

## WEST DUNBARTONSHIRE COUNCIL

### Report by the Executive Director of Housing, Environment and Economic Development

Council: 30 March 2011

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**Subject: Housing Property Maintenance Trading Account - Treatment of Surplus**

#### **1. Purpose**

- 1.1** The purpose of this report is to provide Members with information on available options for budgeting for the surplus generated by the Housing Property Maintenance Trading Account.

#### **2. Background**

- 2.1** Over the course of the last 6 - 9 months representatives from the West Dunbartonshire Tenants and Residents Organisation (WDTRO) has consistently, through a range of forums, raised the issue of the level of surplus being generated by the Housing Property Maintenance Trading Account. Their main concern is that this surplus is returned to the general services as apposed to the Housing Revenue Account.

- 2.2** In December 2010 the Council agreed the following motion:

*“This Council notes that local authorities have a statutory target of generating revenues not less than expenditure (break-even) over a rolling three-year period for each significant trading operation. This Council notes also that over the financial three-year period from 2007-2010, the Housing Property Maintenance Account has generated a ‘profit’ of £3.204 million for the General Services Account. Furthermore, in the financial five-year period from 2002-2007, a total of £5.795 million was transferred.*

*Whilst this total of approximately £8 million income to the General Services Account has been welcome, this Council recognises that the West Dunbartonshire Tenants and Residents Organisation (WDTRO) has made a strong case to retain all or part of the Housing Property Maintenance Trading Account surplus within the Housing Revenue/Capital Accounts (HRA) in order to speed up work required to bring Council housing stock up to the Scottish Housing Quality Standard (SHQS) 2015.*

*This Council recognises that any Trading Account surplus not transferred to the General Services Account as happens at present, would require the resulting shortfall in the General Services account to be made up through efficiency savings and/or increased charges and notes also that these surpluses are not generated by housing repairs alone.*

*However, given that these surpluses have been budgeted for within the General Services, account, this Council recognises that under the 1973 legislation, Local Authorities are expressly forbidden from transferring funds from General Services Account to the HRA. Therefore, in having great sympathy for the case put forward by the WDTR0, this Council regrets that it is not able to simply transfer the full surplus to the HRA.*

*However, if a way can be found to budget for the rates of surplus being currently generated in a way that will allocate 50% of the total surplus to General Services and retaining the other 50% within HRA for allocation to the Housing Capital Programme, this Council agrees that the potential benefit of an infusion of an extra £0.5 million per year approximately to Housing Capital will be of substantial benefit to both Council tenants and the wider community.*

*Therefore, this Council requests the Chief Executive to prepare a report as to how this laudable aim can be achieved as a matter of urgency so that it can be considered as part of the budget process for the financial year 2010/11”.*

### **3. Main Issues**

- 3.1** As Members are aware the Housing Maintenance Trading Operation, as with all other Council's Trading Operations, is by definition a general services account. As such it does not form part of the Housing Revenue Account and as a consequence the surplus is budgeted for and returned to the general services account.
- 3.2** Although the Housing Revenue Account is the main client of the trading operation, the trading operation also undertakes work for other clients and in non-HRA premises. The general fund takes the whole risk on whether the trading operation will over/under perform and sets its budget accordingly. For financial year 2010/2011, a budgeted surplus of £665,100 was established and performance in relation to this target has been consistently reported through Housing, Environment and Economic Development Committee and the Council. This target was established in January 2009 as part of the budget process for the financial year 2010/11.
- 3.3** The current housing maintenance contract was won by the in-house team approximately 3½ years ago in direct competition with a number of external contractors and the evaluation of process of the bids was, at the specific request of the Council, validated by a special review carried out by the Council's external auditor before the contract was awarded.

