

Housing, Homelessness and Fair Work Committee

10.00am, Thursday 31 October 2019

Place Directorate – Financial Monitoring 2019/20 – Month Five Position

Executive/routine

Wards

Council Commitments [1 and 10](#)

1. Recommendations

- 1.1 It is recommended that the Housing, Homeless and Fair Work Committee notes:
 - 1.1.1 the forecast position in respect of the Housing Revenue Account (HRA); capital and revenue budget; and
 - 1.1.2 the position in respect of the General Fund (GF); revenue budget.

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Executive Director of Place

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Place Directorate – Revenue Financial Monitoring 2019/20 – Month Five Position

2. Executive Summary

- 2.1 The Executive Director of Place is forecasting the following month five positions against the Housing Revenue Account (HRA) and General Fund (GF) Budgets:

Housing Revenue Account

- 2.1.1 Revenue - As at month five, a balanced position is forecast in 2019/20, with a projected contribution of £23.000m towards new housing investment.

General Fund

- 2.1.2 Revenue - As at month five, a residual pressure of £1.236m remains in the Place GF budget. Place Directorate remains fully committed to making all efforts to deliver identified measures to address operational cost pressures; actively developing the budget management strategy and framework to bring the Place revenue budget towards balance.

3. Background

- 3.1 The HRA is a ring-fenced statutory account that the Council manages on behalf of tenants. The HRA is funded from rents relating to Council housing and related assets and is used to fund the provision of Council housing in line with tenants' priorities.
- 3.2 In February 2019, the Council approved the five-year HRA Budget Strategy. This was informed by extensive consultation with tenants, focused on investing in homes and services that reduce tenants' cost of living and includes significant investment in both new and existing affordable housing, while keeping rent increases affordable.
- 3.3 The HRA budget has historically been considered as low risk; high demand for Council housing has resulted in a limited void periods and a stable income stream. However, there are elements of this budget that are demand led and can potentially be variable. To mitigate the risks and pressures, the budget is set on a foundation of

conservative assumptions, which are tested and modelled before seeking Council approval.

- 3.4 The approved HRA budget for 2019/20 is derived from the longer-term strategy. It comprises of a budgeted revenue income of £100.661m and costs of £98.015m This is supplemented by a budgeted draw down of £20.354m from the Strategic Housing Investment Fund reserves (a combination of the Repairs and Renewals fund and Council Tax Discount Fund), accumulating in a total £23.000m revenue contribution towards in year capital investment.
- 3.5 The total 2019/20 approved gross GF revenue budget for the Place Directorate is £236.511m. The net budget is £43.543m after adjusting for income from other parts of the Council, external grants and other income. This budget is net of £8.975m of additional savings (excluding in year efficiencies requirement) approved by Council in February 2019.
- 3.6 This report provides an update on financial performance against the above budgets.

4. Main report

Housing Revenue Account – Revenue Budget

- 4.1 At month five the overall position as compared to the approved budget set out in 3.4 and Appendix 1, comprises of forecast revenue income of £100.091m and costs of £98.146m. This is supplemented by a budgeted draw down of £21.056m from reserves, accumulating in a total of £23.00m revenue contribution towards in year capital investment. The key movements against budget are set out within this section.
- 4.2 Net rental income to be collected is currently forecast to under recover by £0.570m against budget. There are a number of reasons why properties may not be generating rent and the periods will vary depending on the reasons the properties are vacant. These include vacant homes being progressed for disposal to consolidate ownership or divesting Council ownership in blocks in line with the Acquisition and Disposal Strategy. An increasing number of homes that are vacant are being used as decants to enable capital investment or major repair works to be completed. Rent loss due to repairs and re-let of empty homes will vary during each period as this is dependent on the level of repairs work required and the time taken to let. In addition to these factors relating to existing stock, a delay on new build completions being available for occupancy is currently forecast. At this reporting point in the previous financial year, net rental income was forecast to under recover by £0.100m more than currently reported. However, by out-turn the income was in line with the budgeted provision.
- 4.3 The forecast expenditure for property maintenance remains as reported at month three at £24.349m. This is an improvement of £1.510m (6%) when compared to the 2018/19 out-turn position. Efficiencies arising from planned service improvements are expected to yield a further £1.2m saving this year, with approximately £1m coming from the introduction of Total Mobile which went live in September 2019.

