

Housing and Economy Committee

10.00am, Thursday, 21 March 2019

Place Directorate – Financial Monitoring 2018/19 – Month Nine Position

| | |
|---------------------|--------------------------|
| Item number | 8.10 |
| Executive/routine | |
| Wards | |
| Council Commitments | 1 and 10 |

1. Recommendations

- 1.1 It is recommended that the Housing and Economy Committee:
 - 1.1.1 notes the forecast position in respect of the Housing Revenue Account (HRA); capital and revenue budget; and
 - 1.1.2 notes the forecast 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 2018/19 – Month Nine Position (DRAFT)

2. Executive Summary

- 2.1 The Executive Director of Place is forecasting the following out-turn positions against the HRA and GF Budgets:

Housing Revenue Account

- 2.1.1 Revenue - As at month nine, a balanced position is forecast in 2018/19, with a projected contribution of £33.162m towards new housing investment; and
- 2.1.2 Capital - As at month nine, capital spend of £77.261m is forecast in 2018/19 against a budget of £80.934m (95% achievement). The HRA Capital Programme 2019/20 report to this Committee provides more detail in respect of this and the future capital plans of the HRA.

General Fund

- 2.1.3 Revenue - As at month nine, an overspend of up to £1.314m is forecast in the Place GF budget. Place Directorate remains fully committed to mitigate identified operational cost pressures and actively develop the budget management strategy and framework to bring the Place revenue budget towards a balanced position.

3. Background

- 3.1 The total 2018/19 approved gross GF revenue budget for the Place Directorate is £219.637m. The net budget is £58.680m 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 [8 February 2018](#).
- 3.2 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.

- 3.3 On [8 February 2018](#), the Council approved the five-year HRA Budget Strategy 2018/19 to 2022/23. 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 2018/23 included a five-year capital programme of £709m. The 2018/19 investment programme of £80.934m represents an 11% (£8 million) increase on 2017/18 levels.
- 3.4 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.
- 3.5 The approved HRA budget for 2018/19 is derived from the longer-term strategy. It comprises of a budgeted revenue income of £99.692m, costs of £90.442m and an in-year contribution of £9.250m towards housing investment. This is supplemented by a budgeted draw down of £24.648m from reserves (a combination of the Repairs and Renewals fund and Council Tax Discount Fund), accumulating in a total £33.898m revenue contribution towards in year capital investment.
- 3.6 This report provides an update on financial performance against the above budgets.

4. Main report

HRA – Revenue Budget

- 4.1 At month nine the overall position as compared to the approved budget set out in 3.4 and appendix 1, comprises of budgeted revenue income of £98.526m, costs of £93.000m and an in-year contribution of £5.526m towards housing investment. This is supplemented by a budgeted draw down of £27.636m from reserves, accumulating in a total of £33.162m revenue contribution towards in year capital investment.
- 4.2 As debt charges amount to almost 40% of HRA expenditure, 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.
- 4.3 As set out in appendix 1, a forecast over spend of £2.463m has been identified in Property Maintenance. As outlined at month five, the spend on Repairs and Maintenance is demand led and may be permissible to be capitalised depending on the nature of work carried out by Housing Property. This overspend is a c.13% variance against the specific repairs and maintenance budget. This forecast is a worst-case estimate based on current data. Finance and Housing Property are working closely to resolve an identified data issue in a timely manner, and no later

than the financial year end which will improve forecast accuracy. The issue is also addressed as a priority as part of the overall Housing Service Improvement plan as detailed in the HRA Budget Strategy Report 2019/2023.

