



HOUSING AND REGENERATION SCRUTINY COMMITTEE – INFORMATION ITEM

**SUBJECT: HOUSING REVENUE ACCOUNT BUDGET MONITORING –
PERIOD 3 2020/21**

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

1. PURPOSE OF REPORT

- 1.1 To inform Members of projected revenue expenditure for the Housing Revenue Account (HRA) for the 2020/21 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 taxpayers' 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 three months of the year
- 2.3 The HRA budget for 2020/21 is £51.7m with its main components consisting of £11.7m of salaries (net of WHQS funding), £8.3m of capital financing charges, £8.8m of building maintenance & response repairs, £2.8m of internal service recharges, and £17.8m of revenue contributions to fund the WHQS programme. The spend on the HRA is self-financed mainly by the rental income we collect from our Council Tenants of which about 71% is funded by Housing Benefits. The underspend at period 3 is projected to be £36k and the main reason for this is detailed below.

3. RECOMMENDATIONS

- 3.1 Members are requested to note the contents of the report.

4. REASONS FOR THE RECOMMENDATIONS

- 4.1 To ensure that Members are informed of the projected financial position of the Housing Revenue Account

5. THE REPORT

5.1 Introduction

5.1.1 The HRA is currently projecting a £36k net under-spend, which represents less than 1% of the total HRA budget. The main variances are summarised below, and full financial details are provided in Appendix 1. This includes variances projected as a result of Covid-19.

5.2 Salaries & Mileage (£291k under spend)

5.2.1 Salaries and associated costs within the HRA are currently expected to underspend by some £291k against a £11m salary. 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. During the coronavirus pandemic, all staff received and continue to receive full salaries with no furloughing assistance. However, some staff were redeployed to offer assistance in critical areas such as Free School Meal deliveries, loading of Free School Meals, assisting vulnerable people including the buddy scheme, and setting up and operating a financial crisis helpline. The HRA continued to cover the costs for the redeployment.

5.3 Non-Pay related (£195k under spend)

5.3.1 The main area of underspend is associated with office related costs of £46k such as stationery, photocopying and postage, mainly as a result of offices not being occupied as a consequence of lockdown. However, due to the need to extend the lease on Cherry Tree House, to enable social distancing to be maintained until the offices in Tir Y Berth and Rhymney depot can be completed, there will be additional costs on the rent, business rates, cleaning and utilities that will offset some of the other office savings.

A further £149k underspend is attributable to budgets that are service specific such as, shop management, allocation recharges, tenant participation and utility charges within our sheltered schemes. Some costs however have increased due to the covid-19 restrictions such as security of void properties and particularly rent allowances offered to tenants to allow minor repairs to be carried out as part of their tenancy start up and covering delays in ending tenancies because of lockdown. These allowances have had to be extended as operatives are currently unable to enter tenants' homes unless it is essential works. This cost (£36k) was initially claimed on the Welsh Government Covid-19 LA Financial Hardship Fund, but Welsh Government have recently confirmed that the HRA will not receive any assistance due to additional costs as a result of Covid-19.

5.4 Building Maintenance & Response Repairs (£1.22m under spend)

5.4.1 This area is currently projecting an underspend of some £1.3m. This is made up of £468k under spend in cyclical and revenue projects which includes damp proofing, non – DLO works, sheltered & infrastructure projects, and gas & electrical servicing, together with a £798k projected under spend in Response Repairs which includes transport costs and sub-contractors.

5.4.2 However, at the time of writing this report, operatives are unable to enter tenants homes unless it is for essential repairs, therefore it is expected that the spend will gather pace when restrictions are eased, and tenants are comfortable with repairs taking place in their homes.

- 5.4.3 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.
- 5.4.4 As a result of incorporating the costs of delivering the Building Maintenance service within the HRA, the in-house holding account was set up to monitor the in-house workforce costs that are recharged to the WHQS capital programme and also the PAMS (Post Asset Management Strategy) programme, which was due to run concurrently this year when the WHQS programme ended in June 2020. A budget of £10.8m has been allocated in 2020/21 along with an income recharge to the capital programme so that the HRA has a nil cost. This budget is currently projecting a saving of £1.5m but, is as a consequence of not being able to progress with the WHQS programme during lockdown. Some work was however transferred to void properties and empty buy-back stock which was originally intended to complete Post WHQS, but some staff were redeployed to critical services which is still ongoing. As restrictions are lifted and tenants allow our operatives to re-enter their homes following the development of detailed risk assessments, spend should start to increase, although due to the Government guidance on working under Covid-19 conditions, this will take longer to complete, as we are expected to retain 2 metres under social distancing rules, and limit the number of operatives within the property. This will also have a detrimental effect on the commencement of the PAMS programme which will need to be reprofiled to fit in with the revised completion of WHQS. Welsh Government have recently confirmed that the extended deadline for Caerphilly Homes is now December 2021. Members are informed, however, that Caerphilly Homes was on target to meet our June 2020 deadline had the pandemic not occurred.
- 5.4.5 A further budget is set in the HRA for the Management and Delivery of the WHQS Programme. Current projections are showing an underspend of some £46k due to staff turnover but as per the in-house holding account, this is also recharged fully to the WHQS Programme and is therefore a nil cost to the HRA. However, as the WHQS programme is likely to be extended, the current budget requirement will need to be reviewed to ensure resource is also extended to support delivery of the programme.

