

# Housing, Homelessness and Fair Work Committee

10.00am, Thursday, 29 August 2019

## Place Directorate – Financial Monitoring 2019/20 – Month Three Position

Executive/routine

Wards

Council Commitments [1 and 10](#)

### 1. Recommendations

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- 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 – Financial Monitoring 2019/20 – Month Three Position

### 2. Executive Summary

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- 2.1 The Executive Director of Place is forecasting the following month three positions against the HRA and GF budgets:

#### **HRA**

- 2.1.1 Revenue - as at month three, a balanced position is forecast in 2019/20, with a projected contribution of £23.000m towards new housing investment;
- 2.1.2 Capital - as at month three, it is forecast that in 2019/20 the capital budget of £108.954m will be fully spent; and

#### **GF**

- 2.1.3 Revenue - as at month three, a residual pressure of £1.236m remains in the Place GF budget. Place Directorate remains fully committed to making the necessary efforts to deliver identified operational cost pressures and are actively developing their budget management strategy and framework to bring the Place revenue budget towards balance.

### 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. The five-year HRA Budget Strategy 2019/24 included a five-year capital programme of £874.112m. The 2019/20 investment programme of £108.954m represents an 34% (£28m) increase on 2018/19 levels. This increase relates primarily to the New Homes Development programme.
- 3.3 The HRA budget has historically been considered as low risk as 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, costs of £98.015m. The in-year contribution towards housing investment is supplemented by a budgeted draw down of £20.354m from the Strategic Housing Investment Fund reserve (a combination of the Repairs and Renewals fund and Council Tax Discount Fund), accumulating in a total £23.00m 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**

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### **HRA – Revenue Budget**

- 4.1 At month three the overall position as compared to the approved budget set out in paragraph 3.4 and Appendix 1, comprises: forecast revenue income of £100.682m; costs of £98.036m; the in-year contribution and draw down from reserves are forecast on budget, accumulating in a total of £23.00m revenue contribution towards in year capital investment.
- 4.2 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 HRA both in year and in the future.

- 4.3 The Property Maintenance outturn for 2018/19 was £25.860m. Following the development of the Housing Service Improvement Plan, the Property Maintenance budget for 2019/20 was set at £23.742m. As set out in Appendix 1, the anticipated expenditure in 2019/20 is £24.350m, an improvement over the previous outturn position of £1.510m (6%). Efficiencies arising from planned service improvements are expected to yield a further £1.2m of efficiencies this year which are not currently forecast. Assuming these efficiencies are realised, a reduction in expenditure for Property Maintenance of £2.71m (10.5% reduction) would be achieved by the end of this financial year.
- 4.4 As can be seen from Appendix 1, net rental income and housing management costs are forecast to be on track with small favourable variances projected at month three.
- 4.5 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. The variances described, where recurring in nature, have been reflected in the approved HRA revenue budget, approved by Council on [21 February 2019](#).

#### **HRA – Capital Budget**

- 4.6 As at month three, the HRA Capital Programme 2019/20 is forecast to be spent in full. The 2019/20 investment programme of £108.954m represents an 34% (£28m) increase on 2018/19 levels.

#### **Place Directorate GF – Revenue Budget**

- 4.7 As reported to Finance and Resources Committee on 15 August 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 the 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. The management actions to address corporate efficiency targets and pressures are shown within Appendix 2.
- 4.9 The revenue budget approved by Council in [February 2019](#) requires Place Directorate to achieve incremental savings of £8.975m in 2019/20. These are detailed in Appendix 2. 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. This is shown within Appendix 2. Delivery of all savings is monitored monthly by the Place Senior Management Team (SMT). At

month three this indicated that 80% of these savings (£15.868m) were assessed as green or amber with those at red totalling £4.047m. The month three position assumes that all actions in Appendix 2 will be realised in year.

- 4.10 Appendix 2 relates to the Place Directorate as a whole. Pertinent elements which should be brought to the attention of this Executive Committee are set out below.

**19/20 Approved Savings, Efficiency Savings or Mitigations assessed as red.**

<b>Management Action</b>	<b>£m Red</b>	<b>Narrative</b>
Area Based Regeneration	125	Accounting treatment review of costs incurred to create Council assets and optimise permissible capital elements underway. High level of confidence can be achieved but due diligence requires to be completed.
Place Development Efficiencies.	230	Review third party spend in Economy Service. Action to be finalised in early course.
Place wide cost efficiencies; reduction in overtime, agency and discretionary spend.		All services will require to reduce costs to achieve Directorate Efficiency Savings. Impacts on specific Executive Committees will be reported as appropriate.

