



## **POLICY AND RESOURCES SCRUTINY COMMITTEE – FOR INFORMATION**

**SUBJECT:       HOUSING REVENUE ACCOUNT BUDGET MONITORING - PERIOD 7  
2018/19**

**REPORT BY:   CORPORATE DIRECTOR – SOCIAL SERVICES AND HOUSING**

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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 2018/19 financial year. The HRA capital programme which is predominantly funded by the HRA is also included within this report.

### **2.       SUMMARY**

- 2.1       Members will be aware of the distinction between the HRA, which is funded by rental income received from council tenants, and General Fund Housing activities, which fall under the General Fund and are funded via the Council taxpayer. Although there is a clear separation of these funds, the majority of council tenants rent is funded from housing benefits which are derived from the tax payers purse and therefore value for money must always be sought.
- 2.2       The report outlines the projected outturn for the HRA based upon the expenditure and income for the first seven months of the year
- 2.3       The HRA budget for 2018/19 is £49.5m with its main components consisting of £11m of salaries (net of WHQS funding), £7.9m of capital financing charges, £8.7m of response repairs, and £17.5m of revenue contributions to fund the WHQS programme. The underspend at period 7 is projected to be £600k and the main reason for this is detailed below.

### **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 22nd February 2018. Cabinet approved the 2018/19 Housing Revenue Account on the 31<sup>st</sup> January 2018..
- 3.2       Budget management itself is in accordance with the corporate theme of Delivering the Strategies.
- 3.3       The Wellbeing of Future Generations (Wales) Act 2015 sets out the following wellbeing goals which link with the aims of this report:
- A sustainable Wales
  - A prosperous Wales
  - A healthier Wales

- A more equal Wales
- A Wales of cohesive communities
- A globally responsible Wales

3.4 Whilst Housing services contribute towards the Act, this is a financial report for information only and therefore does not directly contribute towards the above wellbeing goals.

## **4. THE REPORT**

### **4.1 Introduction**

4.1.1 The following paragraphs highlight the major budget variances.

### **4.2 HRA (£600k underspend)**

4.2.1 The HRA is currently projecting a £600k under-spend, which represents about 1% of the total HRA budget. The main variances are summarised below and full details are provided in Appendix 1.

### **4.3 Salaries & Mileage (£400k underspend)**

4.3.1 Salaries and associated costs within the HRA are currently expected to underspend by some £400k against a £11m salary budget. There are some offsetting over and under spends in this area given the volume of staff which includes sickness cover, request for reduced hours, and timing for filling vacant posts.

### **4.4 Service Specific Related and Office Related (£165k overspend)**

4.4.1 The main area of activity relates to a projected increase in spend in sub-contractors, materials, and the need for additional transport for the HRO team, as a result of increased works associated with supporting the WHQS programme. Since the new appointment of the Housing Technical Manager there has also been further integration with the HRO and WHQS team with the delivery of the WHQS programme on areas such as mopping up type works, also electrical works where gaining access to properties has been an issue. However, this has been offset by recharges to the WHQS Programme which will generate additional income to the HRO service, together with potential savings on tipping charges and renewal of vehicles. There has also been previous efficiencies made on the Non-DLO budget where HRO have absorbed these costs within its core budget.

Typically there are some budget areas within this category that tend to be quite volatile and therefore could generate further savings throughout the year, such as bad debt provisions, utility charges, various housing projects and other office costs.

### **4.5 Building Maintenance (£620k underspend)**

4.5.1 This area includes all building revenue works to fund the maintenance of the public housing stock which is undertaken in the main by the Housing Repair Operations team and/or Contractors.

4.5.2 Revenue Projects (£245k under-spend) – this category mainly includes budgets that fall outside of the other budgets remits (i.e. not planned, cyclical or in house responsive). The under-spend mainly relates to asbestos surveys (£30k) and damp proofing (£86k) which is an offset related to the extra work mentioned in 4.4.1 above. Projects for the infrastructure works budget has not been fully utilised as yet this year, as a consequence of work being picked up in the WHQS Programme so a pro rata underspend is projected at £82k. Recent training on door entry systems has allowed the in-house HRO team to install these on more favourable terms than a subcontractor and this has projected savings of £24k. The contingency budget of £500k is prudently assumed to be fully committed at this stage, but may release further savings if not fully utilised by year end.

