Housing Business Planning in an Uncertain Environment

Briefing Paper

August 2017

Introduction

This briefing paper looks at how local authorities can update their housing revenue account business plans.

Business Planning has been an important element of the management of council housing for some time. However, we are now operating in a very uncertain environment. There is a minority government; the Housing & Planning Act will not be implemented in full; the future funding of supported housing is under threat; and the implications of the vote for Britain to leave the European Union are not clear.

The public finances are weak; welfare reform is a 'work in progress'; government policy on rent reductions, 'right to buy', new development and the integration of housing, social care & health are all unclear. Demographic change continues to put pressure on housing services.

This requires a new way of business planning including a robust approach to the development of strategy, financial forecasting, sensitivity analysis, risk management and contingency planning.

What are the Key Elements of a good quality Housing Revenue Account Business Plan?

It is often considered that a business plan has two important elements:

- An analysis of the business and its environment that leads to the identification of a strategy
- The production of a financial plan

It is important to set a business plan in its strategic context as it is part of the suite of strategic documents that a Council should possess. There should be a clear 'golden thread' that runs from the Council's corporate strategy through the Housing Strategy to the Housing Business Plan. The Housing Business Plan should address how the Council's housing business is to assist in the delivery of the Council's corporate objectives.

High-level objectives may therefore be taken from the Council's corporate documents but there will be a need to develop them further into the detailed objectives of the housing service. Having identified the objectives there is then a need to consider priorities, for without this, the objectives would form little more than a 'wish list'. There is then a need to consider what options exist for the achievement of these objectives and which of those options should be taken.

There are two important questions to ask in preparing a business plan strategy.

First, what environment are you operating in? This question is often answered by carrying out a 'PEST analysis that looks at the political, economic, social & technological factors that influence the organisation and how these are likely to change in the future. At the present moment, a 'PEST analysis' for a local authority housing service would be likely to include changes to government policy (political), the increasing lack of affordability of housing (economic), demographic change (social) and developments in information technology (technical).

Second, how prepared is your organisation? This question is often answered by carrying out a 'SWOT' analysis that looks at the strengths and weaknesses of the organisation and the opportunities & threats that it faces.

The business plan should demonstrate that the Council can balance income and expenditure in the long-run avoiding an illegal cumulative deficit while meeting capital financing costs and other obligations and achieving and maintaining the decent homes standard. Councils will therefore need to consider:

- Interest rates, inflation, level of service and investment
- Rents & service charges, stock numbers, voids and arrears including:
    - The effect of rent reductions, inflation and options around social and affordable rents
    - The effect on stock levels of 'right to buy', sale of high value council homes and 'pay to stay'
    - Whether service charges are fully recovered
    - Control of voids and bad debts in the light of welfare reform
- The scope for generating commercial income
- Debt financing & repayment
- Right to buy sales and capital receipts
- Efficiencies in management and maintenance budgets, service reconfiguration, performance improvement
- The need for balances going forward.
- Long term asset management investment proposals
- Sensitivity Analysis
- Whether zero based budgeting would be appropriate
- Whether 'headroom' is needed in the housing revenue account to provide resources to support the capital programme

A sustainable housing revenue account business plan will consider the following with regard to capital expenditure:

- Expenditure
  - A Robust stock condition survey is required to identify what capital investment is required in the housing stock.
  - Consultation with tenants on a local standard is required to identify the standard to which homes will be improved and maintained.
  - New Build – what level of new build programme is to be carried out and what it will cost.
- Financing
  - The Major Repairs Reserve is now financed through depreciation and is available to finance major repairs
  - Support from the Revenue Account for prudential borrowing or revenue contributions may be required
  - The level of Capital Receipts needs to be estimated and decisions taken about their use. This may have an effect on other programmes
  - Government Grants and other contributions may be available especially if it is intended to build new homes or carry out regeneration schemes

One objective of the business plan should be to assess the extent to which 'value for money' is currently being achieved and what should be done to secure improved 'value for money'.

