# Housing, Homelessness and Fair Work Committee

## 10.00am, Thursday, 29 August 2019

# Place Directorate – Financial Monitoring 2018/19 – Outturn

| | |
|---|---|
| **Executive/routine** | |
| **Wards** | |
| **Council Commitments** | 1 and 10 |

## 1. Recommendations

1.1 It is recommended that the Housing, Homelessness and Fair Work Committee notes:

1.1.1 the provisional out-turn position in respect of the Housing Revenue Account (HRA), capital and revenue budget; and

1.1.2 the provisional out-turn position in respect of the General Fund (GF), revenue budget.

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# Report

## Place Directorate – Financial Monitoring 2018/19 – Outturn

### 2. Executive Summary

2.1 The report sets out the provisional 2018/19 revenue out-turn position for the Place Directorate based on the unaudited annual accounts in respect of HRA and GF budgets, as summarised below:

**HRA**

2.1.1 Revenue - A balanced revenue position was achieved in 2018/19, with a contribution of £32.800m delivered towards new housing investment;

2.1.2 Capital - Capital investment expenditure of £80.962m was achieved against a budget of £80.934m; and

**GF**

2.1.3 Revenue - The revenue position for the overall Place Directorate at 2018/19 outturn was a £2.736m spend over budget. The provisional 2018/19 revenue outturn for the Council as a whole shows an overall underspend of £1.582m.

### 3. Background

3.1 The HRA is a ring-fenced statutory account that the Council manages on behalf of tenants. It is funded from rents and service charges relating to Council housing and related assets and is used to fund the provision of Council housing in line with tenants' priorities.

3.2 On 22 February 2018, the Council approved the five-year HRA Budget Strategy 2018/19 to 2022/23. The approved HRA budget for 2018/19 was £99.692m. This included a £9.250m contribution from revenue and a £24.648m contribution from the investment fund reserve towards the housebuilding and housing improvement capital programmes.

3.3 The total 2018/19 approved gross GF revenue budget for the Place Directorate was £219.637m. The net budget was £51.559m after adjusting for income from other parts of the Council, external grants and other income. This budget is net of

£6.951m of additional savings approved as part of the 2018/23 revenue budget framework by Council on [22 February 2018](#).

3.4 The Council's statement of Accounts for 2018/19 was passed to the external auditor by the statutory deadline of 30 June 2019. This report sets out the provisional out-turn position for the revenue budget as detailed within the unaudited statement. This report provides an update on financial performance against the above budgets.

## 4. Main report

**HRA – Revenue Budget**

4.1 The outturn overall position as compared to the approved budget and the reported month nine forecast as reported to Housing and Economy Committee, [21 March 2019](#) is shown in Appendix 1. The main points of note in respect of financial performance are set out in this section of the report.

4.2 In the final quarter of 2018/19 an overall improvement in the financial position resulted in an in-year contribution of £6.757m towards housing investment rather than the £5.526m forecast at period 9. The in-year contribution was supplemented by a draw-down of £26.043m from reserves, accumulating a total of £32.800m revenue contribution towards in year capital investment.

4.3 Pressures had been forecast in respect of net rental income in 2018/19. Lower than anticipated annual rental income was offset by a reduction in former tenant arrears, due to effective arrears management and the impact of the roll out of Universal Credit. This meant that the position was more positive than expected at £99.927m.

4.4 The outturn in Housing Management saw a more favourable variance than had been anticipated (at £0.746m). This was achieved through a reduction in support costs for Corporate Services received combined with management action to address cost pressures from pay award and new housing developments.

4.5 Property maintenance costs were £4.343m higher than budget, this is higher than had been projected during the financial year. These increases were the result of additional costs in property maintenance as a result of difficulties with integration of systems, an increased number of missed appointments and timing issues in recharges being processed from/to the GF. The Housing Service Improvement Plan includes actions to address these issues from 2019/20 onwards.

4.5 The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt Charges' (capital financing costs (principal repayments and interest)) amount to circa 35% of HRA expenditure, therefore excellent treasury management is essential to running an efficient housing service. Prudent treasury management and in year surpluses being used to offset capital borrowing resulted in a reduction in costs of £0.869m compared to budget in 2018/19.

4.6 The assumptions underpinning the HRA business plan are reviewed in parallel with in-year variances to ensure that they are realistic and achievable. The variances described, where recurring in nature, have been reflected in the HRA revenue budget, approved by Council on 21 February 2019 and the Housing Service Improvement Plan (HSIP) approved at Housing and Economy Committee on 6 June 2019.

