

# Housing, Homelessness and Fair Work Committee

10.00am, Monday, 20 January 2020

## Place Directorate – Revenue Monitoring 2019/20 – Half year report

Executive/routine	Routine
Wards	All
Council Commitments	<a href="#">1 and 10</a>

### 1. Recommendations

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- 1.1 Committee is asked to note:
- 1.1.1 the balanced to budget forecast position in respect of the Housing Revenue Account (HRA) revenue budget;
  - 1.1.2 that the Place Directorate General Fund (GF) is currently projecting a potential budget pressure of £5.615m for 2019/20;
  - 1.1.3 that the Executive Director of Place is continuing to progress implementation of measures to reduce the potential budget pressures with £3.518m of planned measures identified to be implemented before the financial year end. These would reduce the general fund budget pressure to £2.097m. Further measures are being identified to mitigate the potential budget pressure if possible; and
  - 1.1.4 progress will be reported to the Finance and Resources Committee on 23 January 2020 and to the meeting of this committee on 19 March 2020.

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Executive Director of Place

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## Place Directorate – Revenue Financial Monitoring 2019/20 – Half year report

### 2. Executive Summary

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- 2.1 The report sets out the projected month six revenue monitoring position for the Place Directorate HRA and GF elements, based on analysis of actual expenditure and income to the end of September 2019, and projections for the remainder of the financial year.
- 2.2 At month six, following a half-year review of the HRA budget management strategy, the Executive Director of Place is forecasting a balanced position with a projected contribution of £23.000m towards new housing investment arising from a combination of in year income over expenditure and a draw-down from the Strategic Housing Investment Fund. There has been a material improvement in the HRA forecast since last reported to Housing, Homelessness and Fair Work in [October 2019](#) which means that the ask of the Strategic Investment Fund to meet in year housing investment will be less.
- 2.3 As at month six, following a half-year review of the Place General Fund budget management strategy, a potential overspend of up to £5.615m is forecast by the Executive Director of Place.
- 2.4 Place Directorate remain fully committed to taking the necessary actions to deliver approved savings and address identified operational cost pressures and are actively developing their budget management strategy to bring the Place revenue budget towards balance. £3.518m of management actions are planned to be delivered by the financial year-end, which would leave a residual budget gap of £2.097m. The residual budget gap includes pressures which have emerged within the six months to 30 September 2019. Progress on the implementation of management actions will be reported to the Finance and Resources Committee on 23 January 2020 and to this Committee at its meeting on 27 February 2020.
- 2.5 A separate report to the Council's Finance and Resources Committee meeting on 6 December 2019 sets out the projected Council-wide revenue budget position for the year based on analysis of period six data. A balanced overall position is now forecast with attainment of this position subject to on-going management of service pressures and risks.

### 3. Background

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- 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 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 £98.014m This is supplemented by a budgeted draw down of £20.353m 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 revenue budgets. A separate report to the Council's Finance and Resources Committee on 6 December 2019 sets out the projected position on the Council's HRA and GF Capital Investment Programme.

### 4. Main report

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#### **Housing Revenue Account – Revenue Budget**

- 4.1 At the half year, the overall position as compared to the approved budget set out in paragraph 3.4 and in Appendix 1 comprises forecast revenue income of £100.526m and costs of £94.593m. This means that in order to achieve the budgeted £23.00m revenue contribution towards in year capital investment circa £3m fewer reserves will require to be drawn-down from the Strategic Housing Investment Funds. 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 £0.135m against budget (less than 1%). The forecast is a material improvement on the reported month five position which is in the main attributable to a revised year end forecast of the debt provision required for current and former rental income.
- 4.3 There has been an improvement in the Housing Management forecast since last reported. The £0.200m improvement relates to a reduction in the estimated payment the HRA makes in respect of its contribution to the central support costs of the Council.
- 4.4 The forecast expenditure of £23.952m for property maintenance is £1.807m less than the 2018/19 out-turn position. Efficiencies arising from planned service improvements are starting to yield cost reductions, enabled by the introduction of Total Mobile which went live in September 2019. To this end, it is expected that these improvements will continue and it is hoped that further improvements to the forecast can be realised within the financial year.
- 4.5 The HRA borrows to finance the planned housing investment and house building capital programmes. 'Debt charges' are capital financing costs (principal repayments and interest). Debt charges amount to almost 40% of HRA expenditure, therefore effective 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, these actions, together with the low interest external environment, have had a material positive impact on the debt charges compared to budget in 2019/20. It is now forecast that in year debt charges will be around £3.5m less than budgeted.. A number of additional treasury management initiatives are underway and their impact on the forward trajectory will be monitored.
- 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 remain realistic and achievable.