Economy, Efficiency and Effectiveness are defined as follows:

- Economy - This relates to minimisation of the costs of inputs (For example, reducing the salary costs of a staff team working in a call centre or the cost of a new Information Technology system).
- Efficiency - This is concerned with maximising the outputs produced from these inputs (For example, increasing the number of repairs completed by each operative every week, or the number of calls answered by a Call Centre worker)
- Effectiveness - This relates to achieving the desired outcomes. In the housing context these should be the outcomes desired by customers (For example, are residents happy that a call centre dealt with their query at the first time of asking or are repairs done to the customers satisfaction).

Inputs, Outputs, Outcomes and Processes are defined as follows:

- Inputs – These are the resources used to produce the actions that produce the outputs. Input measures are not just about quantity as the quality is just as important.
- Outputs – These are the goods or services, their quality, quantity or level, produced by an organisation. Output measures support the daily management of services
- Outcomes – These are the impacts of the organisation's actions. Outcome measures show how well the organisation is achieving its objectives and whether the underlying problems still exist or have changed. Outcomes can also refer to impacts of people's behaviour or attitudes so qualitative measures are also relevant. Outcomes can be hard to measure, or data hard to collect, especially where the impact is in the future or it is hard to quantify the organisation's contribution to changes in the environment.
- Processes – These are the actions that create or deliver outputs. Process measures can help to identify how well actions contribute to outputs; where problems are developing, targets are not being met and how resources could be targeted better.

Business plans should ideally be prepared in consultation with partners and residents. Consultation with partner organisations should help to establish the Strategic Context in which the service operates, and the opportunities that exist for joined-up working including the packaging of contracts.

Consultation with tenants and leaseholders should cover the following issues:

- Strategic Context – what strategic objectives are seen as important by residents?
- Level of satisfaction with current performance
- Views on relative priorities for action
- Selection of Options
- Monitoring progress
- Accessibility of documentation – documents should be capable of being easily understood by a wide audience. Tenants and Leaseholders need to understand the process and the models
- Active tenant and leaseholder representatives may wish to be closely involved in the process whereas other residents may wish to have limited involvement – for example through completing a questionnaire.

Business plans need to be under-pinned by a robust stock condition survey. This not only provides reliable information on which to base forecasts for revenue repairs budgets and capital programmes; but also provides the data that is needed to develop an effective asset management strategy.

The current level of performance of financial and non-financial aspects of the business should be identified and compared with targets, aspirations and performance elsewhere. This will identify where improvements to performance need to be made so that these can be incorporated into the business plan.

What is the political, economic, social and technological environment in which local authority housing services operate? What are the key uncertainties?

The environment in which local authority housing services currently operate is characterised by uncertainty. The main areas of uncertainty are outlined below.

The General Election of June 2017 resulted in the election of a minority Conservative Government that is dependent on support from the Democratic Unionist Party. As the government lacks a majority, faces divisions in its own ranks and has an agenda that is dominated by leaving the European Union; many contentious policies including housing policies, have been abandoned. Furthermore, policy making is expected to be slow and unpredictable. The main policy areas affected are outlined below.

Our briefing paper on the housing policies of the main parties at the time of the 2017 general election can be viewed or downloaded from here: http://awics.co.uk/files/module_document_pdfs/general_election_2017_-_housing_policies_-_briefing_paper.pdf

Our briefing paper on the Queen's speech that followed the general election and its implications for housing can be viewed or downloaded from here: http://awics.co.uk/files/module_document_pdfs/queen_s_speech_2017_-_the_implications_for_housing_and_local_government_-_briefing_paper.pdf

The Housing & Planning Act was passed in 2016 but many of its provisions allowed for policies to be implemented through ministerial regulations. These include the sale of high value council homes to fund the extension of the 'right to buy' to housing association tenants and the introduction of near-market rents for tenants on high incomes. It is understood that both these initiatives have now been 'shelved' but as the government intends to proceed with the extension of the 'right to buy' to housing association tenants it is unclear how this policy is to be funded.