- 4.4 Housing Management cost pressures have arisen due to the proposed pay award and revenue costs relating to new housing developments.
- 4.5 At month nine, there are pressures forecast in relation to net rental income of £1.166m. As per month five, this is largely driven by an increase in the number of properties that are not currently generating rent. Slippage in delivery of new homes in 2017/18 and 2018/19 mean that expected new rental income is lower than forecast. In addition, more rent has been lost than assumed due to an increase in the level of temporarily empty homes and the need for homes to be vacated to enable capital investment to be made in the Council's property assets.
- 4.6 A number of these drivers have been assessed as one-off in nature rather than recurring budget pressures. Whilst this impacts on in-year investment, it is not anticipated that these variances pose any significant risk to the delivery of the current HRA budget strategy.
- 4.7 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

- 4.8 Since the budget was approved in February 2018, the Housing Investment Programme: Delivering the Budget Strategy in 2018/19 Report was approved on [7 June 2018](#), detailing plans to build new homes, improve tenants' homes and services and upgrade external fabrics and estates
- 4.9 As at month nine, slippage of £3.673m is projected against this budget. This represents a 95% achievement rate delivering in year spend against programme. This slippage is primarily from delays in gaining necessary agreement to progress improvement works in mixed tenure blocks and delays in some contract starts. The HRA Capital Programme 2019/20 report to this Committee provides more detail in respect of this and the future capital plans of the HRA.

Place Directorate GF – Revenue Budget

- 4.10 As reported to Finance and Resources Committee on [1 February 2019](#), Place Senior Management and Divisional Management Teams are continuing work to address the financial challenge faced by the Directorate. A cohesive financial strategy is in place to deal with identified pressures of £11.5m, comprising £4.8m of legacy and £6.7m in year pressures.
- 4.11 Significant progress has been delivered in terms of management action to address this, leaving an unfunded forecast budget pressure at month nine of £1.314m. The composition of the forecast over-spend is shown by Division in appendix 2.

- 4.12 The revenue budget approved by Council in February 2018 requires Place Directorate to achieve incremental savings of £6.951m in 2018/19. These are detailed in appendix 3. 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 nine this 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. The savings assessed as red have been reported to the appropriate Committees in detail. There is a high level of confidence that £0.772m of this pressure will not repeat into 2019/20. Work is ongoing to ascertain if the remaining £0.300m pressure will be sustained in the longer term.
- 4.13 Provision of £0.242m has been made in the £1.314m forecast overspend in relation to an emergent pressure in the Economy Service. A larger risk has been identified in terms of historic payment of European Social Fund (ESF) funding for employability related costs incurred in previous financial years. Management action has been undertaken thus far to reduce the cost exposure to the Council, however efforts will continue to reduce this risk further, both in year and looking forward.
- 4.14 The budget management trajectory has improved since a £1.5m overspend was reported to this Committee at month five. The robust mid-year review undertaken in October has provided 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. The Place SMT monitors and updates plans driving improvement of the rolling budget position on a regular basis. The Place Directorate continues to progress the identification of additional savings measures to offset any further budget pressures which may emerge and mitigate underlying budget pressures on a sustainable basis.

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 SMT is looking to the 2019/20 budget management strategy as part of a rolling process not confined to the current financial year.

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 forecasts set out in the report indicate pressures arising within the Place Directorate GF and HRA Account which require to be addressed.

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 Strategy 2018/23 - Finance and Resources Committee, [22 February 2018](#)
- 8.2 Housing Revenue Account Budget Strategy – Housing and Economy Committee – [30 August 2018](#)
- 8.3 Housing Investment Programme Delivering the Budget Strategy in 2018/19 – Housing and Economy Committee, [7 June 2018](#)

9. Appendices

- 9.1 Appendix 1 – HRA Revenue Projection: 2018/19 – Month Nine Position
- 9.2 Appendix 2 – Place Directorate - General Fund Revenue Budget Monitoring 2018/19 - Month Nine Position
- 9.3 Appendix 3 – Place Directorate – General Fund Approved Revenue Budget Savings 2018/19 – Month Nine Position