- 4.5.3 Planned Cyclical (£375k under-spend) – this relates to costs associated with our statutory servicing and maintenance obligations, e.g. heating, electrical, and legionella testing. Under-spends in this area relates to Alarm & Light Servicing (£72k), Fire safety doors (£50k). Other savings are anticipated due to works being completed under the WHQS Programme and revised contractual arrangements, such as Gas & Electric Servicing Contracts & testing (£156k), Gas & Electric Remedial Works (£38k), Water Treatment (£9k), and Lift Contracts (£47k). Expenditure is however expected to increase in this area as we roll out a new electrical periodic inspection programme.
- 4.5.4 As a result of incorporating the costs of delivering the Building Maintenance service within the HRA, the WHQS holding account was set up to monitor the in house workforce costs that would be recharged to the WHQS capital programme. A budget of £10.4m has been allocated in 2018/19 along with an income recharge to the capital programme so that the HRA has a nil cost.
- 4.5.5 The In House Workforce had increased its budget by some £1.3m in 2018/19 to account for the work committed in the WHQS programme. The projected spend is still an increase on the previous year but this spend is anticipated to be £500k less than originally planned at the start of the year, due to a pro rata projection on current spend against materials and transport costs. Any overspends are funded by the capital programme.

#### **4.6 Capital Financing Requirement (CFR) (£65k under spend)**

- 4.6.1 Interest rates have reduced slightly which has resulted in a lower interest charge on our current debt. The current CFR position is made up of historical debt and debt which was taken up in 2015 as part of the Buy Out of the Housing Revenue Account Subsidy (HRAS) system. The opening debt as at 1/4/18 is some £110m which is approximately £40m historical debt and £70m buy out debt. Members will note in 4.8.4 that we have yet to borrow to assist in funding the WHQS Programme.
- 4.6.2 Legislation that was introduced as part of the HRAS buy out imposed a borrowing cap for Caerphilly Homes of some £180m. This gave us headroom of around £70m borrowing before the cap was breached. The borrowing requirement to complete the WHQS programme, based on the 2018/19 plan, is £43m thus allowing some flexibility within the programme for any unforeseen costs.
- 4.6.3 Members may be aware that the Chancellor of the Exchequer recently announced in his UK budget statement, the removal of the borrowing cap for all local housing authorities in England. Welsh Government have since confirmed this will also apply to Wales. This is a positive move that will allow Local Authorities more freedom to borrow, in particular to increase homes, as long as it remains affordable within the terms of The Prudential Borrowing Code of Conduct.

#### **4.7 Income (£720k under-recovery)**

- 4.7.1 Based on our half year income projections it has been necessary to reduce the income budget accordingly. The adjustment is some 1.4% of the total income budget of £49.5m.

#### **4.8 Revenue Contribution to Capital (RCCO) (£405k underspend)**

- 4.8.1 The HRA allows for some £17.5m of revenue contributions towards the WHQS programme and this includes an element for the WHQS management team responsible for the delivery of the WHQS Programme which is anticipating a £405k underspend as a result of staff turnover.
- 4.8.2 The total expenditure on the WHQS capital programme as at period 7 is some £28.4m against a budget of £55.8m. This year has seen the highest spend compared to previous years and evidences the increased momentum as the WHQS programme enters its final years.

- 4.8.3 The HRA RCCO allocation will fund this budgeted spend in addition to the £7.3m Major Repairs Allowance (MRA) from Welsh Government with the remaining balance being funded from HRA working balances and borrowing if required.
- 4.8.4 No borrowing has been required to date to support the delivery of the WHQS programme and borrowing will only be actioned this year if/when the WHQS programme exceeds some £31m. Based on the spend to date it is likely we will require borrowing in January 2019.
- 4.8.5 WHQS Internal works at week 31 (2/11/18) have achieved 80.38% compliance.
- 4.8.6 WHQS External works at week 30 (26/10/18) have achieved 59.17% compliance (excluding leaseholders) and 60.91% compliance including leaseholders.
- 4.8.7 Total WHQS compliance as at October is 52%.

#### **4.9 HRA Working Balances**

- 4.9.1 Working balances at the beginning of the 2018/19 financial year are £4.3m. This is expected to be fully utilised this year against the WHQS Programme. To date no borrowing has been undertaken to fund the WHQS programme but based on expenditure levels noted in 4.6.2 and the reduced level of HRA balances it is anticipated that borrowing will be necessary towards the later part of the year to support delivery of the programme.
- 4.9.2 Whilst priority will be given to the delivery and achievement of WHQS, borrowing may also be required to increase the supply of council housing following the recent report that was approved by Cabinet. However a separate report will be submitted later in the year if borrowing is required for increasing council house supply.