Before the 2017 general election the government had decided to cap housing benefit at the level of the local housing allowance. This decision is especially significant for supported housing where the level of rent plus service charges is almost inevitably higher than the level of the local housing allowance. Consequently, the government proposed a new approach to the funding of supported housing based on housing benefit to fund core housing costs and a locally administered budget to fund housing support costs. However, these proposals were not fully developed at the time that the 2017 general election was held and since the election the government has made no comment on the future funding of supported housing. This causes considerable uncertainty for providers of supported housing with the result that hardly any new supported housing is currently being developed and some supported housing is even being closed. This is a matter for considerable concern at a time when there are increasing numbers of elderly and vulnerable people in the population; and when alternative provision such as hospitals, residential care or support in general needs housing is scarce and relatively expensive.

Our briefing papers on the future funding of supported housing are as follows:

- Funding of Supported Housing - http://awics.co.uk/httrack/awics.co.uk/dynamicdata/data/docs/funding%2520of%2520supported%2520housing%2520-%2520briefing%2520paper.pdf
- Funding for Supported Housing consultation - http://awics.co.uk/httrack/awics.co.uk/dynamicdata/data/docs/funding%2520for%2520supported%2520housing%2520consultation%2520%257E%2520briefing%2520paper.pdf
- The Future of Supported Housing (report of Parliamentary committees) - http://awics.co.uk/files/module_document_pdfs/future_of_supported_housing_-_briefing_paper.pdf

The Implications of the vote for Britain to leave the European Union are still unclear and the potential impact on housing is unknown. The long-term effects depend on the form that 'Brexit' takes, the policies that will be pursued by the 'post-Brexit' government, and on which forecasters the reader chooses to believe!

A major issue is the effect that leaving the European Union will have on economic growth and the tax revenues of the United Kingdom government. Here, forecasts differ with some predicting short-term stagnation due to uncertainty followed by a return to rapid growth; and others forecasting lower growth or even contraction in the long-term. Which forecasts prove to be accurate will be critical but if economic growth and tax revenues fall that will have an implication for public budgets including those for housing.

Most commentators are agreed that house prices will increase less rapidly or may even decrease because of 'Brexit'. This will have implications especially for balance sheets, the level of impairment in revenue accounts and the potential to make a surplus on market housing. Most commentators are agreed that the value of sterling will continue to fall and that will increase the costs of imported materials including building materials. With the United Kingdom government facing reduced credit ratings, their ability to borrow despite low interest rates may become more constrained.

In the short-term the government is attempting to sustain demand in the economy through fiscal and monetary policies. It is planning to continue to borrow extensively to fund public expenditure until after 2020 and to reduce interest rates – perhaps even to a negative level. In my view this approach will prove not to be sustainable and will result at best in even more severe reductions in public expenditure than have been envisaged to date and at worst in a financial crisis of unprecedented severity. As 'Brexit' will force the United Kingdom to compete with developing countries such as China rather than with developed countries, reductions in public expenditure appear to be more likely than increases in taxation.

Increased restrictions on the freedom of movement of labour will adversely affect the ability of British businesses to recruit staff and this will be felt especially keenly in the construction industry. With increased raw materials prices and labour shortages the construction industry may be able to build fewer new homes in future than in the past rather than more.

Our briefing paper on 'Brexit' and its implications for housing can be viewed or downloaded from here: http://awics.co.uk/httrack/awics.co.uk/dynamicdata/data/docs/brexit%2520-%2520implications%2520for%2520housing%2520-%2520briefing%2520paper.pdf

It appears to me that the public finances are already quite weak.

During the 2017 general election, none of the parties addressed the fundamental weaknesses in the United Kingdom economy – including low growth, low productivity and a sizeable trading deficit - or what Chancellor Phillip Hammond has described as the 'eye-watering' levels of public debt that are still increasing. All of the parties have economic policies that are based on using public borrowing to maintain demand in the economy.

The government's decision to reduce social rents by 1% a year for four years shows that it considers that housing services should face 'austerity' in the same way as general fund services.

During the 1959 election campaign, the then Prime Minister, Harold Macmillan said 'You've never had it so good'; while the economist JK Galbraith coined the phrase 'private affluence and public squalor'. This issue is just as relevant today. The United Kingdom is one of the world's wealthiest countries and many people are prosperous. However, many of our public services are starved of funds.

