

HOUSING BUSINESS PLANS

Briefing Paper - November 2004

Introduction

Social Housing Organisations, whether they are Housing Associations, Local Authorities or Arms Length Management Organisations all have business plans. There are, of course, different requirements for different parts of the sector, but there are also some commonalities. This paper looks principally at local authority housing revenue account business plans but also refers to business planning in other parts of the sector.

As part of the new financial framework for local authority housing, the government introduced Business Planning for Housing. The first "shadow" Business Plans were submitted to government offices in October 2000 and the first "live" business plans were submitted in 2001. The government has said that:

"Business Planning will be a key part of the new financial framework for local authorities... It will be an important tool for improving decision-making by authorities and ensuring that the resources devoted to local authority housing are used in the way in which they best preserve and enhance housing assets and ensure social housing provision which meets the needs of tenants."

Contents of a Business Plan

Housing Revenue Account Business Plans need to address:

- Long-term plan for management and maintenance of the council housing stock
- Current performance of the business and the problems faced
- Medium to long term framework for delivering stock improvements including financing investments
- Options for increasing investment in the stock to bring it up to a decent standard
- Performance of housing management and plans to improve quality and/or efficiency
- Consistency with Housing Strategy

The Business Plan should also provide clear answers to the following questions:

- What is the current position on the condition of the council housing and performance on service delivery?
- What are the priority areas for action and how were they selected?
- What are the options for addressing these priorities?
- What is the plan for action?

A Local Authority Housing Revenue Account Business Plan should cover:

- Major issues that affect the delivery of the landlord function
 - Stock Condition
 - Relationship between supply and demand
 - Performance of Housing Management
 - Needs of sections of the community
- Monitoring of delivery
- Medium- to Long-term framework for improvements

The government has said that their assessment of authorities' landlord performance will be based on the quality of the Housing Revenue Account Business Plan, and their progress in delivering improved services in accordance with the plan. Evidence will be sought that tenants are involved in preparing and monitoring the implementation of the plan.

It is anticipated that Business Plans will be updated annually, with major reviews every three to five years. However, it is recognised that many plans will change significantly over the next few years as databases are improved and plans developed. Variations in resource levels caused by Rent Restructuring and the changes that are proposed to the capital regime will also oblige councils to revise Housing Revenue Account Business Plans.

The government has produced a spreadsheet model to assist local authorities in the production of their Housing Revenue Account Business Plans. Most authorities use this model.

The key focus of the Business Plan is to identify whether the local authority will be able to achieve the Decent Homes Standard with existing resources.

“One of the key priorities identified in the Housing Policy statement was the need to bring about a step change in the quality of social housing. The Government has made a firm commitment that all social housing will be brought up to a decent standard by 2010... Delivery of this commitment depends crucially on housing authorities making effective use of resources available for maintaining and improving their council housing stock... Authorities' Housing Revenue Account Business Plans will need to set out how their investment strategy will make progress towards bringing all their housing stock up to a decent standard.”

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'Fit for Purpose' Business Plans

The Office of the Deputy Prime Minister has produced guidance on what it considers essential to make a business plan 'fit for purpose'. To comply with this guidance, authorities must address the following matters adequately:

- Strategic Context and Consultation
 - Action on Council Housing to support other housing and wider community objectives
 - Statement about whether social housing supply meets or exceeds demand
 - Links to corporate planning
 - Consultation with Tenants and Leaseholders
- Stock Condition
 - Robust up to date survey of physical stock condition, including energy efficiency
 - Data sources and updating arrangements
 - Summary supporting information
 - How many homes fail the 'decent homes standard'
 - Plans for addressing 'decent homes'
 - Future profile of newly arising need
- Current Performance
 - Performance Indicators
 - National
 - Local
 - Comparative Performance
 - How is performance information provided to tenants and leaseholders?
- Resources
 - Summary of recent capital and revenue expenditure
 - Include sources of funding
 - Link to Housing Strategy
 - How are capital resources allocated between the Housing Revenue Account and the General Fund?
 - Projected future funding
 - Assumptions
 - Rent Restructuring
- Priorities and Options
 - Priorities
 - Clear statement of priorities and statement of relative importance
 - Tenants' views on relative priorities for action
 - Reasons for prioritisation
 - Options
 - Investment to deliver 'decent homes'
 - Improved performance on management and repairs
 - Identify further work