### **5. WELL-BEING OF FUTURE GENERATIONS**

- 5.1 Effective financial management is a key element in ensuring that the required Housing services are delivered to contribute towards the well-being goals within the Well-being of Future Generations Act (Wales) 2015.

### **6. EQUALITIES IMPLICATIONS**

- 6.1 There are no potential equalities implications of this report and its recommendations on groups or individuals who fall under the categories identified in Section 6 of the Council's Strategic Equality Plan. There is no requirement for an Equalities Impact Assessment Questionnaire to be completed for this report.

### **7. FINANCIAL IMPLICATIONS**

- 7.1 The overall underspend is relatively small compared to the total budget and whilst close monitoring is regularly carried out throughout the year, the scale of the HRA budget inevitably leads to variances throughout the year due to the large volume of staffing required to manage and operate the service, the reactive nature of the response repairs service, fluctuation in void properties and changes to interest rates to name but a few. Any underspends that are generated will currently assist the WHQS programme.

### **8. PERSONNEL IMPLICATIONS**

- 8.1 There are no personnel implications.

## **9. CONSULTATION**

9.1 There are no consultation responses, which have not been reflected in this report.

## **10. RECOMMENDATIONS**

10.1 Members are requested to note the contents of this report.

## **11. REASONS FOR THE RECOMMENDATIONS**

11.1 To inform Members of the financial position of the Housing Revenue Account.

## **12. STATUTORY POWER**

12.1 Local Government Acts 1972 and 2003 and the Councils Financial Regulations.

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Appendices  
Appendix 1 HRA financial plan p7 2018/19

APPENDIX 1

<b>HOUSING</b>	Page	<b>Estimate</b>	<b>Projected</b>	<b>Variance</b>
	No	<b>2018/2019</b>	<b>2018/2019</b>	<b>2018/2019</b>
<b><u>HOUSING REVENUE ACCOUNT</u></b>		£	£	£
<b><u>SUMMARY</u></b>				
<b>GENERAL MANAGEMENT</b>		1,158,825	1,123,642	35,183
<b>CAPITAL FINANCING</b>		7,912,895	7,847,499	65,396
<b>CENTRAL RECHARGES</b>		2,259,418	2,259,418	-
<b>STRATEGY AND PERFORMANCE</b>		1,718,597	1,525,361	193,236
<b>PUBLIC SECTOR HOUSING</b>		5,278,250	5,172,942	105,308
<b>SUPPORTED HOUSING</b>		-	-	-
<b>BUILDING MAINTENANCE SERVICES</b>		31,193,205	30,270,720	922,485
<b>GROSS EXPENDITURE</b>		49,521,190	48,199,582	1,321,608
<b>INCOME</b>		(49,521,190)	(48,802,563)	(718,627)
<b>(SURPLUS)/DEFICIT CONTRIBUTION (TO)/FROM WORKING BALANCES</b>		-	(602,981)	602,981
<b><u>HOUSING REVENUE ACCOUNT</u></b>		£	£	£
<b><u>GENERAL MANAGEMENT</u></b>		1,158,825	1,123,642	35,183
<b><u>CAPITAL FINANCING COSTS</u></b>				
Interest Charge		5,717,323	5,651,927	65,396
Principal		2,193,725	2,193,725	-
Debt Management		29,439	29,439	-
Resheduling Discount		(27,592)	(27,592)	-
<b>EXPENDITURE TO HRA SUMMARY</b>		7,912,895	7,847,499	65,396
<b><u>CENTRAL RECHARGES</u></b>				
Central Recharges		1,786,332	1,786,332	-
Grounds Maintenance recharge to HRA		473,086	473,086	-
<b>EXPENDITURE TO HRA SUMMARY</b>		2,259,418	2,259,418	-

