

Housing, Homelessness and Fair Work Committee

10.00am, Thursday, 29 August 2019

Housing Revenue Account Budget Strategy 2020/21

Executive/routine Wards Council Commitments	Executive All
---	------------------

1. Recommendations

- 1.1 It is recommended that Housing, Homelessness and Fair Work Committee:
- 1.1.1 agree to seek tenants' views on the Housing Revenue Account (HRA) budget strategy for inclusion in the 2020/21 HRA budget report;
 - 1.1.2 notes progress to date on reviewing the business planning assumptions has resulted in a 20% reduction (c.£15 million) of the projected deficit (£75 million between years 2022/23 and 2032/33) and a delay in the impact, starting in 2023/24 instead of 2022/23, as reported to Council in February 2019; and
 - 1.1.3 notes the ongoing financial and operational pressures which could impact on the delivery of the HRA budget Strategy and the update on the Housing Service Improvement Plan (HSIP) which seeks to mitigate these.

Paul Lawrence

Executive Director of Place

Contact: Elaine Scott, Housing Services Manager

E-mail: elaine.scott@edinburgh.gov.uk | Tel: 0131 529 2277

Housing Revenue Account Budget Strategy 2020/21

2. Executive Summary

- 2.1 The 30-year HRA Business Plan 2020/21-2049/50 is the financial framework that underpins the Housing Service. The Plan is reviewed annually in consultation with tenants and a five-year Capital Programme and one-year Capital Investment Budget is approved by Council. A comprehensive review of the business plan is currently underway to maximise income and increase efficiency to ensure the business plan remains sustainable.
- 2.2 The 2019/20 Business Plan projected a £75.6 million deficit between 2022/23 and 2032/33. The business plan is currently under review, with key assumptions updated prior to consultation. The net impact of the updates so far has been positive. The total projected deficit is around £15 million less (20% reduction) than that reported in February 2019. The deficit has also been postponed; starting in 2023/24 instead of 2022/23.
- 2.3 Each year tenants are asked for their views on priorities for the Housing Service. Tenants have previously prioritised the acceleration and expansion of affordable housebuilding, investment in homes to make them more modern and easier to heat, delivered alongside accessible and responsive local services. Tenants' views will be sought on what has been achieved to date and what should be prioritised over the next five years.
- 2.4 The HRA Business Plan is expected to operate under increasing pressure in both the short and medium term. A three-year HSIP has been put in place to increase satisfaction, improve performance and reduce operating costs. The 2020/21 budget consultation will ask tenants how they want to be involved in redesigning the housing service to ensure that it is more responsive to customers.

3. Background

- 3.1 On [21 February 2019](#), the Council approved the five-year HRA Budget Strategy 2019/20 to 2023/24. In addition to this, Council approved a draft 2019/20 capital budget, five-year capital investment programme and 30-year Business Plan.

- 3.2 The report also identified a number of operational and financial pressures which included performance flatlining and dipping in some areas, a decline in customer satisfaction and a projected deficit from 2022/23 and the need to mitigate this by reducing annual expenditure by 10%.
- 3.3 On [21 March 2019](#), Housing and Economy Committee approved the 2019/20 HRA capital programme for investment of £108.954 million in new homes, existing homes (including external fabric and estates) and services. This was the largest annual capital investment programme to date in Council homes.
- 3.4 On [6 June 2019](#), Housing and Economy Committee received an update on the HSIP. The report set out the approach to redesigning the Housing Service with a specific focus on developing more effective and responsive services for customers. The approach to improvement complements the significant planned investment in tenants' homes and estates, whilst significantly improving customer satisfaction, operating performance and reducing costs.

4. Main report

- 4.1 The HRA manages the income and expenditure for the Housing Service. The Housing Service provides affordable homes and other services to over 19,500 tenants and 500 home owners in the city. The Housing Service is entirely self-financing and receives no funding from the General Fund (GF).
- 4.2 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.
- 4.3 The HRA budget is approved by Council following consultation with tenants. The budget is prepared annually following the review of the 30-year HRA Business Plan and the Capital Investment Programme. Appendix 1 sets out the HRA Business Plan and budget setting process.