For many years, central government has been attempting to gain greater control over the welfare budget. Since 2010, there have been significant changes to the welfare system with the passage of the Welfare Reform Act 2012 and Welfare Reform & Work Act 2016, the introduction of Universal Credit and reductions in many benefit entitlements through measures such as the freezing of benefits and the introduction of the under-occupation penalty. The government has now said that, while it will continue to implement welfare reforms that it has already announced, it will not introduce any new welfare reforms. However, this does not remove the uncertainty caused by the rolling out of existing reforms. The capping of housing benefit and the level of the local housing allowance is referred to above. Another example is the rolling out of universal credit.

In 2015 the government announced that social rents would reduce by 1% a year from 2016 to 2019 and this was later made a statutory requirement in the Welfare Reform & Work Act 2016. This has led to a significant reduction in rents especially when compared with the increases that were envisaged under the previous policy and that underpinned the self-financing settlement in 2012.

However, the greatest uncertainty that exists at present is what the government's policy will be from 2020 onwards. Will there be a return to the policy of increasing rents each year in line with the consumer prices index plus 1%? Will there be a rent freeze or continued cash reductions? Or will rent increases be allowed to enable local authorities to fund new development as was suggested in the Conservative Party manifesto in 2017?

The government has 're-invigorated' the 'right to buy' in England by increasing discounts and has proposed its extension to housing association tenants. Despite evidence that 'right to buy' reduces the stock of affordable housing without increasing the number of owner-occupiers in the long-term, and despite the policy being abandoned in Scotland and Wales, the United Kingdom government remains committed to the policy in England. Questions remain, though, about how the extension of 'right to buy' to housing association tenants will be funded; and as to whether there will be any further initiatives in the council housing sector.

The government acknowledges that there is a 'housing crisis' and that there is a need to increase the number of new homes being built – especially affordable homes. The Conservative manifesto in 2017 proposed achieving this by giving local authorities and housing associations greater flexibility as part of agreements under which they would deliver more new homes. In the case of local authorities this would involve increasing the 'borrowing cap' and allowing greater flexibility on rents.

However, it is not clear whether the government proposes to implement this approach. It was not mentioned in the Queen's speech and ministers have not commented on it. However, this approach could be developed without primary legislation.

The government is in the process of agreeing devolution deals with the major cities and conurbations. These deals often include housing powers and funds. Their implications for local authorities may be significant.

There is also a general recognition that there should be better integration of housing, social care and health services. However, in practice this is proving difficult to achieve. To date, the government has not proposed any new initiatives. Whether there will be any central initiative to produce a 'break through' ow whether a 'break through' could be achieved 'on the ground' by individual local authorities and health authorities remains to be seen.

And demographic change continues. As time goes on, the proportion of the population who are elderly and / or vulnerable increases and there is an increased need for appropriate housing. Extra care elderly housing appears to be the preferred solution but with the government's initiatives on changing the funding of supported housing 'stalled' as outlined above it is likely that the problem of how to house vulnerable elderly people will intensify.

How can councils develop effective self-financed business plans that will address the new uncertain environment in a robust way? What assumptions should be made in the financial model? How can uncertainties be managed?

The new uncertain environment requires a different approach to business planning. In the past, it was usual to produce a single strategic plan and financial forecast that represented what the Council expected would happen. This is no longer sufficient. There is a need to treat this business plan as just one of a number of possible scenarios. There is a need to stress test this base business plan to establish how it would respond to changed assumptions; and then to develop contingency plans to address any issues that arise. To date, this approach has been developed further in housing associations than in local authorities with the Homes & Communities Agency promoting 'stress testing' through 'Regulating the Standards'.

Rent policy is a critical area to 'stress test'. A range of scenarios around future government rent policy should be modelled ranging from further rent reductions from 2020 onwards to rent increases designed to enable additional homes to be developed. There is also a need to consider options around changing the mix of tenures between social, affordable and market rents.

