The City of Edinburgh Council

10.00am, Thursday 21 February 2019

Housing Revenue Account Budget Strategy 2019-2024 – referral from the Finance and Resources Committee

Item number	4.2(c)
Report number	
Wards	All
Council Commitments	

Executive summary

On 1 February 2019, the Finance and Resources Committee considered a report which set out the Housing Revenue Account (HRA) budget for 2019/20. The report has been referred to the City of Edinburgh Council for approval of the 2019/20 budget, draft five-year capital investment programme, and the rent levels for 2019/20.

Terms of Referral

Housing Revenue Account Budget Strategy 2019-2024 – referral from the Finance and Resources Committee

Terms of referral

1.1 The report set out planned capital investment of £874 million over the next five years, rising to £2,233 million over 10 years to deliver tenant priorities, including building new homes, modernising existing homes and help tenants reduce their cost of living. The report sets out the initial stages of a more comprehensive upgrade and redesign of common areas, external fabric and estates.

1.2 In the medium to long term there were significant financial and service pressures in the HRA business plan. To effectively address these pressures service costs needed to reduce and service quality improve. In addition to investment in tenants' homes, buildings and estates the report set out how services would be redesigned to be more efficient and be more responsive to customer needs, with a strong emphasis on digital accessibility and functionality.

1.3 The Council-led house building programme was one of the largest in the country, with the HRA supporting the delivery of a number of Council commitments; including delivery of 20,000 new affordable homes.

1.4 The Finance and Resources Committee agreed:

1.4.1 To agree to refer the 2019/20 budget, draft five-year capital investment programme, and the rent levels for 2019/20 set out in Appendices 2, 4 and 5 of the report to the Council budget meeting for approval.

1.4.2 To note that the Housing Revenue Account remained financially stable with a service improvement programme established to manage emerging financial risks in years four to 14 (2022/23 to 2032/33) of the business plan, as investment in new and existing homes increased.

1.4.3 To note the progress being made in delivering new and improved homes and services for tenants and the important role that the Housing Revenue Account played in delivering wider Council commitments, including area regeneration and better health and social care outcomes.

1.4.4 To note that a progress update on the service improvement plan would be provided to Housing and Economy Committee within two committee cycles.

For Decision/Action

2.1 The City of Edinburgh Council is asked to approve the 2019/20 budget, draft five-year capital investment programme, and the rent levels for 2019/20 as set out in Appendices 2, 4 and 5 of the report.

Background reading / external references

Finance and Resources Committee 1 February 2019

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Links

Appendices	Appendix 1 – report by the Executive Director of Place

Appendix 1

Finance and Resources Committee

10.00am, Friday, 1 February 2019

Housing Revenue Account Budget Strategy 2019-2024

Item number	
Report number	
Executive/routine	Executive
Wards	All
Council Commitments	1, 10, 41, 44

Executive Summary

Following consultation with tenants, this report sets out the Housing Revenue Account (HRA) budget for 2019/20 and recommends that the report is referred to the Council budget meeting for approval on 21 February 2019.

The report sets out planned capital investment of £874 million over the next five years, rising to £2,233 million over 10 years to deliver tenant priorities, including building new homes, modernising existing homes and help tenants reduce their cost of living. The report sets out the initial stages of a more comprehensive upgrade and redesign of common areas, external fabric and estates.

In the medium to long term there are significant financial and service pressures in the HRA business plan. To effectively address these pressures service costs need to reduce and service quality improve. In addition to investment in tenants' homes, buildings and estates the report sets out how services will be redesigned to be more efficient and be more responsive to customer needs, with a strong emphasis on digital accessibility and functionality.

The Council led house building programme is one of the largest in the country, with the HRA supporting the delivery of a number of Council commitments; including delivery of 20,000 new affordable homes.

Report

Housing Revenue Account Budget Strategy 2019-2024

1. Recommendations

1.1 It is recommended that Finance and Resources Committee:

1.1.1 Agrees to refer the 2019/20 budget, draft five-year capital investment programme, and the rent levels for 2019/20 set out in Appendices 2, 4 and 5 to the Council budget meeting for approval;

1.1.2 Notes that the HRA remains financially stable with a service improvement programme established to manage emerging financial risks in years four to 14 (2022/23 to 2032/33) of the business plan, as investment in new and existing homes increases;

1.1.3 Notes the progress being made in delivering new and improved homes and services for tenants and the important role that the HRA plays in delivering wider Council commitments, including area regeneration and better health and social care outcomes; and

1.1.4 Notes that a progress update on the service improvement plan will be provided to Housing and Economy Committee within two committee cycles.

2. Background

2.1 On 24 August 2017, Council approved its five-year business plan. The plan sets out an objective to build 20,000 new affordable homes in the city over the next 10 years.

2.2 On 22 February 2018, Council approved the 2018/19 HRA revenue budget and five-year capital investment programme. The budget set out plans to build more affordable homes, improve tenants' homes and help tenants reduce their cost of living.

2.3 In June 2018, the Scottish Government accepted the recommendations of the Homeless and Rough Sleeping Action Group (HARSAG), which included a requirement for local authorities to develop a Rapid Rehousing Transition Plan (RRTP) to support rapid re-housing for homeless people. The officer's draft of the first RRTP was submitted to Scottish Government in December 2018. In future years, it is anticipated that RRTP will be reviewed annually as part of the Strategic Housing Investment Plan (SHIP) .

2.4 On 7 June 2018, Housing and Economy Committee approved the Mixed Tenure Improvement Strategy, which set out next steps to tackle mixed tenure repairs in previously Council-owned estates. It agreed to receive a future report on any proposed changes to policy or practice and the resources required to support the delivery of improvements in mixed tenure areas.

2.5 On 30 August 2018, Housing and Economy Committee considered a report on the HRA budget strategy and agreed to seek tenants' views on the HRA budget plan for 2019/20. The report highlighted the increasing financial and operational pressures that the HRA faced, and a comprehensive review on the business plan was required to ensure its long-term viability to deliver the priorities identified.

2.6 On 1 November 2018, Housing and Economy Committee approved the SHIP 2019-2024. This SHIP outlines a programme over the next five years which would deliver nearly 10,500 homes. This is the largest SHIP ever put forward, which identifies an acceleration from both the Council and housing association partners in delivery since the 20,000 homes target was set. The committee also considered a report on the delivery strategy on Granton Waterfront regeneration, which set out the framework to deliver around 4,000 new homes on the brownfield site as part of the wider regeneration.

3. Main report

3.1 The HRA sets out the income and expenditure for the Council's Housing Service. The Housing Service provides affordable homes and other services to around 19,000 tenants and 500 homeowners in the city. It is the sixth largest landlord in Scotland.

3.2 The Housing Service is entirely self-financing and receives no funding from the general Council budget.

3.3 The HRA budget is approved by Council each year following consultation with tenants. The budget is prepared following reviews of the 30-year HRA business plan, the ten-year investment strategy and the five-year capital investment programme.