<b><u>HOUSING REVENUE ACCOUNT</u></b>		£	£	£
	STRATEGY & PERFORMANCE	90,291	23,023	67,268
	PERFORMANCE DEVELOPMENT	668,579	649,004	19,575
	COMMUNICATIONS & ENGAGEMENT	114,907	114,198	709
TRANSFORMING LIVES & COMMUNITIES		844,820	739,136	105,684
	<b>EXPENDITURE TO HRA SUMMARY</b>	1,718,597	1,525,361	193,236
<b><u>HOUSING REVENUE ACCOUNT</u></b>		£	£	£
	<b><u>PUBLIC SECTOR HOUSING</u></b>			
	Landlord General	167,788	171,948	(4,160)
	Sheltered Accommodation	1,385,952	1,305,484	80,468
	Holly Road Community support	3,317	3,812	(495)
	Eastern Valley AHO	666,520	667,194	(675)
	Upper Rhymney AHO	784,838	784,808	30
	Lower Rhymney Valley AHO	9,135	36,182	(27,047)
Gilfach NHO		-	-	-
	Lansbury Park NHO	348,286	318,956	29,330
	Graig Y Rhacca NHO	281,091	271,801	9,290
	Housing Allocations Cont.	120,426	120,426	-
	Tenants & Communities Involvement	504,858	441,758	63,100
	Leaseholders Management	61,935	72,651	(10,716)
	Tenancy Enforcement	274,774	253,925	20,849
	Rents	714,099	761,780	(47,681)
	Community Wardens	(44,768)	(37,783)	(6,985)
	<b>EXPENDITURE TO HRA SUMMARY</b>	5,278,250	5,172,942	105,308

<b><u>HOUSING REVENUE ACCOUNT</u></b>		£	£	£
<b><u>RESPONSE REPAIRS &amp; MAINTENANCE</u></b>				
<b><i>Employee Expenses net of recharges</i></b>		<b>1,470,944</b>	<b>1,346,718</b>	<b>124,226</b>
<b><i>Repairs &amp; Maintenance on Housing Stock</i></b>				
Responsive Repairs		8,771,794	8,985,784	(213,990)
Revenue Contribution to Capital - WHQS Programme		17,493,093	17,087,738	405,355
Group/Planned Repairs (priorities 5 & 8)		-	-	-
Void Repairs (priority 6)		-	-	-
Revenue Projects		1,474,000	1,230,250	243,750
Planned Cyclical		1,747,336	1,373,851	373,485
Planned Programme		-	-	-
		<b>29,486,223</b>	<b>28,677,623</b>	<b>808,600</b>
<b><i>Transport Related</i></b>		<b>8,950</b>	<b>9,538</b>	<b>(588)</b>
<b><i>Supplies &amp; Services</i></b>		<b>227,088</b>	<b>236,841</b>	<b>(9,753)</b>
<b><i>EXPENDITURE TO HRA SUMMARY</i></b>		<b>31,193,205</b>	<b>30,270,720</b>	<b>922,485</b>



<u>HOUSING REVENUE ACCOUNT</u>		£	£	£
<u>INCOME</u>				
<u>Rents - Dwelling</u>				
Gross Rent - Dwellings		(43,130,482)	(43,365,066)	234,584
Gross rent - Sheltered		(4,792,276)	(4,008,435)	(783,841)
Gross Rent - Hostel		-	(61)	61
Voids - General Needs Dwelling/Sheltered		815,000	802,256	12,744
Voids - Hostel		-	-	-
Net Rent		(47,107,758)	(46,571,306)	(536,452)
<u>Rents - Other</u>				
Garages		(362,477)	(358,770)	(3,707)
Garage Voids		181,238	192,142	(10,904)
Shop Rental		(59,872)	(54,672)	(5,200)
		(241,111)	(221,300)	(19,811)
<u>Service Charges</u>				
Sheltered - Service Charges		(1,461,393)	(1,335,226)	(126,167)
Sheltered - Heating & Lighting		(137,073)	(123,086)	(13,987)
Sheltered & Dispersed- Alarms		-	-	-
Catering Recharge - Sheltered Accommodation		(35,420)	(33,438)	(1,982)
Voids Schedule Water		65,452	69,702	(4,250)
Non Scheduled Water Rates		(41,780)	(45,802)	4,022
Welsh Water Commission		(511,407)	(511,407)	-
Leaseholder - Service Charges		(10,000)	(10,000)	-
		(2,131,621)	(1,989,257)	(142,364)
<u>Government Subsidies</u>				
Housing Subsidy		-	-	-
		0	0	0
<u>Interest Receivable</u>				
Mortgage Interest		(700)	(700)	-
Investment Income		(10,000)	(10,000)	-
		(10,700)	(10,700)	0
<u>Miscellaneous</u>				
Miscellaneous		-	-	-
Private Alarms		-	-	-
Ground Rent		(30,000)	(10,000)	(20,000)
		(30,000)	(10,000)	(20,000)
<u>INCOME TO HRA SUMMARY</u>		(49,521,190)	(48,802,563)	(718,627)