#### **Place Directorate General Fund – Revenue Budget**

- 4.7 Given the increasing risks inherent in maintaining expenditure within budgeted levels, earlier in-year reports for 2019/20 were underpinned by adoption of a particular risk management focus, with a corresponding risk contingency captured at Council level. This approach also reflected the comparatively early stage of the year of those reports and the consequent need, in some cases, for additional details of implementation plans to become available. In light of the availability of further months' data, a Directorate-specific position, consistent with relevant responsibilities as set out within Financial Regulations, has been adopted in this half-year report.
- 4.8 A half year review (month six) of the budget management strategy in the Place Directorate for the General Fund revenue budget forecast an overspend of up to £5.615m. This forecast reflects a combination of:
- 4.8.1 brought-forward underlying pressures within services;

- 4.8.2 anticipated delays, or shortfalls, in delivery against a number of the service-specific savings measures approved as part of the budget motion (as shown in Appendix 1);
- 4.2.3 an extended period when elements of environmental testing were not being undertaken; and
- 4.8.3 a need to identify specific plans to address elements of the Directorate's in-year efficiency target of £2.8m.
- 4.9 As part of the budget management strategy review at month six, £3.518m of management actions are planned to be delivered by the financial year end. The Place Senior Management and Divisional Management Teams are working hard to ensure that the management actions agreed are delivered and that actions are identified to reduce the residual gap of £2.097m.
- 4.10 The information above is net of the revenue budget (approved by Council in February 2019) requirement for the Place Directorate to achieve incremental savings of £8.975m in 2019/20. A strategy to deliver this, alongside action to address the required efficiency measures of £2.810m and £8.130m of identified pressures has been developed. The sum of these approved savings and management actions to address efficiency targets and pressures is £19.915m. A red, amber, green (RAG) analysis is regularly undertaken in consultation with Heads of Service of these measures. This is shown within Appendix 1. Delivery of all savings is monitored monthly by the Place Senior Management Team and Divisional Management teams.
- 4.11 At month six the RAG indicates that 89% of these savings (£17.817m) were assessed as green or amber with the 11% at red representing the remaining £2.098m. This is a significant improvement on the reported month three position, with the overall forecast showing an improvement of circa £1.7m in the underlying budget position.
- 4.12 A separate report to the Council's Finance and Resources Committee meeting on 6 December 2019 sets out the projected Council-wide revenue budget position for the year based on analysis of period six data. A balanced overall position is now forecast with attainment of this position subject to on-going management of service pressures and risks. Further updates on the position will be reported to the Finance and Resources Committee on 23 January 2020 and to this Committee on 27 February 2020. The implications of service overspends in 2019/20 for future years will be considered as part of the 2020/23 budget process.
- 4.13 Appendix 2 relates to the Place Directorate as a whole. There are no elements of the budget which relate to the Housing, Homelessness and Fair Work remit which have been assessed as red at month six. Table 1 below shows the approved savings which have been assessed as amber or green.

**Table 1 - 19/20 Approved Savings, Efficiencies and Mitigations.**

<b>Housing, Homelessness and Fair Work Actions.</b>	<b>£m</b>	<b>Narrative</b>
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>Due diligence requires to be completed quarterly in respect of assessing relevant costs and activity, however there is a high level of confidence that this saving can be delivered.</p>
Place Development Efficiencies.	0.230	<p>This relates to non staff elements of the Economic Development service and contributes towards the £2.8m Place Directorate efficiency target set as part of the 2019/20 process.</p> <p>At the half year there is a high level of confidence this can be realised.</p>
Economic Development.	1.200	<p>This relates to the organisational review of the Economic Development service, £1.2m saving.</p> <p>At the half year it is forecast that this saving will be achieved.</p>
Realise Full Year Impact of Previous Year Approved Savings.	0.150	<p>This relates to an element of a previously agreed saving in 2018/19 which had been allocated to the Economic Development Service. This saving is assessed as fully delivered.</p>
Tourism and Marketing Reform.	0.300	<p>This relates to the phased reduction of payments to Marketing Edinburgh and has been delivered.</p>
Place wide cost efficiencies; reduction in overtime, agency and non-essential costs.		<p>All services will require to reduce costs to achieve Directorate Efficiency Savings. Impacts on specific Executive Committees will be reported as appropriate.</p>

- 4.14 Progress has been made by Place Directorate in terms of making positive inroads to addressing the financial challenge within the first six months of 2019/20. In addition to monthly reporting of the budget position the comprehensive annual budget realignment exercise which commenced in 2018/19 has been repeated in 2019/20 and a half year review of the budget position and management actions has been carried out.
- 4.15 The Place Senior Management and Divisional Management Teams are continuing work to address the financial challenge faced by the directorate. Of £19.9m of savings requiring to be delivered in the year, almost 90% are now assessed as either green or amber. The budget management strategy, underpinned by a robust mid-year review, has been updated to reflect additional measures which have been required to reduce the level of overspend further.
- 4.16 It should be noted that the claims process in respect of European Social Fund monies is currently suspended on a temporary basis. This status applies to all Local Authorities. Officers are engaged with COSLA and the Scottish Government in respect of the process to lift the suspension. No additional provision has been made in the reported position in respect of this risk at the half year.