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- Delivery and Presentation
 - Progress to Date
 - Monitoring procedures
 - Progress on targets and objectives
 - Tenant involvement
 - Quality of service – monitor, scrutinise and report
 - Accessibility
 - Concise, include summary, structured, cross-referenced, consistency (internally and with housing strategy)

It is recommended that a local authority asks the following questions in preparing a 'fit for purpose' Business Plan:

- When was the planning process last reviewed?
- How do you use your Business Plan?
- Are plans at all levels in the organisation clearly linked to the Business Plan?
- Do your stakeholders share your understanding of your business objectives?
- Do you regularly review the scope and content of the Business Plan?
- How do you ensure that the scope and content of the Business Plan meets the needs of the organisation and stakeholders?
- Have you identified and agreed your vision and key objectives?
- Have you identified and assessed the significant risks that might prevent you achieving your key objectives?
- Have you fully assessed the range of stakeholders and their potential influence?
- Do you understand your strengths and weaknesses?
- Do you understand relevant Political, Economic, Social and Technological factors (PEST)?
- Do you have a robust and flexible financial model?
- Have you translated the strategic business plan objectives into deliverable operational plans?
- Does the Executive Summary provide sufficient information for people who will read no further?
- Does the narrative give enough detail about how the plan will actually be delivered?
- Is the financial information consistent with the narrative?
- Do the financial forecasts demonstrate that you can cope with changing assumptions and unexpected events?
- Do you have an effective strategy for communicating your Business Plan?
- Have you programmed when the Business Plan should be reviewed?
- Do you have an appropriate system for monitoring and reviewing performance?

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Effective financial models are required for Business Planning that have the following characteristics:

- 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

An effective Business Plan will avoid the following terms:

- Minimise (or maximise)
- Enhance
- As soon as possible
- As appropriate
- Adequate

And will qualify the following words:

- Improve (how much?)
- Increase (how much?)
- Reduce (how much?)
- Restrict (how much?)
- Limit (by how much?)

A Mission Statement should tell us something meaningful about the ambition and priorities of the organisation. One way of testing whether a mission statement achieves this is by thinking of the opposite and asking whether the organisation has made a meaningful choice.

Performance Management can be enhanced by addressing the following questions:

- Are your performance measures aligned to your strategy?
- Do you have the right number of measures? Too many divert effort. Too few prevent a holistic view.
- Are you measuring what really counts, or what is easy to measure?
- Do your measures encourage the right behaviours and values?
- Do you understand how your measures inter-relate and does your target setting recognise this?
- Are you confident that if you achieve your targets you will deliver your business plan?

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The Government Office uses the following criteria to evaluate whether a Business Plan is 'fit for purpose':

- Current Position and Context
 - How well does the plan explain the role of the authority's own stock needs to play to support the overall Housing Strategy?
 - What evidence is there of effective consultation with tenants and leaseholders, including satisfaction surveys in the development of the Plan and that due weight has been given to their views?
 - Does the authority have a clear understanding of the condition of its stock, including the work required to make it decent, and appropriate arrangements to keep this up to date?
 - Does the Plan clearly demonstrate current performance on housing management, repair services and capital programming?
 - Is there a realistic assessment of current and likely future revenue and capital resources (including the impact of rent restructuring)?
- Other Questions
 - How well is the statement of priority areas for action justified and linked to the analysis of stock condition and supply and demand?
 - To what extent does the Plan demonstrate proactive consideration of alternative ways of addressing priority areas for action?
 - Is there a clear and affordable action plan with SMART (Specific, Measurable, Agreed, Realistic and Time-bound) objectives and milestones covering both capital works and service delivery?
 - How well does the Plan report on progress against previous targets and objectives? Are effective monitoring procedures in place?
 - Could a non-specialist reader quickly understand the key messages in the Housing Revenue Account Business Plan?