3.4 The HRA Business Plan process (as set out in Appendix 1) allows for horizon scanning and the identification and mitigation of risks in the short, medium and long term. Appendix 2 sets out the key assumptions underpinning the business plan. The early identification of risks enables planning and implementation of mitigations to ensure the Housing Service can continue to remain financially secure and deliver on its commitments to:

3.4.1 expand and accelerate the development of affordable and low-cost housing;

3.4.2 continue to modernise existing Council homes and neighbourhoods; and

3.4.3 transform front line services to tenants to tackle inequality and reduce their cost of living.

3.5 The Housing Service strategy and HRA budget is informed by an extensive programme of consultation and engagement with tenants including annual surveys, focus groups, tenant panels, tenant led service inspection and scrutiny, resident and community meetings. There is also a dedicated annual budget consultation exercise designed and delivered in partnership with the Tenant's Panel. We also regularly benchmark against other affordable housing providers and regularly engage with best practice networks, in a culture of scrutiny strongly connected to performance management.

More Homes

3.6 The Council led house building programme is one of the largest in the country. Jointly the Council and housing associations are working towards the delivery of the Council's plan to deliver 20,000 affordable homes over ten years. As set out in Appendix 3, there are around 2,200 affordable homes under construction by the Council and housing association partners on 39 sites in the city.

3.7 The Council's own HRA funded house building programme is growing annually, with around 1,300 homes completed or under construction this year. A further 3,000 homes are in design development stage, with new homes completing at Pennywell (Phase 2), Calder Gardens, West Pilton Grove and Clermiston in 2018/19.

3.8 The draft five-year capital investment programme set out in Appendix 5, includes £677 million of investment towards the Council's 10,000 homes target. This includes investment in new affordable homes within mixed use developments on strategic sites; such as Fountainbridge and investment for continuing the regeneration of Craigmillar and Muirhouse Pennywell.

3.9 The programme includes the regeneration of Granton Waterfront. This ambitious programme of regeneration aims to create a new, well connected vibrant city quarter with around 4,000 new homes, services, retail and high quality public realm. HRA capital funding will be used upfront to deliver new affordable homes and place making and, in so doing, will enable the Council to lever in private sector investment and funding from other partners; including Scottish Government.

3.10 The house building programme also plays an important role in delivering better health and social care outcomes for the Edinburgh population through the delivery of modern, energy efficient, affordable and accessible homes. The Council and partner housing associations have committed to working in partnership with NHS Lothian, through the Integrated Joint Board for Health and Social Care, to deliver 4,500 of the planned 20,000 homes for older people, people with complex health and social care needs. This includes amenity and supported housing, fully wheelchair accessible homes and housing for veterans.

3.11 By the end of 2018/19 it is estimated that over 600 homes for varying needs will have been completed through the Affordable Housing Supply Programme (23% of all AHSP completions). Over the SHIP period (2019-2024) an additional 1,500 homes have been identified, with delivery being strongest in the first few years. This is due to greater levels of certainty around delivery timescales in the earlier years. The SHIP is reviewed annually and will be increased to meet the 4,500 homes target in consultation with partners. The partners continue to provide more permanent homes for homeless people; including families who might otherwise need to be accommodated in bed & breakfast accommodation. They are also piloting "Housing First" to meet the needs of the most vulnerable homeless people.

3.12 In 2018, the Council in partnership with Scottish Futures Trust established "Edinburgh Living" to provide housing for market and mid-market rent. This followed Scottish Government consent for the Council to on-lend up to £248 million to the new partnership.

3.13 Construction and development costs have increased and are forecast to increase further in the coming years; primarily due to the cost of labour and materials. The scale of the house building programme, however, creates opportunities to secure efficiencies and drive forward transformation in how buildings are designed, built and maintained.

3.14 Securing control of sites for development remains one of the biggest challenges to the programme's delivery. The capital investment programme contains funding for strategic site acquisition and opportunities to purchase private sector sites will continue to be monitored and explored, whilst work continues with public sector partners to secure more land for development.

Better Homes

3.15 Over the last five years £130 million has been spent on improving existing homes and the wider estate. There has been a strong focus on the acceleration of energy efficiency works, with more than 8,000 new heating systems installed in tenants' homes over the last five years. A quarter of surveyed tenants said that they had difficulties affording to heat their homes. By 2020, all homes will have benefited from internal modernisation programmes. The commitment to replace all kitchens and bathrooms over 20 years old by 2020 is on track to be delivered in 2019, a year ahead of schedule. By the end of 2018/19 the following improvements are expected to have taken place:

3.15.1 1,000 homes with new kitchen and bathrooms;

3.15.2 700 homes with new modern heating systems;

3.15.3 500 homes with electrical upgrades;

3.15.4 200 homes with new doors and window upgrades;

3.15.5 100 homes with external fabric upgrades;

3.15.6 25 blocks secure door entry and CCTV upgrades;

3.15.7 95 homes with a major adaptation; and

3.15.8 100 locality environment projects;

3.16 The draft 2019/20 programme will continue to invest in the internal modernisation of homes, with around 1,000 new heating replacements, 600 new kitchens and bathrooms, 600 new windows and doors, 500 electrical upgrades and 200 water tank replacements. The draft programme also includes a scaling up of investment in external fabric, estates and secure door entry systems to meet statutory commitments.

3.17 Meeting Scottish Government targets in relation to quality and energy efficiency and the enhanced safety regulations following the Grenfell tragedy and Cole report, remains a challenge due to the age and tenure mix of our stock. All Council homes need to meet Energy Efficiency Standards for Social Housing (EESSH) by December 2020. It is estimated that 70% of all Council homes will meet this standard at the end of 2018/19, increasing from 57% at the end of 2017/18. Over the next two years there is a planned investment programme of £35 million to deliver EESSH and energy related improvement to ensure all homes, where practicable, are brought up to standard.

3.18 Currently 81% of Council homes fully comply with the Scottish Housing Quality Standards (SHQS). Of the remaining 19%, around 4% are exempt for technical, disproportionate cost or legal reasons. For example, a property may be unable to be brought up to standard due to structural or specific design issues, such as, limited cavity wall or block access issues. The remaining 15% are non-compliant because they do not have an operational door entry system and are located in mixed tenure blocks. In order to provide improved security for tenants, HRA funding will be used to provide door entry system infrastructure in these mixed tenure blocks over the next three years, with owners billed for the cost of connecting their individual home to the system.

3.19 The commitment to bring existing homes and neighbourhoods up to the same standard as new build can only be achieved with a robust mixed tenure strategy. Tenants express support for this approach, identifying maintenance, safety and security of common areas as key areas of concern. Almost half of the £197 million five-year capital investment programme, set out in Appendix 5, will rely on the successful implementation of the Mixed Tenure Improvement Strategy. The Strategy was considered by Housing and Economy Committee on 24 January 2019, including the development of a revised Scheme of Assistance and a dedicated Mixed Tenure Delivery Team to engage with residents, liaise with owners and manage mixed tenure projects.

Better services

3.20 In 2017, the Housing Service redesigned its delivery model it moved to a patch based model, with around 100 Housing Officers managing local patches of around 200 homes. The patch based model was put in place with the aim of supporting greater integration of housing management, property and regeneration services.