Tenant Priorities

- 4.4 The Housing Service has an extensive programme of consultation and engagement with tenants. This includes regular surveys to assess customer satisfaction with the service, focus groups to enable in-depth exploration of key issues, tenant panels, tenant led service inspections and scrutiny, resident and community meetings and an annual budget consultation which is co-designed and co-delivered with tenants.
- 4.5 Over 80% of tenants who responded to previous consultations told us that they supported the investment plan, funded by a 2% rent increase, identifying the following priorities to be delivered over a five-year period:
 - 4.5.1 building new affordable homes;
 - 4.5.2 investing in making existing homes easier and cheaper to heat; and

4.5.3 reducing the cost of living through the delivery of a variety of different services, including an energy advice service, a tenant discount scheme, low cost broadband service and community food growing.

4.6 Subsequent budget consultations have confirmed support for the key priorities, including support to increase rents beyond 2%, if priorities could be delivered more quickly. In 2019/20 around 81% of tenants said they supported the key priorities but, alongside support for capital investment, tenants prioritised investing time and resource in improving core housing services, such as day to day housing management, and repairs and maintenance of Council homes, as well as the wider estate management.

4.7 Following budget consultation, the Council approved the five-year HRA Budget Strategy 2019/20 to 2023/24 in [February 2019](#). The budget included a scaling up of investment in existing and new homes (35% increase on previous year), as well as responding to tenants' requests to prioritise improvements in core services through the HSIP. The HSIP seeks to increase satisfaction, improve performance and reduce annual expenditure by around 10%.

Progress on delivering New Homes

4.8 The Council's Business Plan, which was approved in August 2017, committed to delivering 20,000 new affordable homes over the next 10 years; half of which will be Council led.

4.9 Since April 2016, 553 Council homes have completed, over 700 new homes are currently under construction and a further 3,000 are in design development. This does not include homes being delivered for low cost home ownership or private sale through Council led procurement, or the new affordable homes funded and delivered by Registered Social Landlords.

4.10 The Council is also leading on the regeneration of Granton Waterfront which is expected to deliver over 3,000 new homes in a new coastal quarter in the city. Delivering mixed, sustainable communities to meet a variety of housing needs across the city remains a core principle of the strategy.

Progress on improving existing homes and estates

4.11 The HRA business plan assumes investment of around £20,000 per home over the next 15 years to ensure tenants can take pride in their homes and neighbourhood in its entirety, with external and common areas brought up to the same standard as the interior of homes.

4.12 Making homes easier and cheaper to heat remains a key priority for tenants. All Council homes need to meet Scottish Government's Energy Efficiency Standards for Social Housing (EESH) by December 2020. At the end of 2018/19, 67% of Council homes met this standard; a 23% increase on 2017/18 levels. It is estimated that the remaining c.5,900 homes will require around £35 million of investment to be brought up to standard. Where practical, EESH will be exceeded and an Energy

Efficiency Rating of C or above will be achieved. Since April 2016, the following investment in improving energy efficiency has been achieved:

4.12.1 4,400 new heating systems;

4.12.2 3,200 homes insulated; and

4.12.3 2,700 new windows and front doors.

4.13 Over the last two years around 4,800 homes have also benefited from new kitchens and bathrooms. This investment ensured that no home had a kitchen and bathroom over 25 years old. By 2020 all homes will have benefited from internal modernisation programmes and all kitchen and bathrooms will be less than 20 years old.

4.14 Around 17,000 (86%) Council homes fully comply with the Scottish Housing Quality Standard (SHQS), with the remaining 14% (c.3,000) of homes considered to be in abeyance. The main reason for these abeyances is the lack of door entry systems in 1,291 mixed tenure blocks. A plan is underway to ensure the majority of blocks are fully compliant over the next three years. Over 1,000 letters have been sent to owners in majority and 50:50 council owned blocks. Around 200 blocks will be upgraded this financial year. Over a third of blocks have only one Council home, these will not be prioritised for door entry installation.

