



## **POLICY AND RESOURCES SCRUTINY COMMITTEE – 19TH JANUARY 2015**

**SUBJECT: HOUSING REVENUE ACCOUNT BUDGET MONITORING REPORT  
2015/16 (PERIOD 7)**

**REPORT BY: ACTING DIRECTOR OF CORPORATE SERVICES AND SECTION 151  
OFFICER**

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### **1. PURPOSE OF REPORT**

- 1.1 To inform Members of the projected expenditure for the Housing Revenue Account (HRA) for the 2015/16 financial year.

### **2. SUMMARY**

- 2.1 Members will be aware of the distinction between the HRA (a ring-fenced budget funded in the main by rental income received from council tenants) and General Fund Housing and Private Housing (which fall under the General Fund funded via the Revenue Support Grant, Business Rates and Council Tax).
- 2.2 This report projects the anticipated final outturn for the HRA based upon the expenditure and income trends for the first seven months of the financial year.

### **3. LINKS TO STRATEGY**

- 3.1 The content of the report is in accordance with the budget strategy agreed by Council at its meeting of 25th February 2015. Cabinet approved the HRA estimates on the 4th February 2015.
- 3.2 Budget management itself is in accordance with the corporate theme of Delivering the Strategies.

### **4. THE REPORT**

#### **4.1 Operational HRA**

- 4.1.1 The HRA is projecting a £2.9m underspend representing 6.5% of the total HRA budget. This projected underspend relates to the operational HRA and does not include any variance attributable to slippage on the WHQS programme, which is covered separately in Section 4.2 of this report.
- 4.1.2 The main variances against the operational HRA budget are summarised in the following paragraphs and full details are provided in Appendix 1.

#### Salaries & Mileage (£160k underspend)

- 4.1.3 Salary budgets within the HRA are projected to be underspent by circa £300k, which represents 3% of the total salary budget. There are a variety of reasons for this given the volume of staff, but the main cause is staff turnover. This underspend has been partially offset by a projected overspend of £140k for other salary related budgets such as agency staff (which is predominantly from the Housing Repairs Operations response service) and mileage allowances. The increase in agency resources was necessary to support our trade operatives which is projected to lead to a reduction in the use of external contractors.

#### Income (£1.4m additional)

- 4.1.4 Additional income of £1.4m is anticipated mainly as a result of increased WHQS works by Housing Response Operations, which is recharged to the WHQS capital programme. This additional work has resulted in a projected increase in labour and material costs of £1.3m.

#### Service Specific and Office Related Expenditure (£280k overspend)

- 4.1.5 Non-pay related budgets (which are predominantly office running costs) are projecting a £20k underspend. Service specific expenditure is expecting a net £300k overspend. The £300k overspend is a combination of the £1.3m overspend on Housing Response Operations (see paragraph 4.1.4), offset by an underspend of £1m on Revenue Projects budgets which includes external contractors for specialist works and to support the response maintenance service.

#### Capital Financing Costs (£1.4m underspend)

- 4.1.6 Capital Financing Costs are expected to be £1.4m lower than originally budgeted. This underspend relates to the buy-out from the Housing Revenue Account Subsidy (HRAS) in April 2015. In order to buy-out of the system, the HRA borrowed £75m. Initially this was thought to attract a Minimum Revenue Provision (MRP) of 2% in its first year but the Authority's Treasury Advisors (Arlingclose) have since confirmed that the MRP will be deferred by one year from the point of borrowing as is the case under normal borrowing circumstances.
- 4.1.7 A net underspend of £220k is anticipated for other budgets within the operational HRA.