3.21 In addition to the move to generic patch housing officers, implementing a dedicated energy advice service and creating employment opportunities for tenants through the expansion of modern apprenticeships, further initiatives have been put in place in 2018/19. These include the expansion of the tenant discount scheme to include more outlets and promotion to tenants, the introduction of new and more secure methods of rent payments in preparation for Universal Credit Full Service roll out and a new online repair reporting system.

3.22 Work is also underway to develop a broadband and digital access pilot for tenants and to roll out a fully mobile working solution for the repairs service which will provide live updates to operatives to enable them to deliver a more effective and efficient service to tenants.

3.23 Funding has been made available to install Wi-Fi in three HRA-owned homeless hostels to help residents to access online services to find settled accommodation, and where applicable, to seek employment and training opportunities and apply welfare benefits.

Housing Service Redesign – second phase

3.24 The significant investment in frontline staff was designed to improve tenant communication and overall customer service relationships, with Housing Officers being the main point of contact in relation to housing management including, rent collection, lettings and estates management. Whilst income collection performance has improved since the implementation of the patch model, preventing tenants getting into debt they cannot afford, and the service continues to perform well when letting homes, the overall performance trend across core housing management is showing signs of flatlining. Tenants are finding it increasingly difficult to contact the right member of staff and to get a satisfactory resolution to their queries. Dissatisfaction is also increasing in relation to the quality of their wider neighbourhood, with messy stairwells, poor lighting, rubbish chutes and fly tipping being some of the primary issues. There has also been a decline in performance in some key areas; including complaint handling and the quality of home when moving in.

3.25 Repair reporting is the main interaction tenants have with the Housing Service, after rent payment. Tenant satisfaction with their most recent repair carried out in 2018/19 remains high (93%); however, there has been a reduction in overall satisfaction with the service. Key areas of dissatisfaction include repairs not being completed right first time, tenants and housing officers citing difficulties in reporting repairs, as well as, the overall quality and time taken to complete repairs. Around 15% of all jobs this year have required more than one visit to resolve. Jobs are considered to meet a 'first-time fix' when the correct operative with correct part attends and completes the job in one visit. Infrastructure improvements are already underway, including a real-time appointment system, text reminders and live van stock updates to improve efficiency and reduce costs.

3.26 Benchmarking data also shows the housing service has high comparative costs across key areas. In some of the key expenditure areas, our costs per property are significantly higher than the median of the benchmarking peer group. For example, overhead cost per property in 2017/18 was 48% higher than the median. The high overhead cost was primarily driven up by premises, IT and central support costs other than finance and HR. The responsive repairs and void work cost per property was 23% higher than the median, placing the Council in the most expensive quarter in the peer group.

3.27 As set out in Appendix 6 of the report, the HRA is financially stable for the next three years, but it will become increasingly difficult to sustain large scale investment in new and existing homes without delivering cost efficiencies in service delivery. The HRA is currently projecting an annual average deficit of £6.9 million between years four to 14 (2022/23 to 2032/33). This deficit could potentially be mitigated if operating expenditure was reduced by 10% by the beginning of 2022/23.

3.28 Social rents remain almost a third of the average private rent in the city but an increasing number of tenants do not consider their rent to be value for money, with a growing number citing a lack of investment in property maintenance and challenges in getting repairs carried out as the reason.

3.29 Investment to date in frontline staff resources and service development needs to be matched with investment in systems changes; including re-design of operational processes for core services, investment in suitable ICT and digital infrastructure and staff training and development. This investment is needed to reduce costs, increase productivity and improve customer satisfaction.

3.30 Investment in systems and processes is best done as part of a service improvement programme that involves customers in shaping how services are accessed and delivered. A number of improvements are already underway to address customer dissatisfaction:

Upgrade of ICT repairs systems:

3.30.1 A process review and planned system upgrade is already underway, including a real-time appointment system, text reminders for tenants and live van stock updates to improve operative efficiency and reduce costs.

Duty officers within locality offices

3.30.2 Housing Officers spend most of their time in their individual patches, but the duty rota enables tenants visiting the locality offices to speak to a housing officer if a request cannot be dealt with by generic customer service staff at reception.

Performance officer role in the contact centre

3.30.3 To assist with right first-time repairs standards. A Team Leader from Housing Property with multi-trade knowledge is co-located with Repairs Direct staff to ensure the correct trades are booked and suitable appointment lengths are provided to enable repairs to be completed, where possible, in one visit.

Small scale mixed tenure and estate improvements

3.30.4 Delivery of some of the larger scale mixed tenure investment projects will take some time as engagement with residents and agreement of scope of works is agreed. Interim improvements are being progressed through smaller scale investment in some of the common areas of blocks, facilities and external environments, such as, painting of stairs and doors, deep cleans, bin store areas and community spaces.

Revised best practice and performance management approach

3.30.5 Building on initial integration of roles and responsibilities across the housing service a structure of performance management and service improvement groups has been put in place to increase scrutiny and accountability for service performance and implementation of improvement action plans. These operate from Housing Officer up to Manager level and performance is reported through Senior Management Teams within Place Development.

3.31 The second phase of the improvement programme will be people focussed, based on sound research and benchmarking, be co-designed with tenants and other stakeholders and will be tested and evaluated on an ongoing basis. The improvement programme will be underpinned by the core principles of service redesign, ensuring it is people focused, research based, co-designed, iterative and participatory. It will review all aspects of the customer journey, as set out below.

Figure 1: Customer Journey

3.32 Delivery of key workstreams and performance against defined outcomes will be monitored through a Programme Board led by the Head of Place Development and including Senior Officers from key service areas and a stakeholder group will also be set up including elected member and tenant representation. The Housing and Economy Committee will have executive oversight for the programme and updates will be provided every six months.

Funding the strategy

3.33 The HRA Business Plan sets out planned investment of £874 million over the next five years. This investment is funded from capital receipts, prudential borrowing, capital funding from revenue and Scottish Government subsidy for new social rented homes. Over 10 years, planned investment rises to £2,234 million in new affordable homes, improvements to existing homes and estates and service improvements. Appendix 5 sets out the draft five and ten-year capital investment programme.

3.34 Projections for income and expenditure over the 30-year business plan period are set out in Appendix 6. The business plan is now projected a deficit totalling £75.6 million between year four and 14 (2022/23 to 2032/33), a significant increase of deficit from the previous plan. This is mainly due to changes in high level assumptions as set out in Appendix 2. A breakdown of the increase can be found in Appendix 6.

3.35 Over the past year, rent collection performance has improved significantly, with figures to the end November 2018 showing a 4% (£0.230m) reduction on current arrears compared to the same point last year. The Council letting policy is based on housing need and takes account of the local context in terms of supply and demand of social housing. At any one time there are around 4,500 households on the register with a priority status based on their housing need. Social rented homes are let to those in the highest levels of housing need. This includes homeless people, people unable to manage in their existing homes or unable to return to their existing homes from hospital and people who are living in homes that do not meet their needs, such as overcrowded households. In 2017/18, 70% of Council homes were let to homeless households, compared to a Scottish Local Authority average of 41%. Our RSL partners also provide almost twice as many homes (42%) to homeless households than the national average (26%).