While most local authorities have now introduced service charges there is considerable evidence that they are often insufficient to recover the full costs of the services that are provided. Furthermore, many authorities do not have sufficiently robust financial systems to be able to identify the costs of providing services accurately or to calculate what an appropriate service charge should be. These matters need to be addressed as part of the business planning process.

Information about how AWICS can provide advice and assistance with service charges can be found on our website at: http://awics.co.uk/schsadvice

Income recovery rates can vary significantly due to changes in levels of voids and bad debts. Changes in the economic environment are likely to affect demand for different types of property and levels of rent collection in ways that are difficult to predict. For example, the roll-out of Universal Credit is likely to increase arrears and bad debts; while restrictions on eligibility for housing benefit could reduce demand for supported housing and increase demand for shared accommodation from young people. Different scenarios will need to be modelled.

Andrew Carlin of Procurement for Housing has suggested that local authorities should adopt a more commercial approach to business planning in the light of recent developments:

"Welfare reform, house building targets and the task of maintaining decent homes standards pose well-known threats. To cope, providers must accept that profit is not a dirty word. Their teams must become commercially astute, harvesting business value from every asset. This is key for communities to thrive, rents to be paid and homes to be built and maintained well."

The Welfare Reform & Work Act 2016 removed the long-standing link between inflation and rent increases and thus exposed local authorities to significant risk if, as is currently expected, rates of inflation increase. The risk of increased inflation is most acute in the case of maintenance costs. For example, in August 2017, Brian Berry, Chief Executive of the Federation of Master Builders told 'Inside Housing' about research that the Federation had carried out:

"Material price increases have left builders under severe pressure. This research shows that following the fall in the exchange rate, timber is the material that the majority of builders say has increased most in price but the problem doesn't end there – everything from insulation to windows to bricks and blocks are soaring in price."

Furthermore, any restrictions on the free movement of labour are likely to result in labour shortages and increased costs.

There are differing views about the extent of the scope for further efficiencies in management and maintenance. It is often said that the scope for such efficiency gains has already been exhausted. However, others take the view that was famously taken by Sir Peter Gershon that efficiency gains of at least 2% a year should be achievable on a permanent basis. Still others argue that the scope for efficiency gains is greater than this. In practice, most authorities have ensured that their financial projections 'balance' by making whatever assumption is required about future efficiency gains. This may no longer be an appropriate approach moving forward.

Capital financing costs are significant especially following the increase in debt in 2012 at the time of the self-financing settlement. Currently, interest rates are at an 'all time low' with the Bank of England's base rate being set at 0.25%. Government policy is to maintain interest rates at a low level in an effort to boost demand by encouraging borrowing and discouraging saving. However, with the rate of inflation increasing, most commentators are predicting that interest rates will increase soon. Even if they do not, it can be expected that in the long-run interest rates will return to a rate somewhat above the inflation rate. Different authorities have different attitudes towards debt with some wishing to maximise debt so that they can maximise capital expenditure while others wish to repay debt so that they can reduce revenue expenditure. Treasury Management strategy is therefore an important part of business planning and changes in interest rates are certainly a variable against which stress testing is required.

Council housing is no longer a static service. Stock levels can reduce because of 'right to buy' and other disposals; but can also increase because of new build, buy-backs and regeneration schemes. Variations in stock numbers affect both income and the need to spend on management, maintenance and major repairs. Capital programmes are often underpinned by capital receipts from 'right to buy' sales. This needs to be factored into the business plan model, assumptions need to be made regarding which costs should be considered to be fixed or variable, and stress testing needs to be carried out around uncertainties such as the number of 'right to buy' sales and levels of maintenance expenditure.

At the time of the self-financing settlement, the government decided that, in future, depreciation and impairment would become a real charge to the housing revenue account. Transitional arrangements, that were extended in 2017, mean that these charges can continue to be 'reversed out' in most cases involving housing stock. However, there are exceptions and it is not clear whether the transitional arrangements will be extended indefinitely. It is therefore necessary to stress test the business plan model against depreciation and impairment charges that could not be 'reversed out'.