4.15 The mixed tenure housing improvement strategy was approved by committee on [7 June 2018](#). Updates have been provided to committee in January 2019 and June 2019, setting out progress to date including plans to set up a dedicated mixed tenure team and develop an enhanced scheme of assistance to encourage owners to meet their responsibilities for common repairs and to agree to invest in improvements.

Progress on improving services

4.16 Consultation on the annual budget identified a variety of services that tenants felt would help reduce their living costs and improve the overall quality of the Housing Service. New services have been introduced including a dedicated energy advice service, tenant discount scheme and a housing apprenticeship programme targeted at tenants and their families. There is also an annual campaign to recognise and reward tenants and residents who support their neighbours and look after their communities.

4.17 The way in which services are being delivered also changed, including the replacement of specialist teams with patch teams and generic housing officers and the co-location of property and housing management teams in localities. This has been bolstered with additional training for frontline staff in local offices and a new system of duty housing officers.

4.18 Initial improvements to services have also been delivered including a revised Service Level Agreement (SLA) and improvement plan with Repairs Direct to reduce call waiting times and ensure the right trade is allocated at point-of-contact to ensure repairs can be completed right first time. A Total Mobile solution is in the

process of being implemented to deliver wholesale mobile working improvements, with phase one due to go live by the end of August. The first phase will provide key improvements in customer service and productivity including real time automated appointments and live operative van stock updates.

- 4.19 New methods of rent payment have also been developed and the number of rent payment locations has been expanded. Changes have also been made to the management of arrears cases that are progressed to court action stages to take this debt recovery action back into the Housing Service.

Housing Service Improvement Plan (HSIP)

- 4.20 The HSIP sets out a comprehensive approach to service redesign that will be taken forward in partnership with customers and staff. It recognises that the introduction of the patch-housing model in 2017 was not accompanied by a review of the customer journey, core processes, working practices and systems for delivering housing services. There has also been a degradation of ICT systems over the past three years that has resulted in over reliance on paper-based systems, for example, the issuing of repairs and maintenance jobs to operatives, leading to an overall reduction in productivity.
- 4.21 In [June 2019](#), Housing and Economy Committee received a report on the HSIP that prioritised six improvement workstreams; repairing and maintaining homes, finding and letting homes, collecting rent, looking after estates, improving and building homes. An update on progress with delivery of the Plan is set out in Appendix 2.
- 4.22 Ongoing progress of the HSIP will be provided to Housing, Homelessness and Fair Work committee bi-annually. The next update is due in January 2020. Recruitment is currently underway for a dedicated Senior Responsible Officer (SRO) and Programme Manager to lead on the delivery of the HSIP. An internal governance board consisting of representatives from key service areas including ICT and Customer will meet monthly to progress the workstreams. The progress of the HSIP is also monitored monthly by Corporate Leadership Team (CLT) Change Board.
- 4.23 In addition to the improvement of core housing management services, new services aimed at reducing the cost of living and improving the overall quality of life will be implemented over the next few years. This includes broadband and digital access for tenants and the further expansion of food growing and community gardens across the city.

Consultation on next year's budget

- 4.24 The 2020/21 Budget consultation will seek tenants' views on the budget strategy, what has been achieved to date, priorities over the next five years and tenant experience of services and potential service improvements. The outcome of the consultation will be used to set the annual budget, five-year capital programmes and priorities for the HSIP.

- 4.25 Council rents remain on average almost a third of private sector rents in the city. The proposed 2020/21 budget is in line with the five-year strategy, with rents increasing by 2% each year. This would be the fourth year in a row that rents would be increasing below inflation and below the average local authority rent increase (average increase of 3% over the last three years). Around 80% of tenants each year receive some help with their rents through Housing Benefit and the housing element of Universal Credit (UC). Previous consultation with tenants shows that four out of five tenants support the 2% rent increase required to deliver the investment plan.
- 4.26 Currently rent is charged fortnightly over 48 weeks, with a rent free fortnight over the festive period and the last fortnight in the financial year. The year's budget consultation will include a proposal to change to the current charging periods from 2020/21 to more closely align with monthly UC payments and salaries for tenants in employment. Scheduled rent payment dates for the annual rent charge would be spread over the full year instead of 48 weeks to help tenants' budget better, avoid getting into debt, and manage the monthly UC payments.