3.36 The business plan assumes that rent arrears will increase as a result of financial pressures on tenants. The plan estimates a loss of £9 million income over the five years following Universal Credit roll out to mitigate the impact of welfare reform on tenants. A ring-fenced contingency was established last year to mitigate the impact of further decreases in income and/or unexpected increases in expenditure. The contingency reserve is projected to be £3 million at the beginning of 2019/20, rising to 10% of annual income by year eight.

3.37 The business plan assumes a 2% annual increase in rents. This assumption is in line with the Bank of England's inflation target. This increase is below current inflation projections of 2.2% for 2019 and is also one of the lowest local authority rent increases proposed nationally. Of the 17 known, rent increases ranging between 1.5% and 5% have been proposed, with the majority (65%) proposing a minimum increase of 2.5%. Our rent strategy seeks to strike the right balance between keeping rents affordable for tenants, ensuring homes are affordable to manage and building more affordable homes. Council rents remain on average almost a third of private sector rents in the city. Private rent has increased at twice the rate of the Council rent over the last five years.

3.38 Around 80% of tenants receive some help with their rents through Housing Benefit and the housing element of Universal Credit. Almost all of these tenants would receive a corresponding increase in their benefits. There are a small number of tenants (less than 1%) whose total benefits have been capped and would therefore not receive additional support. For most of those not receiving help, the proposed rent increase would mean an average increase of between £1.69 for a one bedroom flat and £2.48 for a four-bedroomed house per week in 2019/20. Any increase in rent should be offset by a reduction in the cost of living through investment in new services and investment in existing homes, for example, reducing energy costs.

3.39 Support is available to tenants who face difficulty paying rent. No tenant will be evicted as long as they engage with the Housing Service and develop realistic plans to manage arrears and late payments of rent.

3.40 The tenants survey showed that 75% of tenants who did not receive help with rent had no difficulty paying their rent. Previous consultation with tenants shows that four out of five tenants support the 2% rent increase required to deliver the investment plan. Nearly one third of tenants were willing to pay more if improvement plans could be accelerated.

3.41 For the fourth year running the business plan assumes no increase in fees and charges to tenants. These include charges for stair cleaning, furnishing and heating. Not all of these charges are covered by housing benefit. Freezing these costs has a direct benefit to the majority of tenants.

3.42 Over the next five years, more than £870 million will be invested in new homes and existing homes to deliver Council commitments. This investment will be taken forward alongside a service improvement programme that will deliver improvements and cost efficiencies of around 10% of operating expenditure by the end of year three (2021/22). The investment required to make these necessary improvements has been factored into the business plan and progress will be reported to Housing & Economy Committee.

4. Measures of success

4.1 Development of 10,000 new Council-led affordable and low-cost homes over the next ten years, which are energy efficient and economical to heat.

4.2 A significant reduction in the cost of living for tenants.

4.3 Investment in existing homes and estates.

4.4 Tenants continue to receive a good quality and well-valued Housing Service.

4.5 Greater visibility of the Housing Service locally for tenants.

4.6 Tenants continue to live in good quality, safe, homes in well managed neighbourhoods.

5. Financial impact

5.1 Appendix 4 sets out the Draft HRA Budget for 2019/20.

5.2 Projected expenditure on the HRA revenue account for 2019/20 is £121 million, including c.£20 million contribution from the Strategic Housing Investment Fund (SHIF) and c.£3 million in year surpluses. The SHIF is an amalgam of income from the HRA revenue and the Council Tax Discount Fund (CTDF). It is fully earmarked for the delivery of the business plan.

5.3 A high-level summary of the HRA's one and five-year budget and the impact on the housing investment fund is set out below.

Housing Revenue Account	1 Year £m (2019/20)	5 Year £m (2019/20 – 2023/24)
Revenue (See Appendix Four)		
Operating Income	£101	£542
Operating Expenditure and Debt Costs	£121	£589
Net Contribution from the Strategic Housing Investment Fund	£20	£47
Capital (See Appendix Five)		
Investment in homes, external fabric & estates and tenant services	£34	£185
Investment in New Homes (incl. Land)	£72	£668
Staff Costs	£3	£21
Prudential borrowing	£58	£431
Other income and capital funded from Strategic Housing Investment Fund	£51	£443
Strategic Housing Investment Fund (Repairs and Renewals and Council Tax Discount Fund)		
Opening Strategic Housing Investment Fund (SHIF) balance	£36	£36
Opening Contingency Reserve	£3	£3
SHIF additions (include income from HRA revenue and CTDF)	£4	£12
SHIF used	£23	£49
SHIF transferred to a ringfenced contingency reserve	£2	£8
Closing SHIF balance	£15	-£9
Closing Contingency Reserve	£5	£10

5.4 The business plan assumes a significant drop in income during the full roll-out of Universal Credit to all tenants. In addition, a separate contingency reserve has been established to mitigate risks. This contingency reserve is set at £4.5 million at the end of 2019/20, building up to 10% of annual income by year eight. This is considered prudent given the risks to income collection, expansion of the capital programme and the need to have funds in reserve to deal with unforeseen events.

6. Risk, policy, compliance and governance impact

6.1 The Housing Service faces significant risks which could impact on the delivery of the annual budget and 10-year investment plan.

6.2 The HRA is currently projecting an annual average deficit of £6.9 million between years four to 14 (2022/23 to 2032/33). The service improvement programme set out in paragraphs 3.24 to 3.32, seeks to deliver improvements and cost efficiencies of around 10% of operating expenditure by the end of year three (2021/22) to effectively address these pressures. Any shortfall would be mitigated through a combination of increases in income and/or a re-phasing/reduction in planned capital investment.

6.3 The top five risks are set out below:

Income

6.3.1 The HRA Business plan estimates and mitigates for a loss of £9 million in rental income due to the impact of welfare reform and the implementation of Universal Credit Full Service (UCFS) in Edinburgh from November 2018. UCFS will increase the risk to income collection due to the payment periods for Universal Credit and the complexity for a number of households moving onto a new system. In addition, a £3 million contingency fund will be built up by the end of this financial year, rising to £15 million by 2027 to ensure the continuation of the investment programme, even with an unexpected reduction in income or increase in unplanned expenditure.

Repairs and maintenance

6.3.2 The expenditure on repairs and maintenance has been going up year by year over the last three years despite increased capital investment in major programmes. There is a risk that the saving assumed in the latest business plan does not materialise, thus deepening the deficit. This is being addressed through a process review and series of system upgrades, taken forward as part of the housing service improvement programme set out in paragraphs 3.24 to 3.32 above.

Mixed Tenure

6.3.3 The scale of mixed tenure repairs required across the city is substantial. Delivery of this investment is dependent on getting the agreement of owners within blocks and using legislative framework to progress works to ensure robust processes are followed that allow owners share of costs to be recovered. This will impact on the timescales for delivery. A revised Scheme of Assistance for owners and proposals for a dedicated mixed tenure team are being put in place to support delivery of this essential investment.