Capital programmes are funded through a combination of borrowing, capital receipts, grants, the major repairs reserve and revenue contributions. The future availability of all these funding streams needs to be modelled. Borrowing is currently limited by the 'borrowing cap' and this looks likely to continue unless the government decides to proceed with the idea of entering into deals with individual authorities to allow increased borrowing to fund new build. Capital receipts are dependent on the level of 'right to buy' sales and other asset sales and this in turn is dependent on government policy, the availability of land and property for the council to sell and the state of the property market. Many commentators are forecasting a downturn in the property market. The availability of government grants to fund new build and regeneration schemes is likely to reduce. The ability to support the capital programme through revenue contributions to capital outlay depends on the surpluses that can be generated in the housing revenue account. The major repairs reserve is also dependent on the housing revenue account. There is therefore a need to model all these sources of funding, to assess the minimum level of capital programme required and to carry out stress testing around the Council's ability to continue to fund its capital programme at the level required to meet statutory and other obligations including maintaining the decent homes standard.

What business planning techniques are now required including for strategy, financial forecasting, sensitivity analysis, risk management and contingency planning?

Business Planning should be a dynamic process that is systematic, open and flexible. It should also involve a number of linked plans and documents that cascade down from the strategic to the operational level.

At the Strategic level the business plan contains four elements:
- Mission – a summary of the over-riding purpose of the business
- Objectives – specific goals that must be achieved to realise the mission
- Strategy – states how the objectives are to be achieved, including policy directions and resource allocation
- Tactics – states what the business will do on a day to day basis and determines immediate actions.

The Business Plan should be closely integrated with the Asset Management Plan. The National Housing Federation has defined asset management as follows.

"Taking a comprehensive approach to managing a housing association's physical assets with the aim of achieving particular objectives, usually to make best use of the housing stock and achieve value for money. It covers the construction, operation, maintenance, modification, replacement and disposal of housing and other buildings"

The Asset Management Plan is often considered to be the foundation of the business plan. It should therefore be kept under review. In particular the:
- Identification and analysis of housing and non-housing assets including their condition and future maintenance needs.
- Achievement and Maintenance of the Decent Homes Standard and other agreed local standards including:
    - The Stock Condition Survey
    - The Replacement of components linked to Depreciation
- Appraisal of assets to inform consideration of Demolitions, Disposals and Renewals
- Potential for Regeneration schemes and New Build.

In the past Housing Associations have tended to have more dynamic asset management plans than local authorities but this is now changing. There is a need to manage the stock pro-actively, asking which stock should be retained or disposed of; what to invest in the retained stock and what new stock to acquire. Typically a housing association will look to divest themselves of low value, low demand, low density, high cost-in-use properties either through disposal or redevelopment; and to invest in or redevelop other properties to meet changing needs. Some landlords will have regeneration schemes where they will have to consider refurbishment, infill, partial redevelopment and full redevelopment options.

Many local authorities have ambitions to build new council homes. In its guide to self-financing, the Chartered Institute of Public Finance & Accountancy said:

"Reprovision, new development or regeneration are calls on monies within the business plan. They are only possible when debt is being serviced, need for investment in the homes is being satisfied and investment in services provides value for money and is agreed with tenants.

"To make most developments viable, active asset management, using land or garage sites as part of the funding, or accessing Homes & Communities Agency grants may be an option... It may be more effective to work with a partner… Consultation with tenants on any proposals would need to be the start of the process, and the authority will need to undertake a full investment appraisal analysing costs and incomes and the associated risks and rewards.

"Affordable rent schemes… will be available for new build… Other constraints on developments (include) the cap on borrowing."

Effective Business Plan financial models have:
- Consistent internal logic and arithmetical accuracy
- Inter-relation of different elements
- Neither too complex nor too simple – comprehensive but understandable
- Reliability – use integrity checks and perhaps external validation
- Flexibility – to test different assumptions and scenarios
- Owned by the organisation rather than consultants

Effective Models also demonstrate how the authority will
- Balance the Housing Revenue Account
- Finance the Capital Programme at the Decent Homes Standard at least

In the current uncertain environment, sensitivity analysis and stress testing has become of increasing importance.