To this end, it is expected that these improvements will see a reduction in the forecast cost for this area as benefits are realised.

- 4.4 The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt charges' are capital financing costs (principal repayments and interest). Debt charges amount to almost 40% of HRA expenditure, therefore excellent treasury management is essential to running an efficient housing service. Over recent years, surpluses have been used to repay debt which allows more capacity to fund housing investment. As set out in Appendix 1, the impact of ongoing monitoring and development of treasury management arrangements has seen a forecast reduction in costs of £0.421m compared to budget in 2019/20. This benefits the Housing Revenue Account both in year and in the forward trajectory.
- 4.5 As can be seen from Appendix 1, housing management costs are forecast to be on track with a small favourable variance projected at month five.
- 4.6 As per the annual HRA budget process, the assumptions underpinning the business plan are reviewed in parallel with in-year variances to ensure that they are realistic and achievable.

Place Directorate General Fund – Revenue Budget

- 4.7 As reported to Finance and Resources Committee on 10 October 2019, Place Senior Management and Divisional Management Teams are continuing work to address the financial challenge faced by the Directorate. A budget management strategy has been formulated and is being further developed to address required efficiency measures of £2.810m and £9.366m of identified pressures.
- 4.8 A suite of management action has been identified and is being implemented which will address efficiency measures and £8.130m of identified pressures if fully delivered. This leaves an unfunded residual budget pressure at month three of £1.236m.
- 4.9 The revenue budget approved by Council in February 2019 requires Place Directorate to achieve incremental savings of £8.975m in 2019/20. The sum of the approved savings and the management action is £19.915m. A red, amber, green (RAG) analysis is regularly undertaken in consultation with Heads of Service. Delivery of all savings is monitored monthly by the Place Senior Management Team (SMT). At month five this indicated that 85% of these savings; £16.875m were assessed as green or amber with those at red totalling £3.040m. This is an improvement on the position reported at month three.
- 4.10 The management actions discussed within this section to address corporate efficiency targets and pressures in addition to approved savings are shown within Appendix 2 as is the RAG analysis. The month five position assumes that all management actions listed will be realised in year.
- 4.11 Appendix 2 relates to the Place Directorate as a whole, however where management action is required of services which fall within the scope of Housing, Homelessness and Fair Work this is denoted. At month 3 the key risks pertinent to this Executive Committee were presented, this encompassed denoted savings

which were assessed as 'red' within the RAG analysis. At month 5, whilst risks remain around delivery of management actions there are no pertinent actions assessed as 'red'. The table below summarises actions pertinent to this Executive Committee.

19/20 Approved Savings, Efficiencies and Mitigations.

Housing, Homelessness and Fair Work related Management Action	£m	Narrative
Area Based Regeneration	0.125	<p>This relates to an accounting treatment review of revenue costs incurred to create Council assets and optimise permissible capital elements.</p> <p>The due diligence requires to be completed, however the element reported as red at month three is now amber with the remainder assessed as green.</p>
Place Development Efficiencies.	0.230	<p>£0.230m of the £0.480m assessed as amber relates to this Committee and the non-staff aspects of the Economic Development Service.</p> <p>At month five the 2019/20 forecast illustrates this cost reduction can be realised. This is an improvement on the month 3 position.</p>
Economic Development.	0.400	<p>This relates to the organisational review of the Economic Development service, £1.2m saving. At month 5, whilst the review had not concluded it was well advanced.</p> <p>The element categorised as amber is an improvement on the month 3 position with the remaining £0.800m assessed as green.</p>
Realise Full Year Impact of Previous Year Approved Savings.	0.150	<p>This relates to the 2018/19 Economic Development saving and is representative of this saving now being realised in full.</p>
Place wide cost efficiencies; reduction in overtime, agency		<p>All services will require to reduce costs to achieve Directorate Efficiency Savings. Impacts on specific Executive Committees will be reported as appropriate.</p>