Risks to the Business Plan

- 4.27 The top five risks to the Business Plan are set out in the table below:

Risk	Mitigation
<p>Reduction in rental income: Rental income collection fails below the assumed level in the Business Plan, due to welfare reform and the implementation of Universal Credit Full Service (UCFS).</p>	<p>Migration and direct payment processes for UCFS have been improved, which allows the Council to work with tenants at the earliest opportunity to arrange secured rental payment methods. Monitoring framework has also been established for payments received from DWP. Further work is continuing to promote Direct Debit as default pay method.</p>
<p>Reduction in customer satisfaction and performance: Operational improvements and service efficiencies are not delivered/ sustained, resulting in growing customer dissatisfaction, and loss of confidence and support from tenants and elected members.</p>	<p>A HSIP was approved in February 2019 with an aim to improve customer satisfaction, operating performance and reduce costs over the next three years.</p> <p>Progress is monitored monthly to Corporate Leadership Team and bi-annually to Housing, Homelessness and Fair Work Committee.</p>
<p>Reduction in costs efficiencies: The financial efficiency savings assumed in the latest Business Plan do not materialise, thus deepening the deficit.</p>	<p>The HSIP aims to reduce operating expenditure by 10% to mitigate the deficit and return the Business Plan to a positive balance.</p> <p>Any shortfall in efficiency saving would have to be mitigated through a combination of increases in income and/or a re-phasing or reduction in planned capital investment. The HRA may also have to reduce services to tenants.</p>

<p>Mixed Tenure: Over half of Council homes are in mixed tenure blocks where the Council shares responsibility for the repair and maintenance of common areas with home-owners and private landlords. Engaging with owners can be complex and lengthy. Owners may not have the funds to invest at scale in their homes, delaying or limiting investment to Council homes in these blocks.</p>	<p>The implementation of Mixed Tenure Improvement Strategy is underway, including establishing a mixed tenure delivery team, revising the Scheme of Assistance to provide more practical and financial support options to owners and landlords, as well as using the HRA capital investment programme as a catalyst for improvement. The delivery of strategic acquisition and disposal of homes continues to achieve block consolidation.</p>
<p>Increasing capital investment costs: The increase in new build construction and development costs could be higher than anticipated due to wider economic uncertainties. Land costs for housing development is also increasing due to competition in the open market for land acquisition.</p>	<p>Build cost inflation assumptions are reviewed annually based on market intelligence.</p> <p>Comprehensive review of Design Guide is underway to increase standardisation and efficiency of design approach. A review on approach to land supply for affordable homes is being carried out with other public sector partners.</p>

- 4.28 In addition to the mitigations set out above, the business plan assumes a £4.5 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.
- 4.29 All risks are kept under review and significant changes will be highlighted to the Housing, Homelessness and Fair Work Committee, Finance and Resources Committee and Governance, Risk and Best Value Committee.