#### **4.2 Welsh Housing Quality Standard (WHQS)**

- 4.2.1 Within the HRA there are two distinct areas that form part of the WHQS operations. Both areas are managed within the HRA but are fully funded by the WHQS capital programme and recharged accordingly. Therefore, there should be no cost attributed to the HRA for these areas.
- 4.2.2 The first area is the WHQS Delivery Team which includes the Head and Deputy Head of Programmes, Project Managers, Quantity Surveyors, Clerk Of Works and technical assistance required to oversee and deliver the WHQS programme. The total budget for these areas is circa £1.7m and there are currently no significant variances anticipated.
- 4.2.3 The second area is the In-House Workforce (previously the Direct Labour Organisation (DLO)) which includes the operational staff such as plumbers, carpenters, electricians and foremen that are directly involved with delivering elements of the WHQS programme. This budget of some £8.7m is managed via a Holding Account in the HRA and subsequently recharged to the WHQS programme on a monthly basis via a valuation process. To date, 7 valuations have been completed totalling £4.5m which is an average of £650k per month, and whilst that appears to match the expenditure to date, the budget suggests an average of £730k per month is necessary to meet the £8.7m estimated. Furthermore, costs are projecting to overspend by some £500k in areas such as material supply and sub-contractors which should therefore increase the average monthly valuation to £770k. There is therefore a potential to under-recover the full costs by year end. Valuations are monitored closely each month and are scrutinised by the Project manager in order to investigate any variance.

- 4.2.4 The Business Plan that was submitted to Welsh Government (WG) for the 2015/16 financial year suggests a borrowing requirement of £43.7m is necessary to fund the WHQS programme. A revised plan is necessary to accommodate a re-profile of the programme and further details are pending on a possible change to the rent policy which could reduce the level of rental income assumed in the plan. These factors will need to be fed into the plan to ensure affordability and to update the level of borrowing requirement needed, without contravening the borrowing cap imposed as part of the HRAS Buy-Out.
- 4.2.5 The Revenue Contribution to Capital Outlay (RCCO) from the HRA is £11.8m from in-year revenue balances and £15.4m from accumulated balances. These contributions fund the majority of the WHQS capital programme which stands at £36m for 2015/16. The WHQS programme is assumed at this stage to be fully spent; therefore the RCCO is expected to be fully committed from the HRA apart from a budget adjustment of £200k. However, an exercise to re-cost the schedule of rates that is used to value the WHQS works has just been completed and new contract arrangements are being procured for the Lower Rhymney Valley and the sheltered housing schemes. Also account has to be taken of tender values for contracts in the Eastern Valleys and the Upper Rhymney Valley, all of which have implications for the financial profile of the programme.
- 4.2.6 A re-profiled programme will be reported to Members in due course in a separate report but is likely to affect the RCCO level required, and subsequently the HRA balances. Any underspend in the RCCO will be earmarked for future WHQS works.

#### **4.3 HRA Working balances**

- 4.3.1 HRA working balances at the end of 2014/15 stood at £21m. If the WHQS programme is fully spent this year then £15.4m of this will be utilised as funding. The projected underspend of £2.9m identified in this report will be added to this balance at year end.

### **5. EQUALITIES IMPLICATIONS**

- 5.1 This report is for information purposes, so the Council's Equalities Impact Assessment (EqIA) process does not need to be applied.

### **6. FINANCIAL IMPLICATIONS**

- 6.1 As set out throughout the report.

### **7. PERSONNEL IMPLICATIONS**

- 7.1 There are no direct personnel implications arising from this report.

### **8. CONSULTATION**

- 8.1 There are no consultation responses which have not been reflected in this report.
- 8.2 This report will also be presented to CHTG for information on the 18th February 2016.

### **9. RECOMMENDATIONS**

- 9.1 Members are requested to note the contents of this report.

## 10. REASONS FOR THE RECOMMENDATIONS

- 10.1 To ensure that Members are informed of the financial position of the Housing Revenue Account.

Author: Lesley Allen - Group Accountant, Housing  
(E-mail: allenl@caerphilly.gov.uk)

Consultees: Nicole Scammell - Acting Director of Corporate Services & Section 151 Officer  
Mike Eedy - Finance Manager, Environmental Directorate  
Shaun Couzens – Chief Housing Officer  
Fiona Wilkins - Public Sector Housing Manager  
Paul Smythe – Housing Repairs Operations Manager  
Phil Davy – Head of WHQS Programme  
Stephen Harris – Interim Head of Corporate Finance  
Cllr D Poole – Deputy Leader & Cabinet Member for Housing  
Christina HARRY – Director of Communities

Appendices  
Appendix 1 HRA Financial Plan report 2015/16 (period 7).