

THE VALE OF GLAMORGAN COUNCIL

CABINET: 22<sup>ND</sup> JANUARY, 2018

REFERENCE FROM CORPORATE PERFORMANCE AND RESOURCES  
SCRUTINY COMMITTEE: 14<sup>TH</sup> DECEMBER, 2017

“560 INITIAL HOUSING REVENUE ACCOUNT BUDGET PROPOSALS 2018/19  
(MD) –

As in previous years the Scrutiny Committee was now considering the above matter as the lead Scrutiny Committee overseeing the Council's initial budget.

The Committee considered the below table which compared the original budget with the amended budget:

	<b>2017/18 Original Budget</b>	<b>2017/18 Proposed Amended Budget</b>	<b>Variance Favourable (-) Adverse (+)</b>
	£'000	£'000	£'000
<b>Housing Revenue Account (Surplus)/Deficit</b>	(131)	127	+258

The net operational budget for 2017/18 had changed from a surplus of £131,000 to a deficit of £127,000. A review of the current budget had found a potential net saving this year of £2.684m. The main reasons for this was that the estimated increase in the provision for bad and doubtful debts had been reduced by £1.014m as the Universal Credit and its effects would not have the full impact until April 2019. There had been little increase in the actual level of rent arrears in this financial year and it was not anticipated that the provision would need to be substantially increased. In addition, there had been a reduction in the Repairs and Maintenance budget of £600,000 which partly related to an external painting programme which would continue in to 2018/19 following the completion of a pilot scheme and the WHQS external works programme. A reduction in Capital Financing Costs of £589,000 was anticipated and Premises costs were expected to be £143,000 less than budgeted, largely due to reductions in utilities and cleaning costs. Staffing costs were estimated to be £88,000 less than anticipated due to vacant posts and staff budgets being originally included at top of scale. Other budgets that were expected to outturn with an underspend were: survey costs £58,000, compliance costs £24,000, Incentive to Move £39,000, leaflets and publications £44,000, computer hardware and software costs £54,000 and bank charges of £12,000. There was also expected to be a reduction in void costs of £73,000. There were various other savings of

£87,000. These savings had been offset by an adjustment in Service Charge income of £141,000, mainly due to Supporting People funding for warden support ceasing from October 2017.

The balance on the HRA reserve brought forward as at 1<sup>st</sup> April, 2017 was £958,000 and was higher than required. In order to minimise the amount of unsupported borrowing required in year to fund the Housing Improvement Programme, it was prudent to use HRA revenue reserves up to a minimum balance. The level of Capital Expenditure funded from the Revenue Account (CERA), had been recalculated at £6.481m, which was an increase of £2.942m. This would leave a balance on the HRA reserve at year end of £831,000, which was in line with the minimum amount required as per the Business Plan.

The Budget Strategy for 2018/19 outlined that, in order to establish a baseline, services should prepare revenue budgets for next year based on the cost of providing the current level of service and approved policy decisions. This meant that the cost of price increases and pay awards should be included.

Due to the nature of the HRA in that it was ring fenced and any growth had to be funded from its available funds.

The proposed 2018/19 budget was set out at Appendix 1 to the report and was identified over the following areas:

- Supervision and Management (General) – This budget related to the general management of the Council's housing stock, for work carried out within the Housing service and for various issues relating to the Council tenancies excluding the repairs and maintenance function.
- Supervision and Management (Special) – This budget related to the running expenses and the cost of staff employed directly within the Housing service, in relation to functions such as sheltered housing schemes, running the hostel and temporary accommodation.
- Repairs and Maintenance – This budget related to the revenue repairs and maintenance service for the Council Housing Stock.
- Capital Financing Costs – This related to costs associated with financing HRA debt.
- Rents, Rates, Taxes and Other Charges – This budget related to items such as expenditure on Council Tax at long void properties, legal expenses, surveying costs, compensation and insurance.
- Increase in Provision for Bad Debts – This budget identified the amount by which the current level of provision should be increased or decreased in year.
- Capital Expenditure from Revenue Account (CERA) – This budget related to a contribution made from the HRA to fund capital expenditure.
- Dwelling Rents – This was the net rent due to the Council for all properties whether General Needs, OAP designated, Sheltered Complexes, Hostel or Temporary Accommodation.
- Non Dwelling Rents – This represented rental income due to the Council for HRA owned garages.