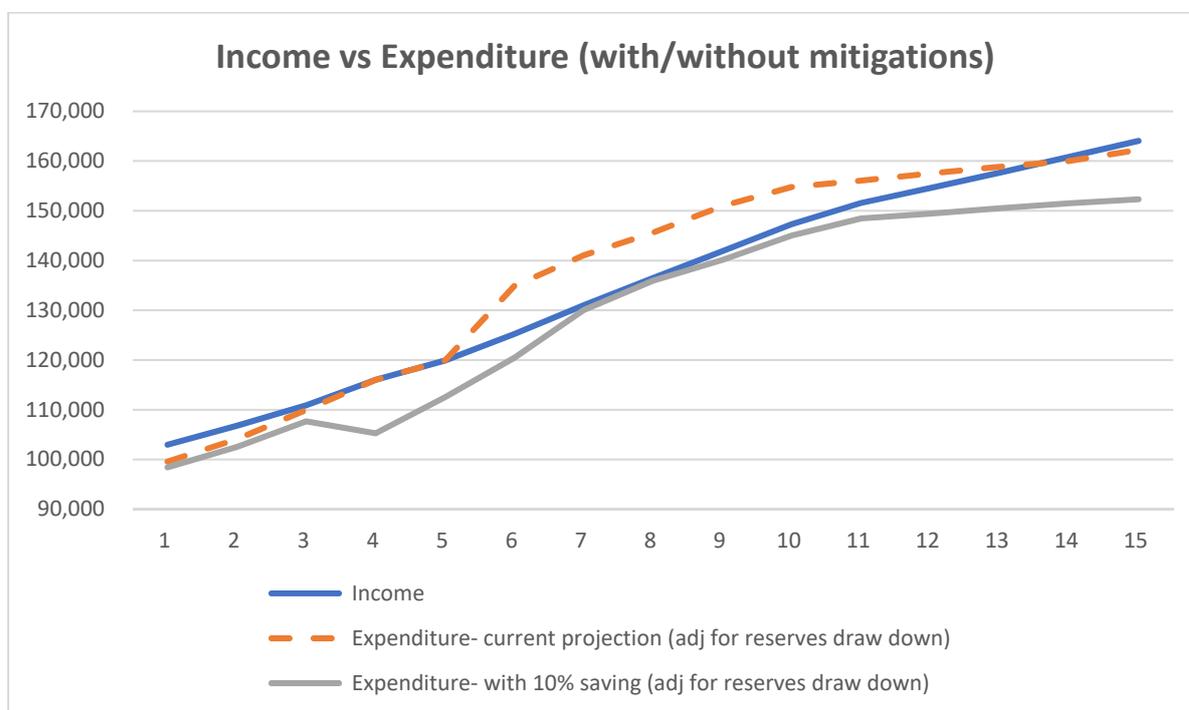
5. Next Steps

- 5.1 Further refinement of the key assumptions feeding into the Business Plan will be undertaken in the coming months. This will include updating market intelligence and forecasts and reflecting any changes of government policy or funding (e.g. grant levels for affordable housing and energy efficiency programmes). Capital investment programmes will be reviewed, as well as, investment priorities identified through budget consultation with tenants and members.
- 5.2 Work will be undertaken with tenants to design and implement the 2020/21 budget consultations. Tenants and elected members will be consulted on their priorities between September and October 2019.
- 5.3 A six-monthly review of the HSIP, including an update on progress against the key milestones, will be provided to Housing, Homelessness and Fair Work Committee in January 2020.

- 5.4 The five-year HRA Budget Strategy 2020/21 to 2024/25, draft 2020/21 capital budget and five-year capital investment programme will be presented to Finance and Resources budget committee meeting for approval in early 2020.

6. Financial Impact

- 6.1 The 2019/20 Business Plan projected a £75.6 million deficit between 2022/23 and 2032/33. The business plan is reviewed annually and is rolled forward based on the previous year's outturn and approved rent levels. Key assumptions are updated prior to consultation. The net impact of the updates so far has been positive. The total projected deficit is around £15.2 million less (20% reduction) than that reported in February 2019. The deficit has also been postponed; starting in 2023/24 instead of 2022/23.



- 6.2 A summary of the key changes is set out below:

- 6.2.1 Reduction in borrowing costs - The Council's pool rate has reduced from 5% to 4.5%, reducing debt repayment costs by around £31.7 million over the deficit period.
- 6.2.2 HSIP: Repairs - The introduction of Total Mobile will increase productivity, reduce sub-contractor spend, resulting in a saving of £1 million in 2019/20 and £12.5 million over the deficit period.
- 6.2.3 HSIP: Rental income - The introduction of new rent payment methods has resulted improved performance in relation to rent collection rates and void rent loss. In addition to this, changes in Universal Credit resulting in the reprofiling of tenants expected to migrate and the expected rent loss due to migration has had a positive impact on overall income collection. This has

resulted in an £1.3 million projected increase in income over the deficit period.