Performance flatlining and tenants losing confidence in the service

6.3.4 The service has an improvement programme which is underway but without significant investment in the infrastructure and resources that are essential for staff to do their jobs in an efficient and effective way there will be a decline in tenant confidence in the service. This will have a wider impact on the reputation of the service against the Scottish Housing Regulator indicators.

Increasing capital investment costs

6.3.5 The increase in new build development costs could be higher than anticipated due to economic uncertainties associated with Britain leaving the European Union. Development of more complex sites with higher infrastructure costs could also cost more than anticipated. Development costs are monitored closely with approvals sought for individual business cases.

6.4 All risks are kept under review and significant changes will be highlighted to the Housing and Economy Committee, Finance and Resources Committee and Governance, Risk and Best Value Committee.

6.5 The Council has a statutory requirement to maintain homes to the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESSH).

6.6 The Council is required to set Council house rents annually. The Council is required to consult tenants on the rent strategy and inform them in advance of any rent increases prior to their implementation.

6.7 Housing and Economy Committee considered a report on the HRA budget strategy in August 2018 and approved it as a basis for consultation with tenants.

7. Equalities impact

7.1 Prioritising investment in services and improvements aimed at reducing the cost of living will have a significant financial benefit for tenants who are under financial pressure.

7.2 The expansion of the Housing Service's apprenticeship programme will help to increase job prospects for young people, some of whom may be Council tenants. This will help to address inequality in the city.

7.3 Patch based working will mean housing officers will get to know their tenants better. This should improve access to services for vulnerable tenants, as their needs will be more readily identified.

7.4 Investment in new homes and partnership working as part of Health and Social Care integration will help increase the supply of homes built specifically for older people or people with complex health needs.

7.5 The house-building programme ensures 10% of all new homes will be built to wheelchair accessible standards.

8. Sustainability impact

6.1 The Council led house-building programme seeks to maximise delivery of homes on brownfield sites, reducing pressure on Edinburgh's green belt. New homes are built to high standards in terms of energy efficiency and sustainability.

6.2 It is estimated the accelerated house-building programme will create 4,000 permanent new jobs.

6.3 Investing in improvements to Council homes will increase energy efficiency and lead to a reduction in carbon emissions.

6.4 Low cost energy provider, Our Power will help ensure stable and affordable energy prices for tenants.

6.5 Strategic acquisitions of homes in mixed tenure blocks will allow the Housing Service to carry out more improvements as the sole or majority owner of the block.

9. Consultation and engagement

9.1 The Council has an extensive programme of consultation and engagement with tenants including an annual survey, focus groups, tenant panels, tenant led service inspections and resident and community meetings.

9.2 Each year the views of tenants are sought on the HRA budget strategy, investment plan, service improvements and associated rent levels. The approach to engaging tenants on the budget is reviewed annually by a working group of tenants and officers, the Rent Matters Working Group (RMWG). The RMWG is supported by Edinburgh Tenants Federation (ETF). The number of tenants engaging in the budget consultation has significantly increased since the formation of the RMWG.

9.3 Consultation on the 2019/2020 budget took place in 2018. All tenants were sent information on the budget proposals, service improvements and rent levels. Individual responses were received from 1,187 tenants (out of around 19,000 tenants who were invited to provide views). This includes 1,001 tenants who took part in a detailed survey, commissioned by, but carried out independently of Council staff. Other responses were received on line and via social media, from postcards, cut outs from newsletters and local events.

9.4 Over 30 tenant organisations received information packs and 230 individual Tenant Panel members received information either by email, text or letter. Four large events were held in the localities, including one session of street-canvassing at Wester Hailes.

9.5 Tenants have consistently indicated strong support for building new homes, improving homes and services and stable and affordable rents.

9.6 In 2015 tenants indicated strong support for the budget strategy and identified building new affordable homes as their top priority for investment. Other significant priorities included reducing energy costs.

9.7 In 2016, 82% of tenants said they supported the 2% rent increase with one third of tenants supporting higher rent increases if delivery was accelerated.

9.8 In 2017, 80% of tenants expressed support for the investment proposals and rent strategy.

9.9 This year we asked tenants to comment on what has been achieved to date, what has worked well and not so well, and to establish priorities going forward to ensure the Housing Service is delivering an effective, quality service that is value for money to its tenants.

9.10 Whilst tenants continued to support the large-scale capital investment in new and existing homes, many also urged the Council to invest more time and resources to improve the core housing service, such as day to day housing management and repairs and maintenance of Council homes, as well as the wider estate management.

9.11 In 2018 tenants expressed strong support for building more affordable homes and for modernising and improving existing homes. Tenants particularly supported moves to make homes more energy efficient and therefore, more affordable.

9.12 The budget plan was also discussed at a meeting with the ETF on 22 October 2018. Officers presented the approach, key messages, consultation questions and results to date. ETF provided a formal response to the consultation commending the work of the RMWG in the development of the consultation. They were broadly supportive of the investment plan. They welcomed the below inflation increase, but continue to have concerns regarding long term affordability of rents.

10. Background reading/external references

Housing Avenue Account Budget Strategy 2018-23, The City of Edinburgh Council, 22 February 2018

Housing Revenue Account (HRA) Budget Strategy, Housing and Economy Committee, 7 September 2017

City Housing Strategy 2018, Housing and Economy Committee, 2 November 2017

Strategic Housing Investment Plan (SHIP) 2018-23, Housing and Economy Committee, 2 November 2017

Mixed Tenure Improvement Strategy, Housing and Economy Committee, 7 June 2018

Housing Investment Programme: Delivering the Budget Strategy in 2018/19, Housing and Economy Committee, 7 June 2018

Asset Management Transformation – Update, Finance & Resources Committee, 27 September 2018