- 4.11 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.
- 4.12 This will provide confidence that the budget realignment undertaken earlier in 2018/19 and the associated budget management strategy are based on sound principles on which to increase budget sustainability going forward.

## **5. Next Steps**

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- 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 three 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 Housing Service Improvement Plan including an update against the key milestones will be provided to Housing, Homelessness and Fair Work Committee in January 2020.

## **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 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**

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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](#)

## **9. Appendices**

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

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

	19/20 Budget	Month Three Forecast	Variance
	£m	£m	£m
Net Income	-100.661	-100.682	-0.022
Reserve draw-down Strategic Housing Investment Fund	-20.354	-20.354	0.000
<b>Total Income</b>	<b>-121.015</b>	<b>-121.036</b>	<b>-0.022</b>
Housing Management	31.915	31.749	-0.166
Property Maintenance	23.742	24.350	0.608
Debt Service	42.358	41.937	-0.421
Housing Investment (CFCR)	23.000	23.000	0.000
<b>Total Expenditure</b>	<b>121.015</b>	<b>121.036</b>	<b>0.022</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 – Month Three Position

Management Action Category	Approved Management Action	Total £000	Green £000	Amber £000	Red £000
Approved Savings	Tourism and Marketing Reform	300	300	0	0
Approved Savings	Improved Approach to Street and Environmental Enforcement	750	0	500	250
Approved Savings	Localities Phase Two	300	0	150	150
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	125	125
Approved Savings	Parking Action Plan Phase 2	369	0	70	299
Approved Savings	Fleet Review	500	0	500	0
Approved Savings	Clean and Green (2018/19 additional spend)	250	250	0	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 & Consent	1,025	574	307	144
Approved Savings	Commercialism and Income Maximisation - Parks and Greenspaces	150	20	0	130
Approved Savings	Joint Procurement of Waste Contracts	325	0	162	163
Approved Savings	Re-provision of public conveniences	250	0	250	0
Approved Savings	Cultural grants	52	52	0	0
Approved Savings	Transport Reform	500	0	500	0
Approved Savings	Economic Development	1,200	0	1,200	0
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	400	400	0
Approved Savings	Discretionary income (Fees and Charges)	824	618	100	106
Mitigations/Efficiencies	Workforce Control - Reduction in Agency and Overtime (Place)	900	0	450	450
Mitigations/Efficiencies	Reduction in Discretionary Expenditure (Place)	650	180	235	235
Mitigations/Efficiencies	Place Development - Efficiencies	730	250	250	230
Mitigations/Efficiencies	Place Management - Efficiencies	530	0	265	265
Mitigations/Efficiencies	Service Containment of Increment Costs (Place)	1,200	300	400	500
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	1,000	200	0
Mitigations/Efficiencies	Implement Service Reforms (Place)	200	0	100	100
Mitigations/Efficiencies	Reduction in Budget Pressures (Place)	1,000	250	750	0
Mitigations/Efficiencies	Value for Money Audits (Place)	300	0	150	150
Mitigations/Efficiencies	Contract Efficiencies (Place)	600	0	200	400
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	700	250	250
Mitigations/Efficiencies	Planning Appeals	300	150	150	0
Mitigations/Efficiencies	Millerhill Operations (Place)	1,800	1,800	0	0
		<b>19,915</b>	<b>7,974</b>	<b>7,894</b>	<b>4,047</b>
<b>Total Approved Savings</b>	<b>(excludes efficiency)</b>	<b>8,975</b>	<b>3,214</b>	<b>4,394</b>	<b>1,367</b>
<b>Total Mitigations/Efficiencies</b>	<b>(includes efficiency)</b>	<b>10,940</b>	<b>4,760</b>	<b>3,500</b>	<b>2,680</b>
<b>Total Management Action to be Delivered £000</b>		<b>19,915</b>	<b>7,974</b>	<b>7,894</b>	<b>4,047</b>
<b>Total Management Action to be Delivered %</b>		<b>100%</b>	<b>40%</b>	<b>40%</b>	<b>20%</b>