- 6.3 The overall positive change has been offset by an increase in build cost inflation. Build cost inflation assumptions are reviewed annually based on market intelligence. Latest projections estimate a 5% inflationary rate over the next five years. This is marginally offset by a projected increase in Council Tax Discount Fund monies (based on recent trend analysis), which reduces the overall borrowing requirement.
- 6.4 The HSIP aims to deliver a 10% reduction in expenditure (c.£10 million) by 2022/23 to manage the deficit and bring the HRA back into a stable financial position. Most of the savings are anticipated in years two and three. The profile for delivery of savings recognises the importance of fully scoping workstreams, the need for staff and leadership training to accompany changes to processes and ICT dependencies. £1.2 million savings have been identified in 2019/20, as a result of improvements in income collection and repairs productivity, as set out above.
- 6.5 Further work to check and refine key assumptions will be undertaken prior to the final budget proposal being presented to Council in early 2020. This includes updating market intelligence and forecasts and reflecting any changes of government policy or funding (e.g. grant levels). Capital investment programmes will be reviewed, as well as, investment priorities identified through budget consultation with tenants and members.

7. Stakeholder/Community Impact

- 7.1 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.
- 7.2 In addition to the annual rent consultation the Housing Service is in regular contact with tenants and has a wealth of information on tenant satisfaction and priorities from a variety of sources. The Housing Service carries out an annual survey of over 1,000 tenants, as well as, regular focus groups looking at specific topics and various short life working tackling certain issues. Housing officers are now offering annual conversations with each tenant within their patch. This year the annual tenant survey will also include question on the Council-wide budget.
- 7.3 Tenant engagement is being further expanded and enhanced through the HSIP. The programme will be based on sound research and benchmarking, be co-designed with tenants and other stakeholders and will be tested and evaluated on an ongoing basis. Ongoing dialogue will help to keep tenants and staff onboard with the change programme and will ensure they are involved in all aspects of shaping

improvements. To facilitate this, the focus group programme will be expanded, with groups to be held regularly with tenants and staff.