In early 2004, the audit commission assessed the housing business plans of all 354 housing authorities and concluded that 32 require 'very little work' to become 'fit for purpose', while the others fall short of this standard. The link with stock options appraisals is a key factor. The government will be looking for improved performance in this area. The key areas for improvement in local authorities that have been identified by Government Offices are:

- Business Plans should be at the centre of the management and delivery of the landlord role
- Clear summary of stock condition, homes failing 'decent homes' and current and future finances
- Should not include all the detailed outputs of the business plan model
- Priorities for action should look more widely than just improvements to the stock
- Look at options for different approaches to management, maintenance and capital programming
- Explain how targets feed through into capital programming

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Business Planning in Arms Length Management Organisations and Internal Trading Organisations

Business Planning requirements in Arms Length Management Organisations and Internal trading organisations, such as Building Maintenance Direct Labour Organisations are slightly different to those of the housing service. The elements of a good business plan for an arms length management organisation or internal trading organisation are:

- Executive Summary
- Business Analysis
- Market Analysis
- Medium-Term Plan
- Action Plans

The Executive Summary should not only summarise the Business Plan as a whole, but should include clear reference to the Mission Statement and the main objectives.

The Business Analysis will include:

- 'SWOT' analysis – analysis of the Strengths, Weaknesses, Opportunities and Threats relevant to the organisation
- Strategic Options Review – looking at options relating to existing and new markets and products
- Productivity, Efficiency and Effectiveness
- Equal Opportunities and Environmental issues

The Market Analysis will include:

- 'PEST' analysis – analysis of the political, economic, social and technological environment in which the organisation operates
- Customers
- Competitors
- Products
- Marketing Strategies
- Customer Care

Medium-Term Planning will include:

- Financial projections
- Systems developments
- Administrative and management arrangements
- Investment proposals

Action Planning should be based on 'SMART' (specific, measurable, achievable, relevant and timely) targets and a performance management system based on a good process of monitoring and review.

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Business Planning in Housing Associations

The Housing Corporation has described a business plan as follows:

“A Business Plan is a complete picture of your organisation, reflecting its aspirations and objectives, the environment in which it operates, your services and the market for them, and your position in that market. The plan should also take into consideration the expectations of the various stakeholders and an analysis of resources that are going to be needed over a defined time-frame, including finance, assets, staff and systems.”

The Housing Corporation’s good practice guide to Business Planning in Housing Associations says:

“It is important to be clear from the outset about responsibilities in the Business Planning process. The Board is ultimately responsible for the governance and direction of the organisation, so the Business Plan must be grounded in the Board’s understanding of the environment in which the Association operates and of the Association’s way forward.

“Of course, no Association or commercial firm can set its vision without reference to the outside world. The challenge is to establish a vision that is relevant to, and accepted by, stakeholder groups, and is achievable within the context of the environment.

“Managers and other employees cannot be expected to deliver a plan that has not been communicated to them. As every employee’s targets should flow from these objectives, this clearly implies communication in some form to everyone in the organisation.”