- Interest – This budget related to interest receivable on the average HRA Reserve Balance.
- Charges for Services and Facilities – This budget identified amounts due to the Council by tenants and leaseholders and some private individuals for services and facilities provided by the HRA.

The charges for rent and other services provided by the Housing Service were reviewed annually. These would be subject to a future report once the guidance had been received from WG regarding the setting of rents for 2018/19. Set out below is a table summarising the original budget for 2017/18 with the proposed budget for 2018/19.

2017/18 Original Budget	Inflation / Pay Award	Committed Growth / (Savings)	Estimated Rent Increase	Increase/ (Decrease) in CERA	2018/19 Proposed Budget
£000	£000	£000	£000	£000	£000
(131)	133	(368)	(559)	904	(21)

A provision for general inflation included an allowance for pay awards in 2017/18.

The net saving of £368,000 was due to a number of factors:

- A decrease in Capital Financing charges of £104,000 in relation to unsupported borrowing to be raised in 2017/18 to fund the Housing Improvement Programme.
- A decrease in staff costs for vacant posts and staff changes of £64,000.
- An increase of £43,000 in central recharges.
- A reduction in Premises costs of £123,000.
- A reduction in Supplies and Services of £175,000.
- A reduction in income of £60,000 due to the cessation of Supporting People funding from October 2017.
- Various other minor savings of £5,000.

An increase in CERA to finance the Housing Improvement Programme of £904,000 had been assumed. The amount of revenue contribution required was dictated by available revenue balances and the value of the Housing Improvement Programme. Adjusting the level of CERA by this amount would leave a balance on the HRA Reserve of £852,000, which was in line with the Business Plan.

A Member referred to the main reasons for the estimated increase in the provision for bad and doubtful debt which had been reduced by £1.014m as a result of delays in implementing Universal Credit and queried the rationale for utilising the underspend to fund the WHQS repairs and maintenance programme. In response, the Head of Finance indicated that given the HRA balance, the underspend would be better utilised to support the Council's WHQS programme which in turn would reduce the Council's borrowing costs in future years.

As in the case of the other initial budget proposals considered by this Scrutiny Committee, any comments and recommendations were required to be made by no later than 14<sup>th</sup> December, 2017, to enable the Cabinet to submit its final budget proposals to Council on 28<sup>th</sup> February, 2018.

A Member referred to Welsh Government (WG) proposals to increase rent by 4.5% plus £2 given the potential implications of the ongoing roll out of Universal Credit. The Head of Finance acknowledged the point raised and indicated that, currently the HRA Business Plan was balanced based on an assumed rental increase of 3% however, officers would shortly be starting work to review the Business Plan which would include assessing the ongoing implications of the roll out of Universal Credit to inform decisions regarding the rental increase in the new financial year.

Having considered the report, it was subsequently

#### RECOMMENDED –

- (1) T H A T the Cabinet be made aware of the Scrutiny Committee’s concern regarding Welsh Government’s proposed rent increase and its potential implications, coupled with the ongoing roll out of Universal Credit to potentially increase bad debt.
- (2) T H A T the revised Housing Revenue Account Budget proposals for 2017/18 be noted.
- (3) T H A T the Initial Housing Revenue Account Budget proposals for 2018/19 be noted.

#### Reasons for recommendations

- (1) To highlight potential risk to the Council in relation to bad debt provision.
- (2) In order to monitor the amended Housing Revenue Account Budget.
- (3) To inform Cabinet of the Scrutiny Committees’ deliberations before making their final proposal on the Initial Housing Revenue Account Budget 2018/19.”