**HRA – Capital Budget**

4.7 The HRA Capital budget was approved in February 2018,with the Housing Investment Programme: Delivering the Budget Strategy in 2018/19 approved on 7 June 2018. This detailed plans to build new homes, improve tenants' homes and services and upgrade external fabrics and estates.

4.8 In 2018/19 HRA capital expenditure amounted to £80.962m, an 11% increase on the previous year. Although projected slippage of circa £4m was reported at the end of month 9, a balanced budget was achieved. This was primarily due to a major contractor going into administration, as well as delays in some contract starts and gaining necessary agreement to progress improvement works in mixed tenure blocks. In response to this, other elements of the programme were accelerated including the Council house building programme and wider neighbourhood improvements to achieve a balanced budget. Slippage in 2018/19 has been prioritised as part of the 2019/20 HRA capital programme.

4.9 As a result of the investment in 2018/19:

4.9.1 over 1,400 homes benefited from energy efficiency improvements, including new heating systems, windows and doors and insulation;

4.9.2 around 1,800 homes were modernised, receiving new kitchens, bathrooms and electrical and water tank upgrades;

4.9.3 a total of 182 new homes were completed at Pennywell, Calder Gardens, West Pilton Grove and Clermiston, including the 22 mid-market homes that were purchased by Edinburgh Living; and

4.9.4 at the end of the financial year over 700 new homes were under construction, with a further 3,000 homes in design and development stage.

**Place Directorate GF – Revenue Budget**

4.10 As last reported to Finance and Resources Committee on 1 February 2019 and Housing and Economy Committee on 21 March 2019, Place Senior Management and Divisional Management Teams deployed a financial strategy in 2018/19 to treat the financial challenges faced by the Directorate including identified pressures of £11.5m, comprising £4.8m of legacy and £6.7m in year pressures.

4.11 The revenue budget approved by Council in February 2018 required Place Directorate to achieve incremental savings of £6.951m in 2018/19 in addition to addressing pressures (4.10). Appendix 2 summarises the reported forecast (savings assessed as green or amber) in relation to savings delivery and the actual savings realised within the provisional outturn.

4.12 Significant progress was made in terms of management action to address these pressures including budget realignment with robust mid-year review and on-going budget monitoring which includes a red, amber, green (RAG) analysis. When last reported at month nine indicated that 85% of these savings (£5.879m) were assessed as green or amber with those at red totalling £1.072m and representing the majority of forecast overspend at month nine.

4.13 As outlined in Appendix 2 an element of Amber assessed savings were not realised in year. This mainly accounts for the increase in provisional outturn overspend from the projected £1.314m to £2.736m.

4.14 The £2.736m overspend is the provisional general fund outturn position for the overall Place Directorate as it is the responsibility of the Executive Director of Place to deliver a balanced budget over the Directorate as a whole. Areas of overspend which relate to this Executive Committee and should be noted are:

**Economy**

4.14.1 The income reduction assumption of £0.274m previously reported in relation to an emergent pressure in the Economy Service was provided for within the 2018/19 accounts. This relates to retrospective payment of European Social Fund funding for employability related costs incurred in previous financial years. Management action including an assessment of required evidence to secure payments and negotiation of arrangements to improve access to evidence where required has been undertaken to reduce the cost exposure to the Council. Efforts will continue to reduce this risk further, both in year and looking forward.

4.14.2 The approved Economy saving of £0.600m was not met in full as shown in Appendix 2. The review to better align the service to the Economy Strategy is ongoing and will complete in 2020/21. The part realisation of the saving in year arose from cost efficiencies across the service, however in 2019/20 the 2018/19 saving will be met in full.

## 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 Some of the management actions that have already been identified are one-off in nature, meaning that, although they assist in addressing the immediate challenge, a permanent sustainable solution still needs to be identified. Work is ongoing to identify options to achieve a permanent solution. 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 Senior Management Team is developing a rolling budget management strategy to address on-going challenges in the service budget.

5.3 GF savings assessed as red in 2018/19 were reported to the respective Executive Committees in year. The Place Directorate 2019/20 budget management strategy looks to address the non-delivery of 2018/19 approved savings in 2019/20.

5.4 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 report identifies a provisional balanced position on the HRA together with a provisional revenue overspend of £2.736m on the Place GF budget for the year ending 31 March 2019. The report identifies a number of pressures and risks which will require to be addressed as a matter of urgency through the 2019/20 budget management strategy.

