

## **The Vale of Glamorgan Council**

### **Corporate Performance and Resources Scrutiny Committee: 13<sup>th</sup> December, 2018**

#### **Report of the Managing Director**

#### **Initial Housing Revenue Account Budget Proposals 2019/20 and Revised Budget 2018/19**

##### **Purpose of the Report**

1. To advise Scrutiny Committee of the amended Housing Revenue Account budget 2018/19 and the initial Housing Revenue Account budget proposals for 2019/20.

##### **Recommendations**

It is recommended that:-

1. The amended Housing Revenue Account budget for 2018/19 as set out in Appendix 1 be noted.
2. Any recommendations on the Initial Housing Revenue Account budget proposals for 2019/20 be referred from this Committee to Cabinet for consideration.

##### **Reasons for the Recommendations**

1. To facilitate monitoring of the amended Housing Revenue Account budget.
2. In order that Cabinet be informed of the comments of Scrutiny Committee before making a final proposal on the budget.

##### **Background**

2. Each local housing authority is required under Section 74, of the 1989 Local Government and Housing Act to keep a Housing Revenue Account. Section 76 of the Act requires local authorities to set a budget for their Housing Revenue Account (HRA) on an annual basis. The budget must be set so that the sum held in the Housing Revenue Account reserve at year end is not in a deficit position.
3. During the course of the year, local authorities must review their HRA expenditure and income. If on the basis of the information available, the balance of the HRA reserve is heading for a deficit, then steps must be taken as are reasonably practical to prevent this deficit. A Local Authority is not prohibited from being in deficit but will need to demonstrate that the deficit has arisen through exceptional circumstances

and that it has revised its original proposals so far as reasonably practical to avoid the deficit. Such a deficit shall be carried forward and must be made good the following year.

4. Each Local Authority should endeavour to have a working balance on the HRA reserve, for any exceptional circumstances that may arise.
5. The level of rent increase is based on a rent policy introduced by the Welsh Government. At the time of writing this report, an announcement had not yet been made, therefore, an average rent increase of 3%, has been included in the 2019/20 initial budget proposals, which is in line with the Housing Business Plan - February 2018.

### **Amended Budget 2018/19**

6. Set out below is a table comparing the original budget with the proposed amended budget.

	<b>2018/19 Original Budget</b>	<b>2018/19 Proposed Amended Budget</b>	<b>Variance Favourable (-) Adverse (+)</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Housing Revenue Account (Surplus)/Deficit</b>	(21)	(77)	(56)

7. The net operational budget for 2018/19 has changed from a surplus of £21k to a surplus of £77k. A review of the current budget has found a potential net saving this year of £2.289m. The main reason for this is that the estimated increase in the provision for bad and doubtful debts has been reduced by £910k, as Universal Credit will be rolled out for the Vale of Glamorgan from October 2018 but the full effects will not be felt until 2019/20. In addition, there has been a reduction in the Repairs and Maintenance budget of £700k which partly relates to an external painting programme which will continue in to 2019/20. A reduction in Capital Financing Costs of £463k is anticipated due to a lower level of borrowing required to fund the Capital Programme. The Incentive to Move scheme has been amended (as per Cabinet minute no. C237) resulting in a budget reduction of £34k. Employee costs are anticipated to be £34k less than budgeted due to vacant posts. Other budgets that are expected to outturn with an underspend are: survey costs £19k, compliance costs £41k, legal fees £12k, publications £38k and premises £16k. There is also expected to be a reduction in void costs of £163k and there are various other savings of £4k.
8. These savings have been offset by the following: a £60k reduction in the Supporting People funding for the Vale Community Alarm Service (VCAS) from October 2018. The commission received from Welsh Water is anticipated to be £49k lower than budgeted (as per the Welsh Water schedule) and charges for services and facilities are expected to be £12k less than budgeted. The write off of former tenant arrears is also expected to increase by £24k.
9. The balance on the HRA reserve brought forward as at 1<sup>st</sup> April 2018 is £775k and is currently lower than required. It is prudent to maintain the HRA revenue reserves at

a minimum balance. The level of Capital Expenditure funded from the Revenue Account (CERA), has been recalculated at £6.818m, which is an increase of £2.233m. This will leave a balance on the HRA reserve at year end of £852k, which is in line with the minimum amount required as per the Business Plan.

