review and these have been provided to the Council under separate cover. The Community Impact Assessment identifies the need for consultation with specific groups of tenants with protected characteristics as defined in the Equality Act 2010. These requirements have been built into the outline Communications Framework for the project.

The draft Risk Assessment identifies key risks for the Business Plan and initially categorises these under the headings of Data & Plan assumptions; TBC Business Process; Resources; Outcomes & Regulatory and National Policy Influences. The most significant risk remaining after mitigation / risk reduction measures have been considered is that of unpredictable national political policy which could materially impact the plan.

Appendices

Appendix 1 - Projected Investment Requirement (v6)

See Separate Spreadsheet

Appendix 2 - Action Plan

Ref	Recommended Action	By Who	By When
1	Consider the points raised in this report including baseline Business Plan assumptions and agree or amend these as appropriate		
2	Consider the overall consultation requirements for the Business Plan as set out in our Consultation Framework and this report and initiate consultation with relevant stakeholders		
3	Ensure that the draft Community Impact Assessment for the revised Business Plan is discussed; any changes are reflected in the final assessment and acted upon as required.		
4	Consider the results of our benchmarking exercises and take steps to reduce component costs, void reinstatement costs and management costs as appropriate		
5	Transparently and on a regular basis review cost apportionments between the General Fund and HRA		
6	Review the benefits associated with Service Specifications and Service Level Agreements for services delivered to the HRA by other Council departments		
7	Participate fully in Housemark's annual cost benchmarking exercise and use this to help drive costs down and to secure improved Value for Money		
8	Review the Ambition for a Tamworth Decent Homes Standard and set a new Ambition for the 2018 Business Plan – to understand and improve current 4th Quartile tenant satisfaction for Repairs and Maintenance		
9	Decide whether the Business Plan will be based on fixed or variable costs and if it is to be based on the latter, ensure that budgetary processes are amended to reflect incremental cost reduction		
10	Decide whether the Business Plan will have expenditure in early years funded by borrowing or through the use of balances		
11	Consider the draft Investment Programme as outlined in Appendix 1 a basis for the actual Investment Programme from 2018/9 onwards and adjust budgets for response repairs accordingly		
12	Consult tenants and contractors on the content of the Investment Programme and the options to adjust the draft programme		
13	When a firm Investment Programme is agreed, ensure that so far as possible it is 'solidified' and used as a basis for giving more certainty to long term contracting / delivery and to give tenants better information on planned improvements to their homes.		
14	Formally consider the extent to which the Council wishes to reduce the proposed level of investment in planned improvements and repairs to existing stock in the context of statutory obligations, regulatory requirements and current levels of tenant satisfaction		
15	Establish a HRA Value for Money Project aimed at identifying income generation (especially from service charges) and cost reduction measures and retain a log of all income and savings achieved so these can be publicised to tenants where appropriate		
16	Review the potential to use 141 Right to Buy receipts from Year 6 of the Plan by grant aiding either existing Housing Associations or other bodies in which the Council has an interest		
17	Ensure that annual HRA budgets and the MTFs are fully aligned with the assumptions and costs within the Business Plan		
18	Test all policy and expenditure proposals against the revised Business Plan		
19	Review the Business Plan at least annually		
20	Review the risks associated with the revised Business Plan, the associated provisional risk scores for particular risks and refine the risk assessment as appropriate. Carry out a specific safety risk assessment where there are any changes to operating procedures arising from the revised Business Plan or from savings identified to meet funding challenges		

Dr Ian Gardner

08/05/18

This page is intentionally left blank