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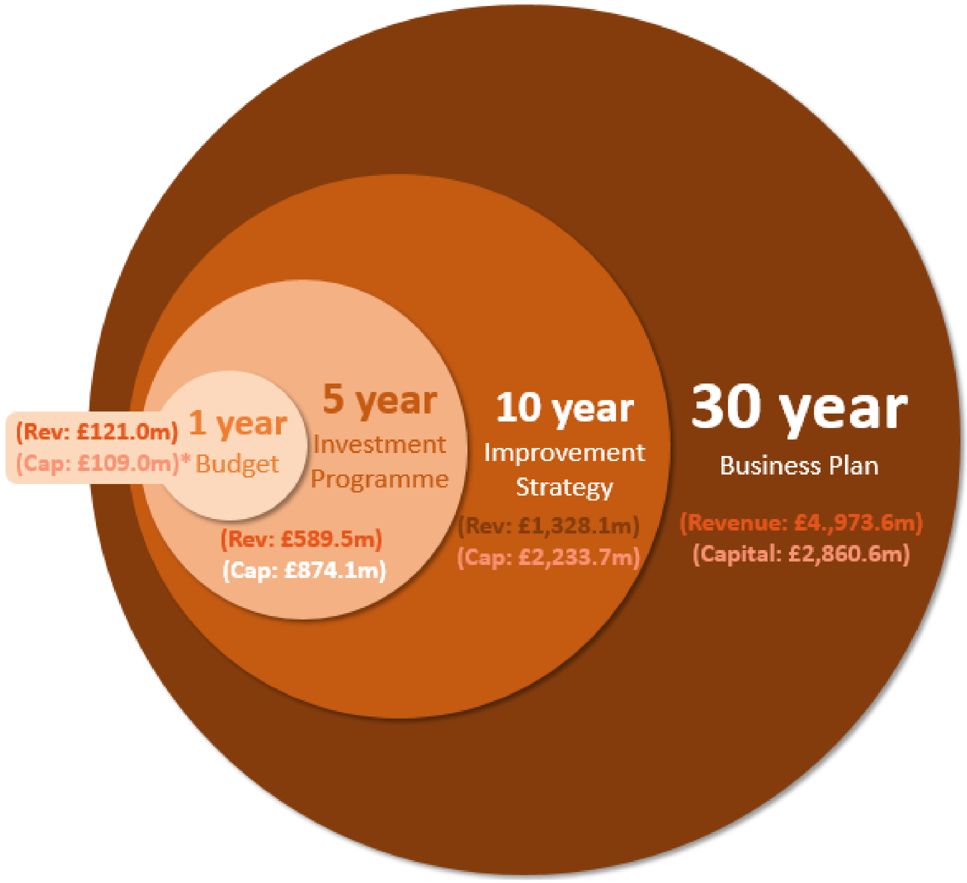
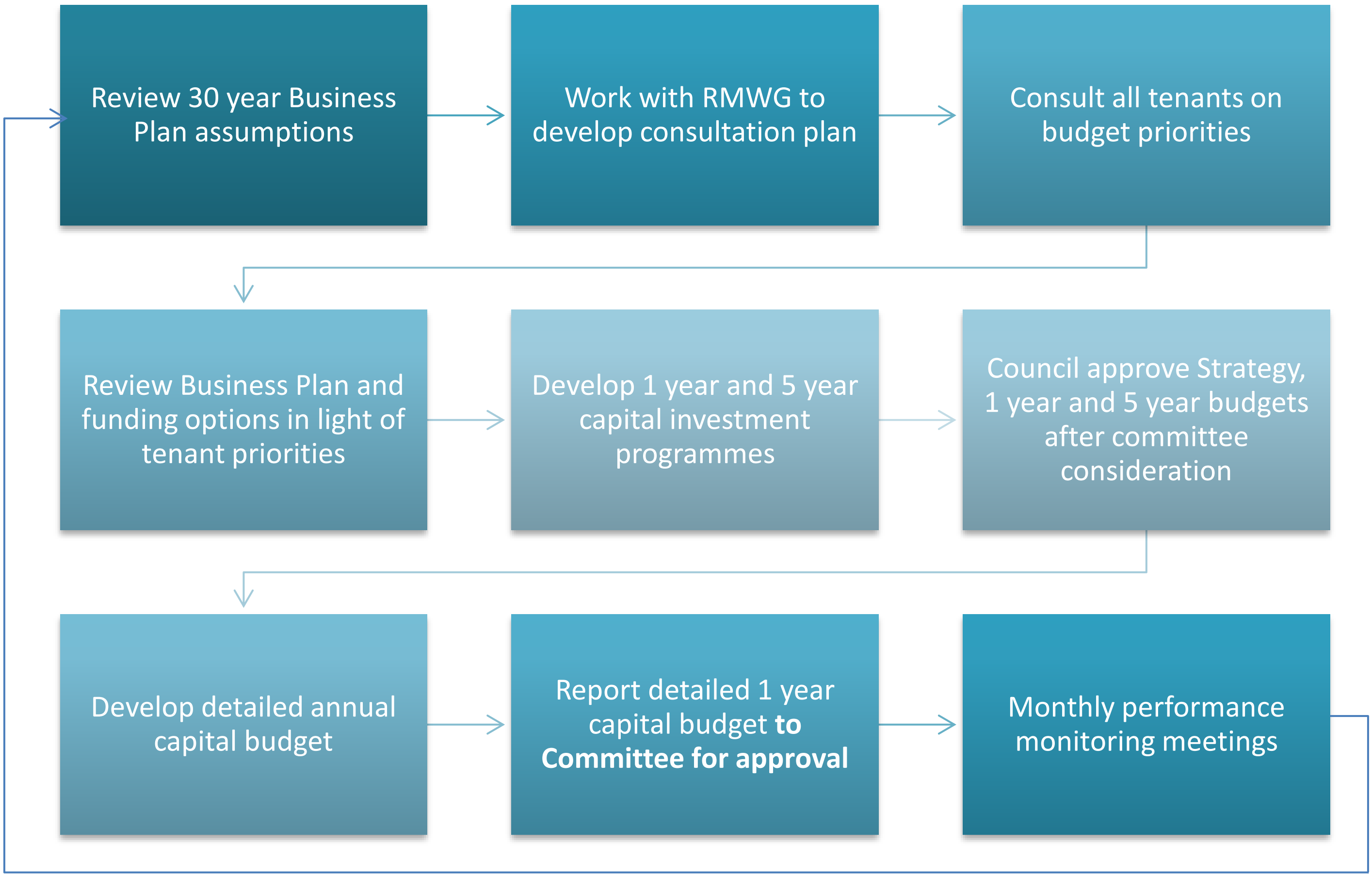
11. Appendices

Appendix 1	HRA Business Planning Process
Appendix 2	Business Planning – High Level Assumptions
Appendix 3	Citywide House-building Programme
Appendix 4	Housing Revenue Account Budget 2019/20 (Draft)
Appendix 5	Draft 5 Yr HRA Capital Investment Programme & 10 Yr Investment Strategy
Appendix 6	30 Yr HRA Business Plan Financial Analysis

HRA Business Planning Process





Appendix 2

Business Planning High Level Assumptions

Input	2019/20	Note
Inflation (Operating Costs)	2%	This assumption is in line with the Bank of England's inflation target.
Inflation (Employee Costs)	3%	This assumption is based on the latest local government pay offer.
Rent Increase	2%	This assumption is in line with current market inflation projections. The budget strategy aims to keep rents stable and affordable, while delivering one of the most ambitious investment programmes in Scotland.
Net Rental income	97.55%	Total projected rental income, minus written off former tenant arrears and rent loss due to empty homes.
Former tenant arrears write off	1.69%	Any rental debt outstanding for over 3 months where there have been no payments received or there is no agreed repayment arrangement is written off annually. The projected write off at the end of 2018/19 is estimated to be £1.6m, reduced from £1.8m in the year before.
Rent lost on empty homes	0.76%	The Council remains one of the top performing Local Authorities in this area. Slight increase from 0.58% in 2018/19, to accurately reflect expected performance, with continued high proportion of lets to households with high levels of need.
Fees and charges increase	0%	Fees and charges for additional services provided with tenancies (e.g. stair cleaning, communal heating, furnished tenancies, etc) is frozen for the fourth year in a row.
Debt level (projected for March 2019)	£390m	Increased from £381m at 31 March 2018. This was due to increased borrowing requirement to support the accelerated capital investment programme in 2018/19.
Interest on debt (pool rate)	5.00%	Reduction of 0.05% from 2018/19. The Council does not borrow for specific projects, borrowing is pooled in a consolidated loans fund and the interest rate pooled across all projects.