## 7. Stakeholder/Community Impact

7.1 Consultation was undertaken as part of the HRA and general fund 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 2018/23

8.2 Housing Revenue Account Budget Strategy 2019/20

8.3 Housing Investment Programme Delivering the Budget Strategy in 2018/19

8.4 Place Directorate Financial Monitoring 2018/19 Month 9

## 9. Appendices

9.1 Appendix 1 – HRA Revenue: 2018/19 – Outturn

9.2 Appendix 2 – Place Directorate – General Fund Approved Revenue Budget Savings 2018/19 – Outturn

## Appendix 1 – HRA Revenue: 2018/19 – Outturn

| | 2018/19 Budget | Reported Projected Outturn | Actual Outturn | Outturn Variance to budget £m | Note |
|---|---|---|---|---|---|
| | £m | £m | £m | £m | |
| Net Income | -99.692 | -98.526 | -99.927 | -0.235 | *1 |
| Reserve draw-down SHIF | -24.648 | -27.636 | -26.043 | -1.395 | *2 |
| **Total Income** | **-124.340** | **-126.162** | **-125.970** | **-1.630** | |
| | | | | | |
| Housing Management | 29.043 | 29.318 | 28.297 | -0.746 | *3 |
| Property Maintenance | 21.517 | 23.980 | 25.860 | 4.343 | *4 |
| Debt Service | 39.882 | 39.702 | 39.013 | -0.869 | *5 |
| Strategic Housing Investment | 33.898 | 33.162 | 32.800 | -1.098 | *6 |
| **Total Expenditure** | **124.340** | **126.162** | **125.920** | **1.630** | |

**Note 1:** Net Income was £1.4m higher than forecast and £162k above budget. 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. Former tenant arrears written off in 2018/19 was lower than forecast, due to effective arrears management and the impact of Universal credit roll out was not as adverse on rent collection (resulting in the provision set aside for bad debts not being fully required).

**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 2018/19 drawdown was £1.395m less than forecast at Month 9. “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 Management” 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. It was £0.746m below forecast. HRA's portion of Council-wide reduction in overheads, has resulted in Support Service Costs being £0.589m lower in 2018/19 compared to 2017/18.

**Note 4:** ‘Property Maintenance’ includes responsive repairs, estates maintenance, routine gas servicing and the costs associated with bringing empty homes back into use. The increased spend in 2018/19 compared to 2017/18 is primarily due to difficulties in integrating and improving ICT systems and an increase in subcontractor spend to meet demand. Actions to address these issues are being progressed in the Housing Service Improvement Plan.

**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). The debt charges are £0.869m below due to prudent treasury management and in year surpluses being used to offset capital borrowing in previous years and a reduction in the Loan Pool Interest Rate.

**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. It was 1% (£0.362m) below forecast.

## Appendix 2 - Place Directorate - General Fund Approved Revenue Budget Savings 2018/19 – Provisional Outturn

| PLACE DIRECTORATE APPROVED SAVINGS 2018/19 | APPROVED SAVING £M | FORECAST SAVING £M (REPORTED) | DELIVERED SAVING OUTURN £M |
|---|---|---|---|
| Fleet financing model (includes £0.200 accelerated from 19/20) | 0.500 | 0.500 | 0.325 |
| Community Recycling Centres | 0.200 | 0.200 | 0.100 |
| Roundabouts and Verge advertising | 0.300 | 0.100 | 0.000 |
| Sign Workshop | 0.100 | 0.100 | 0.100 |
| Events | 0.100 | 0.100 | 0.100 |
| Transport Policy Enforcement | 0.300 | 0.300 | 0.300 |
| Garden Waste collection (net of exemption funding) ^ | 1.250 | 0.750 | 0.750 |
| Grounds Maintenance - Edinburgh Leisure | 0.375 | 0.375 | 0.210 |
| Parking permits and pay and display | 0.300 | 0.300 | 0.250 |
| Income from events in Cultural Venues | 0.050 | 0.050 | 0.050 |
| Income from the Scott Monument | 0.025 | 0.025 | 0.025 |
| Align Economic Development to new strategy (includes £0.100m accelerated from 19/20). | 0.600 | 0.600 | 0.450 |
| Public Transport Initiatives | 0.350 | 0.350 | 0.200 |
| Waste collection improvements to working patterns | 0.498 | 0.498 | 0.000 |
| Parking – increase charges by 4.5% p.a. | 0.800 | 0.428 | 0.430 |
| Culture Third Party Payments | 0.155 | 0.155 | 0.155 |
| Fees and Charges Increase | 1.048 | 1.048 | 1.048 |
| | | | |
| **Total Savings** | **6.951** | **5.879** | **4.493** |
| **Pressure from savings unrealised in 2018/19** | | **1.072** | **2.458** |
| | | | |

^ The proposal exceeded sign up assumptions. Savings shortfall relates to the revised implementation date which means that income received spans two financial years.

*Projected saving reflected savings assessed as Green and Amber as at 31/12/18. Includes impact of substitute measures in same service area where appropriate.