Appendix 1: HRA Revenue Projection: 2018-19 - Month 9

| | Revised Budget | Forecast | Variance |
|---------------------------|-------------------|-----------------|---------------|
| | £000s | £000s | £000s |
| Net Income | -99.692 | -98.526 | 1.166 |
| Reserve draw-down | -24.648 | -27.636 | -2.988 |
| Total Income | -124.340 | -126.162 | -1.822 |
| Housing Management | 29.043 | 29.318 | 0.275 |
| Property Maintenance | 21.517 | 23.980 | 2.463 |
| Debt Service | 39.882 | 39.702 | -0.180 |
| Housing Investment (CFCR) | 33.898 | 33.162 | -0.736 |
| Total Expenditure | 124.340 | 126.162 | 1.822 |

Note: Reserve draw-down is made up of the Repairs and Renewals Reserve and the Council Tax Discount Fund. The forecast draw-down forms part of the approved capital programme for 2018/19 and funds a budgeted level of £33.162m of in year capital investment in 2018-19.

Appendix 2

Place Directorate General Fund Revenue Budget Monitoring 2018/19 Month Nine position

Forecast Revenue Outturn by Service Area

| Service Area | Realigned 2018/19 Budget £m | Projected 2018/19 Outturn £m | Projected 2018/19 Variance £m |
|------------------------------|--------------------------------------|---------------------------------------|--|
| Place Management | 59.358 | 60.058 | 0.700 |
| Place Development | (8.649) | (8.035) | 0.614 |
| Culture | 7.975 | 7.975 | 0.000 |
| Total Net Expenditure | 58.684 | 59.998 | 1.314 |

Please see Appendix 3, Approved Revenue Budget Savings for more information in respect of the projected 2018/19 forecast variance.

Appendix 3

Place Directorate

General Fund Approved Revenue Budget Savings 2018/19 - Month Nine position

| Place Directorate. Approved Revenue Budget Savings 2018/19. | | | | |
|---|-------------------|-------------------------------|----------------------------------|----------------------------------|
| Saving Descripton | Division | Approved Saving 2018/19 £m | Projected Saving 2018/19 £m * | Projected Pressure 2018/19 £m |
| Income from events in Cultural Venues | Culture | 0.050 | 0.050 | 0.000 |
| Income from the Scott Monument | Culture | 0.025 | 0.025 | 0.000 |
| Culture Third Party Payments | Culture | 0.155 | 0.155 | 0.000 |
| Transport Policy Enforcement | Place Development | 0.300 | 0.300 | 0.000 |
| Parking permits and pay and display | Place Development | 0.300 | 0.300 | 0.000 |
| Align Economic Development to new strategy | Place Development | 0.600 | 0.600 | 0.000 |
| Public Transport Initiatives | Place Development | 0.350 | 0.350 | 0.000 |
| Parking – increase charges by 4.5% p.a. | Place Development | 0.800 | 0.428 | 0.372 |
| Fleet financing model | Place Management | 0.500 | 0.500 | 0.000 |
| Community Recycling Centres | Place Management | 0.200 | 0.200 | 0.000 |
| Roundabouts and Verge advertising | Place Management | 0.300 | 0.100 | 0.200 |
| Sign Workshop | Place Management | 0.100 | 0.100 | 0.000 |
| Garden Waste collection (net of exemption funding) + | Place Management | 1.250 | 0.750 | 0.500 |
| Grounds Maintenance - Edinburgh Leisure | Place Management | 0.375 | 0.375 | 0.000 |
| Waste collection improvements to working patterns | Place Management | 0.498 | 0.498 | 0.000 |
| Events | Place Wide | 0.100 | 0.100 | 0.000 |
| Fees and Charges Increase | Place Wide | 1.048 | 1.048 | 0.000 |
| Total 2018/19 Approved Place Savings | | 6.951 | 5.879 | 1.072 |

*Includes impact of substituted measures in same service area where appropriate.

+ This proposal has exceeded assumptions in terms of sign up. The savings shortfall relates to the revised implementation date which means that income received spans two financial years.