Appendix 3

City-wide house-building Programme *(December 2018)*

2,149 homes currently under construction on 39 sites

Reducing inequality through affordable housing

- Redeveloping brownfield land
- Public realm
- Mixed communities
- Employment and job opportunities
- Achieving wider health & Social Care objectives
- Homes for older people & those with complex needs

Appendix 4

Housing Revenue Account Budget 2019/20 (Draft)

	Projected Outturn 2018/19 £m	Proposed Budget 2019/20 £m	Movement £m	Movement %	Note
Income					
Net Income	98.526	100.661	2.135	2.17%	1
Drawn Down from SHIF	27.816	20.354	-8.198	-26.83%	2
Total Income	**126.342**	**121.015**	**-6.063**	**-4.22%**	
Expenditure					
Housing Services	29.318	31.915	2.597	8.86%	3
Property Maintenance	23.980	23.742	-0.238	-0.99%	4
Debt Charges	39.882	42.358	2.476	6.21%	5
Strategic Housing Investment	33.162	23.000	-10.898	-30.64%	6
Total Expenditure	**126.342**	**121.015**	**-6.063**	**-4. 22%**	

Note 1.

"Net Income" is the total rent due to be collected, less written off former tenant arrears and rent loss due to empty homes. It also includes service charges and costs recovered in relation to communal heating schemes and owner occupiers. The net income is expected to be increased by more than the 2% rent increase proposed. This is due to rental income from new homes completed in 2018/19 and expected to be completed in 2019/20 has been included in the budget. For the first time since Right to Buy was abolished and Council's new build programme commenced, more Council homes have been completed than lost in a year. The average weekly rent will increase by £1.96.

Note 2.

The Strategic Housing Investment Fund (SHIF) is an amalgamation of the Repairs and Renewals (R&R) Fund and the Council Tax Discount Fund (CTDF). The balance of the SHIF has been built up in previous years through in-year surplus transferred to R&R and income from CTDF. "Drawn Down from SHIF" is now required to reduce the borrowing needed to support the delivery of the capital investment programme, to reduce debt charges expenditure in future years.

Note 3.

"Housing Services" includes core housing management services, new tenant and community services like energy advice and modern apprenticeships. It includes employee costs, central support costs and recharges, premises and other expenditure. The rise in the Housing Services expenditure in 2019/20 is primarily due to Housing Service Redesign Phase 2 delivery costs (£1.5m), inflationary increase (£0.8m), and expansion of new tenant and community services like energy advice, modern apprenticeships and tenant discount scheme (£0.3m).

Note 4.

'Property Maintenance' includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. The 2018/19 budget includes a one-off accrual in repair and maintenance, due to an ICT issue which resulted in delays in payments in 2017/18 being processed. The draft budget includes "additional" repairs and maintenance for new homes and a 2% inflation on estate maintenance. It assumes the rest of the expenditures remained at the 2018/19 projected outturn levels.

Note 5.

The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt Charges' are capital financing costs (principal repayments and interest). As a result of prudent treasury management and in year surpluses being used to offset capital borrowing in previous years, net debt levels are expected to have increased by only £22 million over the last 5 years, whilst delivering over £267 million of capital investment over the same period. The 6.21% increase in 2019/20 is in line with the ambitious capital investment plan set out in the report.

Note 6.

'Strategic Housing Investment' is the sum of any in-year surplus and "Drawn Down from SHIF". It is used to fund new capital investment (CFCR), repay old HRA debt or mitigate unforeseen risks. The reduction is due to increased investment to deliver new services and expansion of existing services.

Draft 5 Year HRA Capital Investment Programme and 10 Year Investment Strategy

The 2019/20 Draft Budget and business plan are based on the assumptions set out in Appendix 2. Below is the outline draft five-year Capital Investment Programme and summary 10-year investment strategy, which is based on tenant priorities, service performance and statutory investment requirements. Inflation has been included in the figures where appropriate.

The funding strategy may be revised through the year as officers seek to make the best use of any existing and new resources and use the most appropriate funding to generate the best return to the HRA.

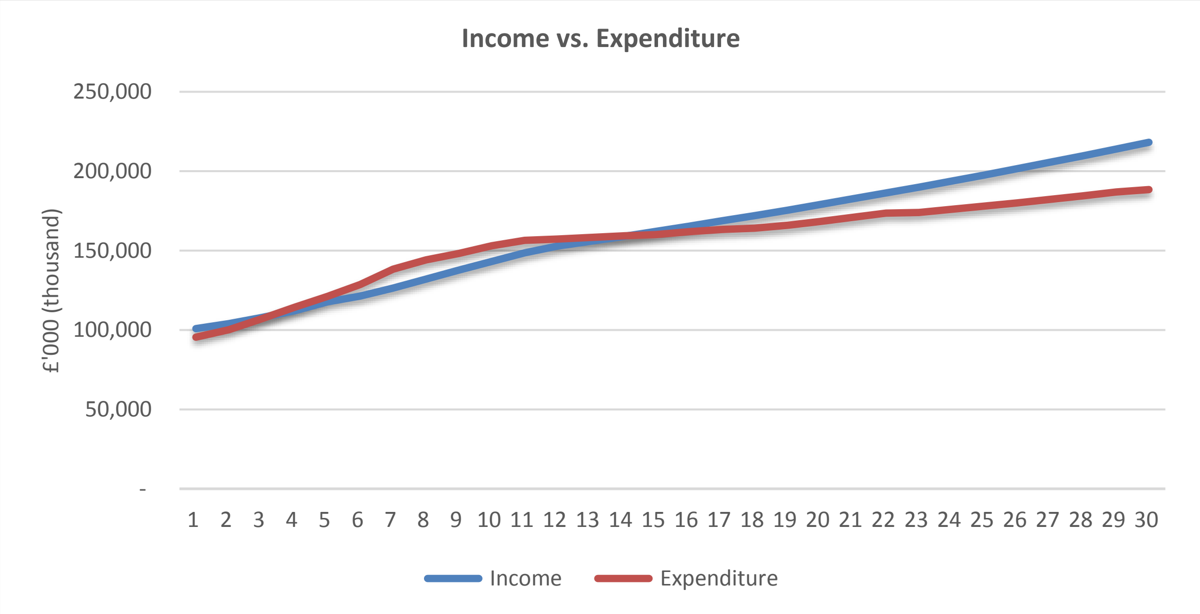
Programme Heading	1	2	3	4	5	***5 Year***	6 to 10	***10 Year***
	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	***Total***	2024/25 to 2028/29 £m	***Total***
Programme Expenditure								
New Homes Development*	45.122	90.023	129.586	111.251	206.054	***582.036***	1083.959	***1665.995***
New Home Land Costs	28.200	9.100	9.400	20.688	27.688	***95.076***	62.064	***157.140***
Tenant's Homes & Services	16.831	22.788	20.971	21.465	21.895	***103.950***	116.220	***220.170***
External Fabric and Estates	18.801	20.340	17.573	17.988	18.347	***93.049***	97.390	***190.439***
Total Expenditure	**108.954**	**142.251**	**177.531**	**171.392**	**273.984**	***874.112***	**1,359.633**	***2233.744***
Programme Resources								
Prudential Borrowing	57.795	23.562	90.311	76.711	182.883	***431.262***	428.093	***859.355***
Capital Funded From Revenue	23.000	7.200	2.200	2.200	2.200	***36.800***	11.000	***47.800***
Capital Receipts and Contributions	4.517	8.720	9.840	6.500	5.000	***34.577***	27.250	***61.827***
Receipts from LLPs*	13.400	71.382	55.104	76.692	44.150	***260.728***	763.259	***1023.987***
Scottish Government Subsidy (Mid-Market)	1.716	5.962	3.938	0.000	0.000	***11.616***	0.000	***11.616***
Scottish Government Subsidy (Social)	6.810	24.698	16.249	8.848	39.751	***96.356***	130.031	***226.387***
Total Funding	**108.954**	**142.251**	**177.531**	**171.392**	**273.984**	***874.112***	**1,359.633**	***2233.744***