and discretionary spend.		
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- 4.12 Progress has been made by Place Directorate in terms of making positive inroads to addressing the financial challenge within the first quarter of 2019/20. In addition to monthly reporting of the budget position to Place SMT the comprehensive annual budget realignment exercise commenced in 2018/19 has been undertaken in 2019/20 and will be followed up with a robust mid-year review in October.
- 4.13 This will provide confidence that the budget realignment and the associated budget management strategy are based on sound principles to maximise delivery of agreed management actions in year and to increase budget sustainability going forward.

5. Next Steps

- 5.1 Place Directorate is committed to delivering mitigating management action to address identified budget pressures on an ongoing basis and will continue to report on progress towards the delivery of a balanced budget.
- 5.2 In addition to the introduction of realigned budgets and half-year reviews, a more strategic approach is being implemented in terms of budget management and Place SMT is looking to the 2019/20 budget management strategy as part of a rolling process not confined to the current financial year.
- 5.3 The reported month five position in respect of the GF revenue assumes full delivery of approved savings and management action to address identified financial pressures and risks. Work must be prioritised to treat risks associated with delivery of the measures specified within Appendix 2 as a minimum.
- 5.4 Given the trends observed in recent years, it is felt prudent to incorporate delivery risk contingencies based both on past years' experience and the specific Finance assessments. A council-wide risk contingency has been reported to Finance and Resources Committee pending development of a clearer service monitoring position over the coming months.
- 5.5 The Executive Director of Place is fully committed to making all efforts to identify management action to reduce the budget pressures. However, given the magnitude of these pressures, there is the potential for a significant level of overspend. A clearer monitoring position will be established in the coming months as mitigation measures are implemented.
- 5.6 A six-monthly review of the HSIP including an update against the key milestones will be provided to Housing, Homelessness and Fair Work Committee in January 2020.

6. Financial impact

- 6.1 The Council's Financial Regulations set out Executive Directors' responsibilities in respect of financial management, including regular consideration of their service budgets. The position set out in the report indicate pressures arising within the Place Directorate GF and HRA which require to be addressed.

7. Stakeholder/Community Impact

- 7.1 Consultation was undertaken as part of the HRA and GF budget setting processes.
- 7.2 Successful delivery of the HRA budget will support investments to improve the energy efficiency of Council Homes.

8. Background reading/external references

- 8.1 [Housing Revenue Account Budget Strategy 2019/20](#)
- 8.2 [Housing Revenue Account Budget Strategy 2019/24](#)
- 8.3 [Link to be added re HHFW 29 August Month 3 report](#)

9. Appendices

- 9.1 Appendix 1 – Place Directorate - HRA Revenue Projection: 2018/19 – Month Five Position
- 9.2 Appendix 2 – Place Directorate – General Fund Approved Revenue Budget Savings 2019/20 – Month Five Position

Appendix 1 – Place Directorate - HRA Revenue Projection: 2019/20 – Month Five Position

	19/20 Budget	Month Five Forecast	Variance
	£m	£m	£m
Net Income	-100.661	-100.091	0.570
Strategic Housing Investment Funds	-20.353	-21.056	-0.703
Total Income	-121.014	-121.146	-0.133
Housing Management	31.915	31.860	-0.055
Property Maintenance	23.741	24.349	0.608
Debt Service	42.358	41.937	-0.421
Housing Investment (CFRC)	23.000	23.000	0.000
Total Expenditure	121.014	121.146	0.133

Note: The reserve draw-down is from the Strategic Housing Investment Fund which is made up of the Repairs and Renewals Reserve and the Council Tax Discount Fund. The forecast reserve drawdown forms part of the approved capital programme for 2019/20. CFRC denotes Capital Funded from Current Revenue.