5.5 **Capital Financing Requirement (CFR)**

- 5.5.1 The total debt for the HRA as at 1st April 2020 is £121.9m. There is a CFR budget of £8.3m which includes a Minimum Revenue Provision (MRP) of £2.7m to repay the HRA debt and £5.6m of interest charges. The HRA debt consists of historical debt and the debt which was taken up in 2015 as part of the Buy Out of the Housing Revenue Account Subsidy (HRAS) system. More recently the CFR debt has increased due to the borrowing needed to part fund the WHQS Programme (£23m in 2018/19 & £17.9m in 2019/20).
- 5.5.2 Further borrowing had been estimated in 2020/21 to complete the programme and to progress with the PAMS programme together with an element for New Build proposals. However, this will be to be re-calculated once the impact of Covid-19 can be established. The final borrowing element to complete the WHQS programme is now likely to be higher (early indications suggest a £7m increase to complete the programme) which will impact on the funding for the PAMS programme and New Build Initiatives. The CFR cost is therefore likely to increase to reflect this but is not known at this stage.

5.6 Income (£1.1m under recovered)

5.6.1 The increase on voids is expected to rise significantly this year as a result of the pandemic. Lettings were obviously on hold and tenants who had signed their tenancies were unable to move in during the lockdown. Early indications suggest a £300k increase on voids. In addition to this, a discount on sheltered tenants service charge is being considered, although the service remained throughout lockdown, it was delivered differently, and some services were reduced (e.g. Grounds Maintenance). However, communal areas were closed down as per Government guidelines.

5.7 Bad Debt Provision (£620k overspend)

5.7.1 Within the first 3 months of lockdown, rent arrears increased by £1m compared to the same period the year before. We believe there is a number of factors for this rise. Firstly, the Government placed an embargo on actioning evictions until the 23rd August 2020 which meant we could not pursue those who were already in the system prior to lockdown, and no payments have been made during this time which has worsened the position. Secondly, our tenants did not have access to all the normal facilities for payment, in particular our cash offices, meaning some tenants did not have immediate alternatives to make payments. Also, some of our tenants were shielding or self-isolating so could not physically make payments or have access to a rent collector service as that was also withdrawn during lockdown. Initially there was also an increase in Universal Credit claims suggesting financial hardship for some of our tenants.

5.7.2 Every effort was made to support all our tenants during this period. Reassurance calls were attempted to every tenant ensuring they had the required level of support or signposting them where appropriate. No debt recovery took place due to the embargo, but soft letters were sent out to those in arrears that could not be contacted, asking them to contact the rent department so that support could be offered. Alternative methods of payments were offered such as Post Office payments which has assisted those who normally pay at the cash office.

5.7.3 However, the likelihood is that not all of the arrears will be recoverable and this will increase the bad debt provision by an estimated £620k.

5.8 Revenue Contributions to Capital Outlay (RCCO) (£46k under spend)

5.8.1 The HRA allows for some £17.7m 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 £46k underspend as explained in 5.4.5 above.

5.8.2 The total expenditure on the WHQS capital programme as at period 3 is some £1.3m which is a significant decrease compared to the same period last year of £7m. This is as a consequence of not being able to progress with any works during the Covid-19 pandemic (with the exception of essential work), but the programme still has to be delivered. Any savings, therefore made this year, will be required to fund the programme if it is extended beyond the financial year as expected.

5.8.3 The HRA RCCO allocation will fund the spend this year in addition to the £7.3m Major Repairs Allowance (MRA) from Welsh Government, with any remaining balance being funded from HRA working balances and borrowing. The MRA allowance will need to be utilised first as this funding does not carry over into financial years.