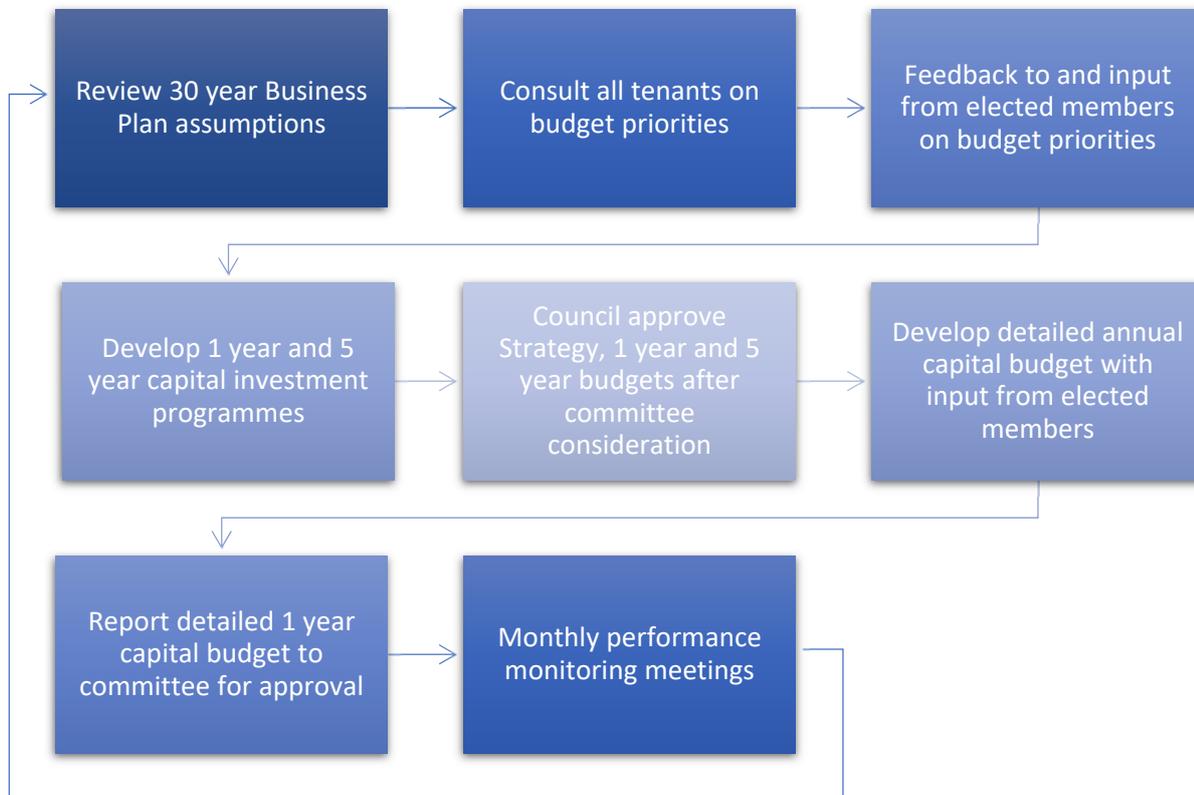
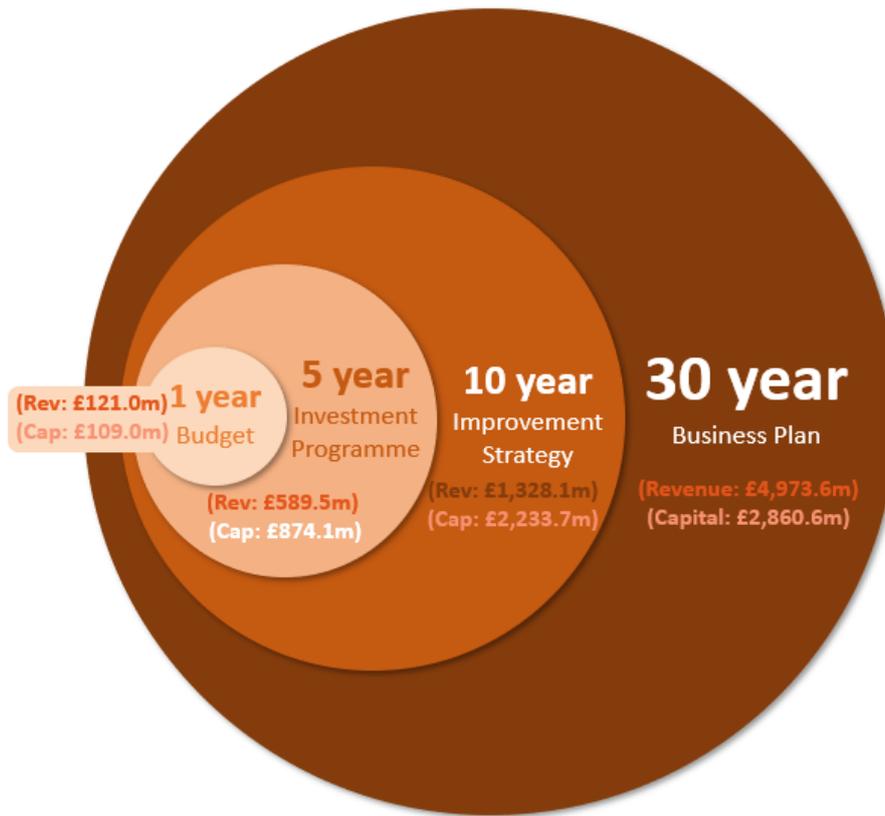
8. Background reading/external references