## **5. Next Steps**

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- 5.1 The 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. The Place Senior Management Team intends the 2019/20 budget management strategy to be part of a rolling process, not confined to the current financial year. Where planned savings and mitigations are not fully delivered in year, they will be factored into future year budget management strategies to be delivered and addressed alongside identified pressures.
- 5.3 The Place Senior Management Team and Divisional Management teams are fully committed to identifying management action to reduce the budget pressures and to ensuring that management actions are being implemented to support the delivery of a balanced budget within the directorate. However, given the magnitude of these pressures, there is the potential risk that the directorate may report an overspend at the end of this financial year. This is being addressed on an on-going basis by the Executive Director and Senior Managers. The implications of in year service overspend for future years will be considered as part of the 2020/23 budget process.

## **6. Financial impact**

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- 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 Executive Director of Place regularly reviews the directorate budget position alongside the identification and implementation of management actions to achieve a balanced budget in year. The position set out in this report shows that the Place directorate is currently forecasting an overspend in 2019/20 and therefore there are pressures which are still to be addressed.

## **7. Stakeholder/Community Impact**

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- 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**

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- 8.1 [Housing Revenue Account Budget Strategy 2019/20](#)
- 8.2 [Housing Revenue Account Budget Strategy 2019/24](#)
- 8.3 [Financial Monitoring 2019/20 - Month 5 position](#)
- 8.4 [Month 6 Finance and Resources Committee 6 December 2019](#)

## **9. Appendices**

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

## Appendix 1 – Place Directorate - HRA Revenue Projection: 2019/20 – Half year Position

	19/20 Budget	Half Year Forecast	Variance
	£m	£m	£m
Net income	-100.661	-100.526	0.135
Strategic Housing Investment Funds	-20.353	-17.067	3.286
<b>Total income</b>	<b>-121.014</b>	<b>-117.593</b>	<b>3.421</b>
Housing Management	31.915	31.754	-0.161
Property Maintenance	23.741	23.952	0.211
Debt servicing	42.358	38.887	-3.471
	98.014	94.593	-3.421
Housing Investment (CFCR)	23.000	23.000	0.000
<b>Total Expenditure</b>	<b>121.014</b>	<b>117.593</b>	<b>-3.421</b>
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.			
CFCR denotes Capital Funded from Current Revenue.			

## Appendix 2 – Place Directorate – General Fund Approved Revenue Budget Savings 2019/20 – Half Year Position.

Category	Title	Total £000	Green £000	Amber £000	Red £000	Relevance to Housing, Homelessness and Fair Work Executive
Approved Savings	Tourism and Marketing Reform	300	300	0	0	HHFW ALL
Approved Savings	Improved Approach to Street and Environmental	750	250	350	150	
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 -	150	150	0	0	
Approved Savings	Area-Based Regeneration	250	125	125	0	HHFW PART
Approved Savings	Parking Action Plan Phase 2	369	100	100	169	
Approved Savings	Fleet Review	500	300	200	0	
Approved Savings	Clean and Green (2018/19 additional spend)	250	0	250	0	
Approved Savings	Roads (Additional funding) (2018/19 additional	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	830	195	0	
Approved Savings	Commercialism and Income Maximisation - Parks	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	1,200	0	0	HHFW ALL
Approved Savings	New Ways of Working - Public Safety and Business	130	85	45	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	900	0	450	450	Place Wide
Mitigations/Efficiencies	Reduction in Discretionary Expenditure (Place)	650	180	335	135	Place Wide
Mitigations/Efficiencies	Place Development - Efficiencies	730	250	480	0	HHFW PART
Mitigations/Efficiencies	Place Management - Efficiencies	530	112	282	136	
Mitigations/Efficiencies	Service Containment of Increment Costs (Place)	1,200	700	500	0	Place Wide
Mitigations/Efficiencies	Operational Efficiencies - Senior Management	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	400	100	100	
Mitigations/Efficiencies	Pentland Hills Operations (Place)	100	50	50	0	
Mitigations/Efficiencies	Localities and Communities Investment Funding	130	130	0	0	
Mitigations/Efficiencies	Transport Review	1,200	870	150	180	
Mitigations/Efficiencies	Planning Appeals	300	300	0	0	
Mitigations/Efficiencies	Millerhill Operations (Place)	1,800	1,800	0	0	
		<b>19,915</b>	<b>12,112</b>	<b>5,705</b>	<b>2,098</b>	
<b>Total Approved Savings</b>	(excludes efficiency)	8,975	5,620	2,708	647	
<b>Total Mitigations/Efficiencies</b>	(includes efficiency)	10,940	6,492	2,997	1,451	
<b>Total Management Action to be Delivered £000</b>		<b>19,915</b>	<b>12,112</b>	<b>5,705</b>	<b>2,098</b>	
<b>Total Management Action to be Delivered %</b>		<b>100%</b>	<b>61%</b>	<b>29%</b>	<b>11%</b>	