The Chartered Institute of Public Finance & Accountancy has identified the following as the key sensitivities to address in a business plan:
- Inflation increase or decrease
- Cost inflation not synchronised with the Consumer Prices Index
- Right to Buy levels and receipts
- Rent arrears and the impact of benefit changes
- Interest rate increases
- Performance decline, such as void levels and increase in cost and volume of responsive repairs
- Local issues, such as tendering of Supporting People or other services and reduction in Supporting People Grant
- Alternative rent policies adopted by the authority

The Homes & Communities Agency has set out its requirements for 'stress testing' of housing association business plans in 'Regulating the Standards'. While these do not apply directly to local authorities they are worth considering as an example of good practice. The standards state that:

"We expect stress testing to be pivotal to, and integrated with, providers' overall approach to business planning, risk and performance management… We will seek evidence that providers go beyond simple sensitivity testing to include multivariate analysis, which tests against relevant serious economic and business risks and demonstrates the effects on cash, covenants and security."

The Audit Commission has defined risk and risk management as follows:

"Risk is the threat that an event or action will adversely affect an organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and control3led".

In its guide to self-financing the Chartered Institute of Public Finance & Accountancy said:

"Risks are being transferred with the settlement from central government to authorities and the risk management arrangements need to be re-assessed to ensure that they are robust enough.

"The self-financing HRA will more closely resemble the finances of housing associations, with similar associated risks. It would therefore be appropriate to have the same type of risk management framework in place."

The Risk Management Strategy needs to be kept under review. Some authorities have concluded that housing revenue account reserves should be increased because of the greater uncertainty and risk created by self-financing.

The process should be ongoing, embedded in the culture of the organisation and have the potential to re-orient the whole organisation around performance improvement. It is not about eliminating risk but about understanding risk and managing it more effectively. It includes identifying, quantifying, managing and re-assessment of risks. Re-assessment should be carried out on the basis of new information, actions taken and changes in the environment.

Following assessment, risks should be mitigated and then the success of the mitigation strategy should be tested.

Financial risks can be managed by:

- An active Treasury Management Policy and procedures to manage interest rate risk.
- A suitable level of balances or reserves maintained as a contingency against risks on inflation and income, bad debt increases as well as investment risk factored into the business plan.
- Performance Management Frameworks, effectively enforced, to manage the risks of poor performance in voids, income collection and investment scheme delivery.
- Using the five-year transition period to evaluate and manage the impact of componentisation in the calculation of depreciation.

The key components of a risk management strategy include:

- Assurance Map / Plan
- Risk Assessments
- Risk Map / Register
- Audit Committee / Scrutiny arrangements / Board

There is a need to take a holistic approach to risk. Authorities should not just concentrate on: Insurance, Health & Safety and Asset Management.

Many authorities prioritise their risks using a matrix such as that which is shown below:

Catastrophic		**High Impact, Low Likelihood Consider Action and have a Contingency Plan**		**High Impact, High Likelihood Immediate Action is Needed**
Impact				
Minor Disturbance		**Low Impact, Low Likelihood Keep under Periodic Review**		**Low Impact, High Likelihood Consider Action**
		Very Unlikely		**Very Likely**
			Likelihood	

This approach categorises risks according to how likely they are to occur and how catastrophic they would be. There are therefore four categories of risk:

- High Impact, high Likelihood – where immediate action is needed.
- High Impact, Low Likelihood – where there is a need to consider action and to have a contingency plan.
- Low Impact, High Likelihood – where there is a need to consider action.
- Low Impact, low Likelihood – where there is a need to keep under periodic review.

Particular concern should be given to the 'perfect storm' where a number of adverse risks are faced at the same time producing a serious threat to the organisation. For example, what would happen if the following were all to occur at the same time?