- 5.8.4 Borrowing of £23m was taken up for the first time since the start of the WHQS Programme to fund expenditure in 2018/19. A further £34m borrowing was initially projected for 2019/20 based on a £56m spend in that financial year. However, due to recent concerns regarding the performance and quality of work by some of the DPS (Dynamic Purchasing System) contractors within the final stages of the programme, it was agreed to allocate the remaining contracts to the In-House workforce. This resulted in a revised target completion date from March 2020 to June 2020 to allow the In-House workforce time to absorb the additional properties (approx. 150). This target would have been met had the global pandemic not occurred.
- 5.8.5 Further re-profiling is now necessary, and officers are working on this whilst awaiting confirmation from the Welsh Government on a revised WHQS completion date.
- 5.8.6 WHQS Internal works as at Quarter 1 is 97.06% compliant – monitored weekly
- 5.8.7 WHQS External works at Quarter 1 is 95.55% compliant – monitored monthly
- 5.8.8 Full WHQS compliance (where properties have achieved both internal and external compliance on a contract basis) is 94.19%
- 5.8.9 External work re-started in Mid-May and 2 contractors worked through lockdown. Although the majority of this work is outside of the tenant's property, appropriate detailed risk assessments were issued by the Contractors to ensure compliance to the government guidelines of working during the pandemic was adhered to. All contracts remaining in the programme are now in progress and early indications suggest a 10% increase of costs to allow for supply issues and some restrictions when entering tenants' homes (eg installing doors). It is anticipated that all external works (excluding leaseholders) will be completed by December 2020 pending no further delays from adverse weather conditions, or potential 2nd/3rd waves and/or local lockdowns.
- 5.8.10 Internal works have in the main been on hold since lockdown, with the exception of essential works, particularly to a number of properties that would have been left without basic amenities during lockdown. As mentioned earlier in the report, work was transferred to empty properties and recent buy-backs to try and continue momentum within the workforce. Pace is expected to increase when we commence work which is anticipated to be Mid-August. However, some tenants will undoubtedly refuse works if they are shielding or have any medical issues or just fear about having the work completed etc, so we will record these as acceptable fails in the meantime. A reasonable assumption at this stage would be completion around January/February 2021 to allow for the impact of restarting contracts, risk assessments, social distancing etc, pending no further delays from potential future waves or lockdowns.
- 5.8.11 A Post Asset Management Strategy (PAMS) working group has been set up to ensure that the WHQS standard is continuously maintained once full compliance is achieved. A 5 year external programme is currently being worked on but this will now need to be re-profiled to ensure the WHQS programme is completed. On a positive note, some of the work that was earmarked for the PAMS programme may be completed as part of the WHQS programme such as the buy-backs that were too late to be entered into the WHQS programme for June 2020 completion.
- 5.8.12 A viable Housing Business Plan was submitted to Welsh Government as part of the annual MRA application in March 2020. This was just before the lockdown and the subsequent issues surrounding the Covid-19, which is still ongoing. The Business

Plan, therefore, is not relevant as it stands and will need re-profiling once the impact can be appropriately measured. If the cost of completing the WHQS programme increases then this is likely to impact on other plans such as the PAMS programme and new build proposals.

5.9 HRA Working Balances

5.9.1 Working balances at the start of 2020/21 financial year were £4.1m. This is expected to be fully utilised this year against the WHQS Programme

5.9.2 Whilst priority will be given to the delivery and achievement of the WHQS Programme, borrowing may be required to increase the supply of council housing to meet the Welsh Governments proposal that 20,000 new homes be delivered in Wales by 2021 (Caerphilly Homes Building Together report presented to Housing & Regeneration Scrutiny Committee on 26th November 2019).

5.10 COVID-19

5.10.1 The full impact from Covid-19 is yet to be established. Costs that have been confirmed as at period 3 are as follows

PPE equip	£33k
Buddy mileage/add'n postage/IT equip	£5k
Increase in void costs	£104k
Extension of rent allowance	£37k
Increase in arrears	£118k
TOTAL	£297k

5.10.2 There are other costs as yet to be established, such as extension of fixed term contracts that were due to end during lockdown, extra deep cleaning of properties during handover and tipping/clearance charges, overtime for the backlog of repairs, costs to ensure social distancing measures, and increase in costs when the WHQS programme re-commences to ensure safety of our tenants and staff, including the impact on the delay in delivering the programme.

5.10.3 To date Welsh Government has funded 35k of the above costs which relate to PPE and 50% of the IT cost. Whilst writing this report however, WG have confirmed they will disallow any HRA claims on the basis that not all local authorities have retained their housing stock and the sector would therefore not be treated equally because transferred RSL's and traditional RSL's are not offered the same assistance.