- 3.4** Having satisfied itself that the in-house bid provided value for money and that this continued to be the case when the Committee agreed the extension of the contract in June 2009 for a further 2 years there is no reason to consider that the housing revenue account is not receiving value for money from the in-house provider. There will however, be an opportunity to test this more robustly once the period of the current contract expires.
- 3.5** There is no statutory provision which would allow monies to be transferred from the general fund account to the Housing Revenue Account except where the Housing Revenue Account is in deficit. It should also be noted that our present accounting treatment is consistent with both the provision of the Housing (Scotland) Act 1987 and also the relevant accounting code of practice requirements and as such is subject to annual audit review and scrutiny.

#### **4. Options for Consideration**

- 4.1** Given the decisions taken by the Council in January 2009 in relation to the budgeted surplus for the Housing Property Maintenance Trading Account which forms an integral part of the overall General Services Account it is not considered possible that any adjustments can be made for financial year 2010/2011. Indeed, the probable outturn on the General Services Account reflects the probable outturn in terms of surplus which has been previously reported to the Committee.
- 4.2** Considerations as to options for reducing the budgeted surplus for the Housing Maintenance Trading Account in future years would require to form part of the overall general services budget process but may create a situation where the drive to improve efficiency and reduce costs whilst maintaining quality of services is undermined putting at risk the Council's performance in relation to achieving the statutory break even position required for this and other trading operations. It should be noted that the revenue budget recently approved increases the budgeted surplus target.
- 4.3** Other options for reducing the surplus are:
- (i) the Council could seek to re-tender the contract to try to achieve lower rates. This will not however contribute to the 10/11 budget process and creates the risk that the service is outsourced with all surplus lost to the Council. In addition there is no certainty that rates would go down and costs to the HRA may increase with the associated impact on rents; or
  - (ii) the Council could direct the Housing Maintenance DLO to lower its prices. While this may generate revenue benefit to the HRA in future years this will not contribute to the 10/11 budget process. In addition this essentially penalises the DLO for winning the contract and improving efficiency and may also make it more difficult for the DLO to secure other work as it creates less certainty in achieving its statutory target.

**4.4** The Council continues to make progress towards achieving the Scottish Housing Quality Standard (SHQS) target and adequate provision has been made within the HRA capital programme in line with the Standard Delivery Plan approved in October 2008. This investment totals approximately £60million between now and 2015. In the current year as a consequence of achieving better value for money in key contracts and some slippage the HRA capital budget will be underspent. As a consequence, even if it were possible to transfer £0.5million from general services this would have no material effect on achieving the standard.

## **5. People Implications**

**5.1** There are no people implications.

## **6. Financial Implications**

**6.1** As noted above the accounting treatment of the Housing Property Maintenance Trading Account is consistent with both the provisions of the Housing (Scotland) Act 1987 and also CIPFA Accounting Code of Practice requirements.

**6.2** There is no statutory provision which would allow monies to be transferred from the general fund account to the Housing Revenue Account and while the Council may be sympathetic to the request of the WDTR0 there is no mechanism that would allow this to take place.

## **7. Risk Analysis**

**7.1** Significant risk would exist for the Council should it take any action which would compromise it's compliance with the statutory framework or relevant accounting code of practice.

## **8. Equalities Impact**

**8.1** No significant issues were identified in a screening for potential equality impact of this report.

## **9. Conclusions and Recommendations**

**9.1** While the Council may be sympathetic to the request and approached received from the WDTR0 in relation to the level of surplus currently being generated by the Housing Maintenance Trading Operation and how this might support housing investment, current legislation and existing arrangements within the Council would prevent any such transfer taking place.

**9.2** The Council continues to make progress towards SHQS in accordance with its previously agreed plans and none of the options outlined in section 4 of this report would not provide for additional benefit in financial year 2010/11 as required by the motion.

**9.3** The matter raised would require further consideration when the current contact is re-let which will be no earlier than June 2012.

**9.4** It is recommended that the Committee note the content of this report.

**Elaine Melrose**  
**Executive Director of Housing, Environmental and Economic Development**  
**Date: 14 March 2011**

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**Appendix:** None

**Background Papers:** None

**Wards Affected:** All