**The budget for new build housing includes the upfront capital costs for the Council led development of all 10,000 affordable homes, including homes for mid market and affordable market that will be purchased by the Council's new LLPs. This has no impact on the HRA as interest payments are deferred until the homes are purchased. £95 million of the £1,038 million anticipated receipts from LLPs by year ten is for homes already under construction and due to complete in the next two years. Please note these receipts go beyond current approved levels of on-lending, approval will be sought to expand the programme in future years.*

30 Year HRA Business Plan Financial Analysis

This appendix sets out the impact of delivering the investment strategy over the next 30 years. The plan seeks to deliver 10,000 new Council-led homes, as well as, investing in improving the quality of existing homes and estates and developing innovative services aimed at reducing tenants living costs.

It sets out an £121.0 million budget for 2019/20, as well as, a £874.1 million draft five-year capital investment plan and 10-year £2,234 million investment strategy, funded from below current inflationary rent increases of 2% a year. This 2% rent increase is in line with the current inflation estimates and significantly below the projected average local authority rent increases in 2019/20.



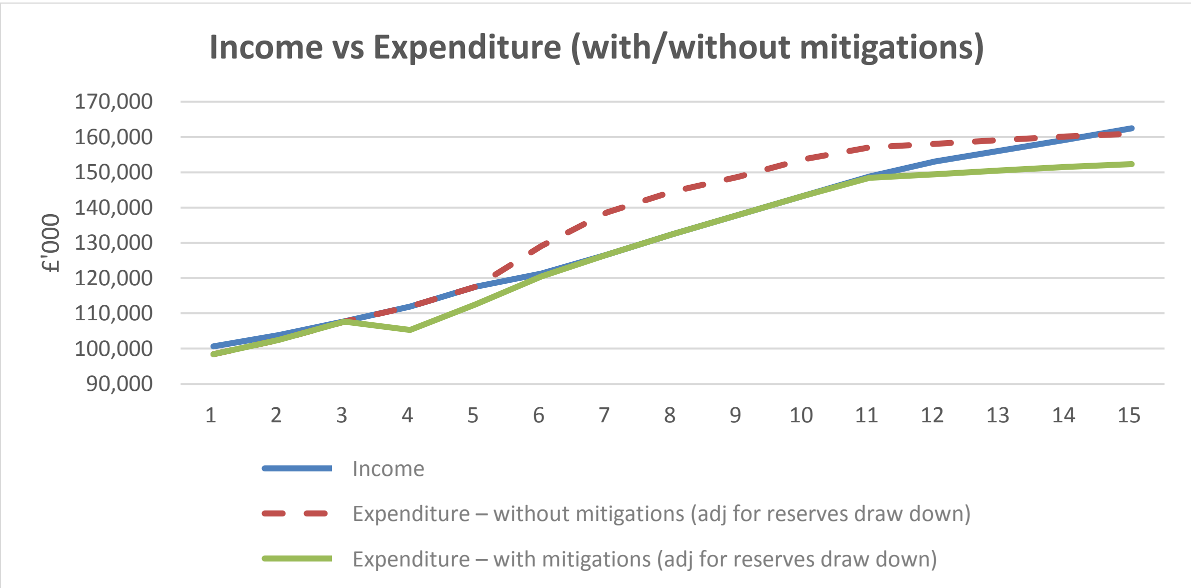
The HRA is under increasing pressure in balancing in-year income and expenditure. This pressure is most visible in years 4 to 14 (2022/23 to 2032/33) due to the significant investment in the new house building programme and in existing homes and estates to bring them up to new build standards, as well as an increase in debt repayment due to historic debt coming to term. Approximately £75.6 million (or an average of £6.9 million a year) is required to ensure the HRA does not go into deficit in these years. From year 15 onwards, once new homes are completed and the modernisation of existing homes and estates is delivered, the additional rental income does put the HRA back in a positive financial position and builds the Strategic Housing Investment Fund (SHIF) to 18% of annual operating costs by year 23.

The business plan assumes a 12% saving in repairs and maintenance over the next three years. The business plan also assumes a loss of income of around £9 million, over the five years following the full roll out of Universal Credit. In addition, a ringfenced contingency reserve has been established to ensure that the investment programme can continue even with an unexpected reduction in income or increase in unplanned expenditure. This contingency reserve is £3 million in year one, building up to 10% of the annual income in year eight.

Last year the business plan projected a total deficit of £9.3 million in years 8 to 11, the additional increase in deficit is due to:

Areas of increase	Increase over 10 years	Explanation
Change strategy	£4.5 million	£1.5 million over next 3 years
Increase in R&M baseline budget	£10 million	£1 million increase based on this years projected outturn
R&M Saving - reprofiled	£2.5 million	Moved from year one into year 2
Staffing increase – 3% p.a.	£11 million	Additional £0.2m per year
Land servicing costs	£4 million	£0.4 million per year
Mixed tenure – bad debt servicing costs	£3.1million	Assumes c.£0.5m from year 2 onwards
Increase in void rate	£2.5 million	Moved from 0.58% to 0.76%
Debt servicing due to an increase in capital borrowing	£28 million	Increasing land and construction costs
Total increase since 2018/19	**£65.6 million**	

The significant increases in expenditure means that the SHIF has insufficient funds to compensate any in-year deficit from year 6 onwards. In order to ensure the HRA does not go into deficit, the housing improvement plan would need to achieve a 10% reduction in total expenditure by the end of 2021/22. The graph below sets out projected expenditure both before and after savings have been applied.



Approximately a third of the savings are expected to come through the responsive repairs service. An end to end service review will be taken forward as part of the housing service improvement programme. Infrastructure improvements are already underway, including a real-time appointment system, text reminders and live van stock updates to improve efficiency and reduce costs.

The remaining savings will be delivered through a review of treasury management, housing management, estates management and overheads. Investment to date in frontline staff resources and service development now needs to be matched with investment in systems change to ensure staff can do their jobs more efficiently. This will include a re-design of operational processes for core services, investment in suitable ICT and digital infrastructure and staff training and development. Any shortfall in savings would be mitigated through a combination of increases in income and/or a re-phasing/reduction in planned capital investment.