- 8.1 HRA Budget Strategy 2019/24, Finance and Resources Committee on [1 February 2019](#)
- 8.2 2019/20 HRA Capital Programme, Housing and Economy Committee on [21 March 2019](#)
- 8.3 Housing Service Improvement Plan, Housing and Economy Committee on [6 June 2019](#)
- 8.4 Mixed Tenure Improvement Strategy Update, Housing and Economy Committee on [6 June 2019](#)

9. Appendices

- 9.1 Appendix 1 – Annual Business Planning Process
- 9.2 Appendix 2 – Update on HSIP by workstream

Appendix 1 – Annual Business Planning Process



Appendix 2 – Detailed update on HSIP by workstream

The following sets out a summary of the work underway over the next six months against key workstreams of the HSIP. A detailed progress update will be provided to Housing, Homelessness and Fair Work Committee in January 2020.

Workstream Updates

Repairs and Maintenance

Enhanced mobile working - Total Mobile solution is in the process of being implemented to deliver wholesale mobile working improvements, with phase 1 due to go live by the end of August. The first phase will provide key improvements in customer service and productivity including real time automated appointments and live operative van stock updates.

Phase 2 will deliver automated text and email reminders to tenants of their appointment the day before and will alert tenants when an operative is on their way, as well as, on-the-spot surveys to be carried out with tenants in their homes. Opportunities for utilising total mobile in other areas of the Housing Service are also being considered across the other workstreams.

Customer resolution centre - The current housing repairs and improvements complaints process is managed across two service areas and passed through four teams before a tenant receives a response. The review aims to streamline and eliminate extraneous steps to cut down response times, including revising role/responsibilities, to provide greater autonomy and free up time to focus on preventative actions. A training pack is currently in development, alongside a comprehensive performance monitoring framework. The new customer resolution centre will be piloted from October 2019.

Collecting Rent

Ongoing review of core elements of income collection service with a particular focus on managing the transition on tenants on to UC, improvements in rent payment options including moving more tenants onto direct debits as a secure payment option, rent communications and implementation of ICT enhancements to better monitor defaults in scheduled payments to support early intervention is underway.

Finding and letting a home

An accessible online form - for tenants seeking social rented homes in Edinburgh, allowing them to easily update any change in their household circumstances. The online form is currently in development, with user testing scheduled to take place by September 2019. Applicants will be able to use the for from April 2020. Phase 2 will provide an online housing options checker that will help direct applicants to potential housing options based on their individual household circumstances.

'Key to Choice Website' upgrade - Providing improved customer information and real time updates. Phase one is expected to complete in March 2020. Phase two will look at options to improve feedback from applicants on the outcome of the bids they have made and to enable them to set up alerts on searches.

Empty Homes – An initial review of the end to end empty homes process has been completed. This has identified key action for improvement in each of the key stages including pre-termination, tenancy termination, repairs period, offers and accompanies viewings, new tenancy arrangement and tenancy start. The individual projects are currently being fully scoped and planned for delivery. The current standard of let for empty homes is currently being reviewed. Consultation will be undertaken with tenants if any changes were being proposed.

Improving homes and estates

Mixed Tenure - The approach to facilitate delivery of mixed tenure investment is being progressed with the last update considered by Committee on 6 June 2019, setting out progress to date including plans to recruit a dedicated mixed tenure team and develop an enhanced scheme of assistance to encourage owners to progress repairs and improvements.

Improving Security – The main reason for abeyances to SHQS is the lack of door entry systems in 1,290 mixed tenure blocks. A plan is underway to ensure the majority of blocks are fully compliant over the next three years.

Looking after your Estate – A project manager has been identified to lead this workstream. A detailed scoping exercise will be undertaken in the next few months

Building new homes

The focus of the housebuilding workstream is to seek to reduce the overall development costs. This is currently focused on a comprehensive review of the design guide which will deliver efficiencies through standardisation and seek to maximise the use of new methods of construction. The design standards will also take cognisance of increasing standards of energy efficiency, fire safety and the need for accessible homes.