- Reductions in benefits for the under-25s and the over 65s
- A gas explosion in a flat where the tenant has refused access
- Increased interest rates

There is a need for the integration of Asset Management and Risk Management into Business Plans and Financial Forecasts;

There is a need to introduce effective performance management systems to ensure that planned improvements in performance are realised. The three elements of a performance management system are considered to be:

- System Design
- Data Collection
- Data Use

Performance Measures should be 'SMART' as follows:

- Specific – Simply and clearly stated so there is little risk of confusion about the measure.
- Measurable – Data is readily available ort can be collected easily.
- Achievable – Standards or targets based on the measure are realistic – not wishful thinking
- Relevant – What is measured is what is important to service designers, managers and users.
- Timely – Information is available soon enough, and often enough, to support decisions.

Measures should combine the quantitative, qualitative and intuitive; and should consider inputs, outputs, outcomes and processes.

Beneath the business plan that sets the strategic framework should sit the corporate plan that sets the current operational policies, departmental action plans for each division of service and staff development plans for individual members of staff. Each level of plan should contain relevant key tasks and performance against these should be monitored and reported appropriately. There should also be contingency plans covering how the local authority would react if any of the serious risks analysed in the stress testing were to materialise.

Conclusions

Business Planning is not just about 'crunching the numbers'. It is also about:

- Strategy
- Responding to external challenges including changing government policy
- Asset Management
- Risk Management

Now is not only a good time to revise and update business plans. It is essential that this be done so that local authorities can be responsive to changing government policy and other significant uncertainties in the environment in which housing services are provided.

This requires a new way of business planning including a robust approach to the development of strategy, financial forecasting, sensitivity analysis, risk management and contingency planning.

Adrian Waite
August 2017

Notes:

Further information about business planning is available on our website at: http://awics.co.uk/business-planning

Further information about housing revenue account 'health checks' is available on our website at: http://awics.co.uk/housing-revenue-account-health-checks

---

Housing Business Planning in an Uncertain Environment

November 2017

We are holding seminars on 'Housing Business Planning in an Uncertain Environment' during November 2017. These seminars will look in depth at how local authorities can update their housing revenue account business plans.

Business Planning has been an important element of the management of council housing for some time. However, we are now operating in a very uncertain environment. There is a minority government; the Housing & Planning Act will not be implemented in full; the future funding of supported housing is under threat; and the implications of the vote for Britain to leave the European Union are not clear.

The public finances are weak; welfare reform is a 'work in progress'; government policy on rent reductions, 'right to buy', new development and the integration of housing, social care & health are all unclear. Demographic change continues to put pressure on housing services.

This requires a new way of business planning including a robust approach to the development of strategy, financial forecasting, sensitivity analysis, risk management and contingency planning.

The seminar will address the following questions:

- What are the key elements of a good quality housing revenue account business plan?
- What is the political, economic, social and technological environment in which local authority housing services operate? What are the key uncertainties?
- How can councils develop effective self-financed business plans that will address the new uncertain environment in a robust way? What assumptions should be made in the financial model? How can uncertainties be managed?

- What business planning techniques are now required including for strategy, financial forecasting, sensitivity analysis, risk management and contingency planning?

Who should attend?

All those with an interest in business planning in local authority housing, including Managers in Local Authorities and Arm's Length Management Organisations, Elected Members, ALMO Board Members, Housing Accountants and Tenant Representatives.

The session is interactive, includes specific practical examples and is accompanied by a very useful book entitled: **"Housing Business Planning in an Uncertain Environment"**

Venues and Dates:

London: Novotel Hotel, Waterloo – Tuesday 7th November 2017
North: Novotel Hotel, Leeds – Tuesday 21st November 2017

The price of the seminar in London is £230 plus £46 Value Added Tax, a total of £276. The price of the seminar in Leeds is £175 plus £35 Value Added Tax, a total of £210.

For further information or to make a booking, please click here: http://awics.co.uk/housing-business-planning-in-an-uncertain-environment

---

About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about our services and us please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk.

Services that we offer include:

- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars — http://www.awics.co.uk/Seminars2017.asp
- Webinars – http://www.awics.co.uk/webinars.asp
- In-House Training — http://www.awics.co.uk/inHouseCourses.asp
- Independent Residents' Advice — http://www.awics.co.uk/IndependentTenantAdvice.asp
- Technical Books — http://www.awics.co.uk/publications.asp
- Information Service — http://www.awics.co.uk/aboutUs.asp