A Housing Association Business Plan that will typically cover:

- Overview
 - Review vision and objectives
 - Map stakeholders
 - Analyse environment
 - Conduct initial risk assessment
- Detailed Strategies
 - Marketing Strategy
 - Asset-based strategies
 - Human Resources
 - Information Technology

The Housing Corporation’s regulatory code says that a Business Plan must be ‘coherent and robust’ and must do the following:

- Focuses on the achievement of organisational objectives
- Assesses the risks to achieving those objectives

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- Demonstrates both long- and short-term viability across a range of scenarios
- Provides for meeting commitments to lenders and tenants
- Links to asset management, treasury management and other strategies

The Housing Corporation has identified ten reasons why Business Plans fail at first glance as follows:

- Presentation too scruffy or too slick – feels false
- Text is too long with too many generalisations and too much waffle
- Text is too short, weak and vague
- Not enough hard facts and details
- Errors of fact
- Specific omissions suggest that vital skills, resources or knowledge are lacking
- Not enough 'what if' analysis. For example, variations in interest rates
- Financial projections unreasonably optimistic
- Plans obviously produced to raise finance, not to run the business
- Plan produced by professional consultants raising doubt about management's own skills

In assessing whether a Housing Association Business Plan is 'fit for purpose', the Housing Corporation makes reference to the following checklist of attributes:

- Comments on economic conditions and demographic trends
- Comments on housing demand and response
- Vision, aims and objectives
- Customers, demand and area of operation
- Existing assets, condition, attributes and 'decent homes standard'
- Services and performance
- History, structure and management
- Statistics on resources, assets and services
- Asset utilisation assessed against capacity
- Foreword or statement from the Chair
- Impact assessment of future demand
- Impact of information about property numbers and condition on the business plan
- Asset Management Strategy
- Loans Portfolio and Lending Strategy
- Services offered in relation to management of assets
- Resources employed in each service
- Sustainability of services in light of future demand
- Comparison of performance with external comparators
- Assessment and action plan for improvement and development
- Detailed, explicit, 'SMART' targets
- Explicit income assumptions
- Evidence of consultation with tenants
- Evidence of consultation with other stakeholders
- Evidence of consultation with Housing Corporation

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- Risk assessment
- Links between risk management, treasury management, human resources, marketing, financial forecasts, asset management, performance, standards, and targets
- Plans for changes in asset base
- Assessment of future services
- Service Improvement Strategy
- Assessment of expectations against policies of government, housing corporation and local authorities

Other Plans and Strategies

Home Energy Conservation Act

The Home Energy Conservation Act (HECA) reports are the focus for reporting energy efficiency activity in all housing.

Capital Investment Strategy

The Capital Investment Strategy is a corporate document. It considers the needs of all council services for capital investment, the level of resources that the council is likely to have available, and the criteria that the council will use in deciding which schemes to progress. Investment in the housing stock and in support for Housing Associations and the private sector are a key part of the Capital Investment Strategy.

Asset Management Plan

The Asset Management Plan is also a corporate document. It identifies all the capital assets owned by the authority and considers every aspect of their management. This includes repairs and maintenance, improvements and modernisation, use and rationalisation and risk management.

The Management of council housing assets is a key part of the Asset Management Plan, although in practice most Asset Management Plans make reference to the Housing Revenue Account Business Plan because it addresses the asset management of the council housing stock.

Conclusions

All Organisations, including local authority housing services and housing associations need business plans that will help them to deliver organisational objectives and inform other plans at all levels in the organisation.

There is a need to find out what stakeholders, including tenants, want the business plan to demonstrate before embarking on the business planning process.

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A framework is needed to draw together and analyse available and relevant information, to quantify the resources needed to deliver organisational objectives, and to assess the risks to delivering those objectives.

Even if a good business planning process is in place, there is still a need to invest effort in producing a business plan document that credibly reflects that process. There is also a need to communicate that plan and to have effective management processes to ensure that the plan is implemented to deliver organisational objectives.

Adrian Waite
November 2004

Note:

Adrian Waite has recently assisted with the preparation Housing Revenue Account Business Plans for a number of local authorities and arms length management organisations. He has provided training and facilitation in business planning to individual organisations and at national seminars. He participated in Business Planning as a member of the Board of Burnley & Padiham Housing Association. He was the lead officer for the introduction of Business Planning to Staffordshire County Council.

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