5.10.4 This will significantly impact on the HRA Business Plan. Arrears have increased by some £1m in the first 3 months of the financial year, and although some of this may be recovered, there is the additional cost of recovering it, the increase in bad debt provision and possible write-offs for those we are unable to recover. At the time of writing this report, we are yet to restart our normal debt recovery procedure which means arrears are increasing weekly. Other costs mentioned above, although not as significant as the arrears position, will also have to be funded. It is anticipated that further costs as a consequence of covid, on top of the costs already confirmed, will be in the region of £250k by September, a total of some £550k which will not receive any government assistance.

6. ASSUMPTIONS

- 6.1 The projected outturn position is based on actual income and expenditure details to the end of June 2020, together with data used to forecast future income and expenditure, following discussions with Managers. However, spend and income activity has been unprecedented during this time which makes it difficult to accurately forecast the year end position.

7. LINKS TO STRATEGY

- 7.1 The contents of this report are in accordance with the Budget Strategy agreed by Council at its meeting on 20th February 2020.
- 7.2 Effective financial planning and financial control contribute to the following Well-being Goals within the Well-being of Future Generations (Wales) Act 2015: -
- A prosperous Wales.
 - A resilient Wales.
 - A healthier Wales.
 - A more equal Wales.
 - A Wales of cohesive communities.
 - A Wales of vibrant culture and thriving Welsh Language.
 - A globally responsible Wales.

8. WELL-BEING OF FUTURE GENERATIONS

- 8.1 Effective financial management including the effective utilisation of external grant funding is a key element in ensuring that the Well-being Goals within the Well-Being of Future Generations (Wales) Act 2015 are met.

9. EQUALITIES IMPLICATIONS

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

10. FINANCIAL IMPLICATIONS

- 10.1 As detailed throughout the report.

11. PERSONNEL IMPLICATIONS

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

12. CONSULTATIONS

- 12.1 There are no consultation responses that have not been reflected in this report.

13. STATUTORY POWER.

13.1 Local Government Acts 1972 and 2003 and the Council's Financial Regulations.

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Consultees: Cllr A Whitcombe, Chair Housing & Regeneration Scrutiny Committee
Cllr C Forehead, Vice Chair Housing & Regeneration Scrutiny Committee
Cllr L Phipps, Cabinet Member for Housing & Property
D Street, Corporate Director Social Services & Housing
S Couzens, Chief Housing Officer
S Harris, Head of Corporate Finance & S151 Officer
F. Wilkins, Housing Services Manager
P. Smythe, Housing Technical Manager

Appendices:
Appendix 1 HRA Financial Plan 2020/21 (Period 3).

Appendix 1

HOUSING	<i>Page</i>	Estimate	Projected	Variance
	<i>No</i>	2020/2021	2020/2021	2020/2021
<u>HOUSING REVENUE ACCOUNT</u>		£	£	£
<u>SUMMARY</u>				
GENERAL MANAGEMENT		1,759,257	2,372,777	(613,520)
CAPITAL FINANCING		8,348,031	8,348,031	-
CENTRAL RECHARGES		2,793,870	2,768,131	25,739
STRATEGY AND PERFORMANCE		1,053,637	944,242	109,395
PUBLIC SECTOR HOUSING		5,750,762	5,485,638	265,124
SUPPORTED HOUSING		-	-	-
BUILDING MAINTENANCE SERVICES		31,978,154	30,587,211	1,390,943
GROSS EXPENDITURE		51,683,711	50,506,031	1,177,680
INCOME		(51,683,711)	(50,542,659)	(1,141,052)
(SURPLUS)/DEFICIT CONTRIBUTION (TO)/FROM WORKING BALANCES		-	(36,628)	36,628
<u>HOUSING REVENUE ACCOUNT</u>		£	£	£
-				
<u>GENERAL MANAGEMENT</u>		1,759,257	2,372,777	(613,520)
<u>CAPITAL FINANCING COSTS</u>				
Interest Charge		5,556,468	5,556,468	-
Principal		2,740,513	2,740,513	-
Debt Management		51,050	51,050	-
Resheduling Discount		-	-	-
EXPENDITURE TO HRA SUMMARY		8,348,031	8,348,031	-
<u>CENTRAL RECHARGES</u>				
Central Recharges		2,301,671	2,280,984	20,687
Grounds Maintenance recharge to HRA		492,199	487,147	5,052