Appendix 2 – Place Directorate – General Fund Approved Revenue Budget Savings 2019/20 – Month Five Position

Category	Title	Total £000	Green £000	Amber £000	Red £000	Relevance to HHFW Executive Committee
Approved Savings	Tourism and Marketing Reform	300	300	0	0	HHFW ALL
Approved Savings	Improved Approach to Street and Environmental Enforcement	750	250	250	250	
Approved Savings	Localities Phase Two	300	100	100	100	
Approved Savings	Commercialism and Income Maximisation - Pre-planning Applications	100	100	0	0	
Approved Savings	Commercialism and Income Maximisation - Culture	150	150	0	0	
Approved Savings	Area-Based Regeneration	250	0	250	0	HHFW PART
Approved Savings	Parking Action Plan Phase 2	369	0	70	299	
Approved Savings	Fleet Review	500	200	300	0	
Approved Savings	Clean and Green (2018/19 additional spend)	250	0	250	0	
Approved Savings	Roads (Additional funding) (2018/19 additional spend)	250	250	0	0	
Approved Savings	Capitalisation of Road Maintenance Budget	500	500	0	0	
Approved Savings	Commercialism and Income Maximisation - Full Cost Recovery & Consents	1,025	574	451	0	
Approved Savings	Commercialism and Income Maximisation - Parks and Greenspaces	150	20	65	65	
Approved Savings	Joint Procurement of Waste Contracts	325	0	162	163	
Approved Savings	Re-provision of public conveniences	250	40	210	0	
Approved Savings	Cultural grants	52	52	0	0	
Approved Savings	Transport Reform	500	0	500	0	
Approved Savings	Economic Development	1,200	800	400	0	HHFW ALL
Approved Savings	New Ways of Working - Public Safety and Business Continuity	130	0	130	0	
Approved Savings	Parking - increase charges by average of 4.5% per annum over four years	800	600	200	0	
Approved Savings	Discretionary income (Fees and Charges)	824	618	206	0	Place Wide
Mitigations/Efficiencies	Workforce Control - Reduction in Agency and Overtime (Place)	900	0	450	450	Place Wide
Mitigations/Efficiencies	Reduction in Discretionary Expenditure (Place)	650	180	235	235	Place Wide
Mitigations/Efficiencies	Place Development - Efficiencies	730	250	480	0	HHFW PART
Mitigations/Efficiencies	Place Management - Efficiencies	530	0	232	298	
Mitigations/Efficiencies	Service Containment of Increment Costs (Place)	1,200	500	500	200	Place Wide
Mitigations/Efficiencies	Operational Efficiencies - Senior Management Review (Place)	100	0	50	50	
Mitigations/Efficiencies	Realise Full Year Impact of Previously Approved Savings (Place)	1,200	700	350	150	HHFW PART
Mitigations/Efficiencies	Implement Service Reforms (Place)	200	0	100	100	
Mitigations/Efficiencies	Reduction in Budget Pressures (Place)	1,000	1,000	0	0	Place Wide
Mitigations/Efficiencies	Value for Money Audits (Place)	300	0	150	150	
Mitigations/Efficiencies	Contract Efficiencies (Place)	600	100	300	200	
Mitigations/Efficiencies	Pentland Hills Operations (Place)	100	0	50	50	
Mitigations/Efficiencies	Localities and Communities Investment Funding	130	130	0	0	
Mitigations/Efficiencies	Transport Review	1,200	770	150	280	
Mitigations/Efficiencies	Planning Appeals	300	150	150	0	
Mitigations/Efficiencies	Millerhill Operations (Place)	1,800	1,800	0	0	
		19,915	10,134	6,741	3,040	
Total Approved Savings	(excludes efficiency)	8,975	4,554	3,544	877	
Total Mitigations/Efficiencies	(includes efficiency)	10,940	5,580	3,197	2,163	
Total Management Action to be Delivered £000		19,915	10,134	6,741	3,040	
Total Management Action to be Delivered %		100%	51%	34%	15%	