## **Base Budget 2019/20**

10. The Budget Strategy for 2019/20 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.
11. The HRA is a ring fenced account and therefore any growth and inflationary pressures have to be funded from its available funds.
12. The proposed 2019/20 budget is set out at Appendix 1 and is identified over the following areas.
  - Supervision & Management (General) - This budget relates 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 & Management (Special) - This budget relates 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 & Maintenance - This budget relates to the revenue repairs and maintenance service for the Council Housing Stock.
  - Capital Financing Costs – This relates to costs associated with financing HRA debt.
  - Rents, Rates, Taxes and Other Charges - This budget relates 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 identifies the amount by which the current level of provision should be increased or decreased in year.
  - Capital Expenditure from Revenue Account (CERA) - This budget relates to a contribution made from the Housing Revenue Account to fund capital expenditure.
  - Dwelling Rents - This is 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 represents rental income due to the Council for HRA owned garages.
  - Interest - This budget relates to interest receivable on the average HRA Reserve Balance.
  - Charges for Services and Facilities - This budget identifies amounts due to the Council by tenants and leaseholders and some private individuals for services and facilities provided by the HRA.

- Contribution towards expenditure – This budget identifies any contributions received from outside bodies or persons towards expenditure which has been incurred by the HRA.
- Grant Income – This budget relates to revenue grant income received. For 30 years from 2018/19 the HRA is due to receive the Affordable Housing Grant (AHG) from Welsh Government which supports new Council house building. The Council will take out a loan to fund capital expenditure and the AHG will be paid as an annual grant over the 30 year period and will contribute to financing the interest and capital repayments of the debt.

### Proposed Increases in Charges

13. The charges for rent and other services provided by the Housing Service are reviewed annually. These will be subject to a future report once the guidance has been received from WG regarding the setting of rents for 2019/20. Set out below is a table summarising the original budget for 2018/19 with the proposed budget for 2019/20.

<b>2018/19 Original Budget</b>	<b>Inflation / Pay Award</b>	<b>Committed Growth / (Savings)</b>	<b>Estimated Rent Increase</b>	<b>Increase/ (Decrease) in CERA</b>	<b>2019/20 Proposed Budget</b>
<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
(21)	70	(183)	(564)	677	(21)

14. A provision for general inflation includes an allowance for pay awards in 2019/20.

15. The net saving of £183k is due to a number of factors;

- A decrease in Capital Financing charges of £289k in relation to unsupported borrowing to be raised in 2019/20 to fund the Housing Improvement Programme.
- An increase in staff costs for increments and staff changes of £44k.
- An increase of £79k in central recharges.
- A reduction in the Incentive to Move scheme of £34k following an amendment to the policy (as per Cabinet minute no. C237).
- An increase in the Provision for Bad Debts of £33k.
- A decrease in Supplies and Services of £16k.

16. An increase in Capital Expenditure from Revenue Account (CERA) to finance the Housing Improvement Programme of £677k has been assumed. The amount of revenue contribution required is dictated by available revenue balances and the value of the Housing Improvement Programme. Adjusting the level of CERA by this amount will leave a balance on the HRA Reserve of £873k, which is in line with the Business Plan.

## **Next Steps**

17. The next stage is for the estimates to be submitted to Scrutiny Committees for consultation. Corporate Performance and Resources Scrutiny Committee is the lead Scrutiny Committee and will consider both the Initial Housing Account Revenue Budget Proposals and any comments that other Scrutiny Committees have made. The responses of Scrutiny Committee must be made no later than 13th December 2018.
18. The Budget Working Group held a series of meetings in November 2018 with the relevant Cabinet Members and officers to consider the budget proposals. They will submit their recommendations so that the Cabinet may make its final budget proposal no later than 18th February 2019. Before making its recommendation, the Budget Working Group will consider the comments made by Scrutiny.
19. Cabinet's final budget proposals will be considered by Council at a meeting to be held on 27th February 2019.