EXPENDITURE TO HRA SUMMARY		2,793,870	2,768,131	25,739
<u>HOUSING REVENUE ACCOUNT</u>		£	£	£
-				
HOUSING STRATEGY & DEVELOPMENT		537,382	487,216	50,166
TRANSFORMING LIVES & COMMUNITIES		516,255	457,027	59,228
EXPENDITURE TO HRA SUMMARY		1,053,637	944,242	109,395
<u>HOUSING REVENUE ACCOUNT</u>		£	£	£
<u>PUBLIC SECTOR HOUSING</u>				
Landlord General		308,641	269,170	39,471
Sheltered Accommodation		1,432,175	1,332,037	100,138
Holly Road Community Support		4,129	3,979	150
Eastern Valley AHO		669,116	675,373	(6,257)
Upper Rhymney AHO		844,428	802,228	42,200
Lower Rhymney Valley AHO		37,450	37,476	(26)
Lansbury Park NHO		322,430	322,016	414
Graig Y Rhacca NHO		291,857	280,284	11,573
Housing Allocations Cont.		128,857	114,146	14,711
Tenants & Communities Involvement		473,558	457,210	16,348
Leaseholders Management		73,333	61,952	11,381
Tenancy Enforcement		295,830	295,014	816
Rent s		912,690	878,485	34,205
Community Wardens		(43,732)	(43,732)	-
EXPENDITURE TO HRA SUMMARY		5,750,762	5,485,638	265,124

	£	£	£
<u>HOUSING REVENUE ACCOUNT</u>			
<u>RESPONSE REPAIRS & MAINTENANCE</u>			
Employee Expenses net of recharges	1,260,628	1,189,052	71,576
Repairs & Maintenance on Housing Stock			
Responsive Repairs	9,438,067	8,618,830	819,237
Revenue Contribution to Capital - WHQS Programme	17,809,772	17,763,152	46,620
Group/Planned Repairs (priorities 5 & 8)	-	-	-
Void Repairs (priority 6)	-	-	-
Depot Recharges	100,000	100,000	-
Revenue Projects	1,444,000	1,215,412	228,588
Planned Cyclical	1,747,336	1,508,170	239,166
Planned Programme	-	-	-
	30,539,175	29,205,563	1,333,612
Transport Related	52,500	49,810	2,690
Supplies & Services	125,851	142,786	(16,935)
EXPENDITURE TO HRA SUMMARY	31,978,154	30,587,211	1,390,943
<u>HOUSING REVENUE ACCOUNT</u>			
<u>INCOME</u>			
<u>Rents - Dwelling</u>			
Gross Rent - Dwellings	(45,953,276)	(45,515,625)	(437,651)
Gross rent - Sheltered	(4,158,368)	(3,965,328)	(193,040)
Gross Rent - Hostel	-	-	-
Voids - General Needs Dwelling/Sheltered	800,000	1,100,000	(300,000)
Add'l Income O/Side Rent Debit (WHQS)	-	-	-
Voids - Hostel	-	-	-
Net Rent	(49,311,644)	(48,380,953)	(930,691)
<u>Rents - Other</u>			
-			
Garages	(346,497)	(346,069)	(428)
Garage Voids	121,215	121,278	(63)
Shop Rental	(59,872)	(59,872)	-
	(285,154)	(284,663)	(491)

<u>Service Charges</u>			
-			
Sheltered - Service Charges	(1,394,522)	(1,232,292)	(162,230)
Sheltered - Heating & Lighting	(113,786)	(104,754)	(9,032)
Sheltered & Dispersed- Alarms	-	-	-
Catering Recharge - Sheltered Accommodation	-	-	-
Voids Schedule Water	64,372	102,233	(37,861)
Non Scheduled Water Rates	(38,448)	(33,641)	(4,807)
Welsh Water Commission	(579,379)	(579,379)	-
Leaseholder - Service Charges	(10,000)	(14,060)	4,060
	(2,071,763)	(1,861,893)	(209,870)
<u>Government Subsidies</u>			
Housing Subsidy	-	-	-
	-	-	-
<u>Interest Receivable</u>			
Mortgage Interest	(150)	(150)	-
Investment Income	(10,000)	(10,000)	-
	(10,150)	(10,150)	-
<u>Miscellaneous</u>			
Miscellaneous	-	-	-
Private Alarms	-	-	-
Ground Rent	(5,000)	(5,000)	-
	(5,000)	(5,000)	-
<u>INCOME TO HRA SUMMARY</u>			
	(51,683,711)	(50,542,659)	(1,141,052)