## **Resource Implications (Financial and Employment)**

20. The Housing Revenue Account working balance at 1st April 2019 is projected to be £852k.

## **Legal Implications (to Include Human Rights Implications)**

21. The Council under the 1989 Local Government and Housing Act have a legal obligation to set a budget for the Housing Revenue Account. Notices of any increases have to be sent to tenants 28 days in advance of the new changes coming into effect.

## **Crime and Disorder Implications**

22. Many HRA activities have a positive impact on the reduction of crime and the fear of crime.

## **Equal Opportunities Implications (to include Welsh Language issues)**

23. Housing Services are carried out in accordance with the Council's Equal Opportunities policies and practices.

## **Corporate/Service Objectives**

24. This report is consistent with the Corporate Objective of an Inclusive and Safe Vale and well-being Objective 2: Provide decent homes and safe communities.

## **Policy Framework and Budget**

25. This report is following the procedure laid down in the Constitution for the making of the budget and so does not need to be referred to Council at the proposal stage. However the final 2019/20 budget will require the approval of Council.

## **Consultation (including Ward Member Consultation)**

26. The Corporate Management Team has been consulted on this report. The initial budget proposals do not require ward member consultation.

## **Relevant Scrutiny Committee**

27. The lead Scrutiny Committee is Corporate Performance and Resources.

## **Background Papers**

Housing Business Plan - February 2018

## **Contact Officer**

Carolyn Michael - Operational Manager Accountancy

## **Officers Consulted**

Carys Lord - Head of Finance

Miles Punter - Director of Environment and Housing

Mike Ingram – Head of Housing & Building Services

## **Responsible Officers:**

Miles Punter - Director of Environment and Housing

## APPENDIX 1

<b>HOUSING REVENUE ACCOUNT</b>			
<b>Projected Income and Expenditure</b>			
<b>2018/19 ORIGINAL BUDGET £000</b>	<b>2018/19 AMENDED BUDGET £000</b>		<b>2019/20 INITIAL PROPOSED BUDGET £000</b>
		<b>Expenditure</b>	
3,599	3,522	Supervision & Management - General	3,722
1,256	1,266	Supervision & Management - Special	1,271
4,043	3,343	Repairs & Maintenance	4,043
4,977	4,514	Capital Financing Costs	4,688
211	200	Rent, Rates, Taxes & Other Charges	215
1,159	249	Increase in Provision for Bad Debts	1,192
4,585	6,818	Capital Expenditure from Revenue Account (CERA)	5,262
<b>19,830</b>	<b>19,912</b>		<b>20,393</b>
		<b>Income</b>	
(18,767)	(18,969)	Dwelling Rents	(19,331)
(170)	(167)	Non Dwelling Rents	(170)
(3)	(3)	Interest	(3)
(537)	(525)	Charges For Services and Facilities	(537)
(291)	(244)	Contribution towards expenditure	(239)
(83)	(81)	Grant Income	(134)
<b>(19,851)</b>	<b>(19,989)</b>		<b>(20,414)</b>
<b>(21)</b>	<b>(77)</b>	<b>(Surplus)/ deficit for the year</b>	<b>(21)</b>

<b>HOUSING REVENUE ACCOUNT</b>			
<b>Projected Movement on Reserve</b>			
<b>2018/19 ORIGINAL BUDGET £000</b>	<b>2018/19 AMENDED BUDGET £000</b>		<b>2019/20 INITIAL PROPOSED BUDGET £000</b>
<b>(831)</b>	<b>(775)</b>	Balance Brought Forward as at 1st April (Surplus)/Deficit	<b>(852)</b>
<b>(852)</b>	<b>(852)</b>	Balance Carried Forward as at 31st March (Surplus)/Deficit	<b>(873)</b>