

ISLE OF ANGLESEY COUNTY COUNCIL

REPORT TO:	THE EXECUTIVE
DATE:	1 MARCH 2021
SUBJECT:	HOUSING REVENUE ACCOUNT BUDGET MONITORING, QUARTER 3 2020/21
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LOCAL MEMBERS:	n/a

A - Recommendation/s and reason/s

1. The Executive is requested to note the following:-
 - (i) The position set out in respect of the financial performance of the Housing Revenue Account (HRA) for quarter 3 2020/21.
 - (ii) The forecast outturn for 2020/21.
2. **Background**
 - (i) In March 2020, the Council agreed a revenue budget for 2020/21 that showed a planned surplus of £7.8m.
 - (ii) The capital budget for 2020/21 was £19.1m, including allowance for expenditure that was not completed from the 2019/20 capital budget.
 - (iii) The combination of both the revenue budget and adjusted capital budget gave a planned budget deficit of £7.1m, which would be funded from the HRA reserve.
 - (iv) The HRA is 'ringfenced', and its reserves cannot be transferred to the General Fund, nor can General Fund reserves be used to fund the HRA.
3. This report sets out the financial performance of the HRA for the period from 1st April 2020 to 31 December 2020.
4. **Overview**
 - (i) The revenue financial position for Q3 shows an underspend of £238k, compared to £324k at the end of Q2. The forecast for income is £150k below the original budget, and expenditure is forecast to be £181k below the original budget as explained below. More detail is shown in Appendix A.
 - (ii) The Capital expenditure is £360k below the profiled budget (£1,250k at Q2). The forecast expenditure is £8,022k below budget as explained below. More detail is shown in Appendix B.
 - (iii) The forecast deficit (combining both revenue and capital) is £8,053k less than the budget compared to a forecast deficit of £6,256k less than the budget at the end of Q2, largely the result of lower than budgeted capital expenditure. This means that there is a forecast surplus of £965k for the year, leaving an HRA reserve of £9,562k available to fund future capital projects.

5. Income

- (i) At the end of the third quarter, the level of income received was £197k (£140k better at Q2) worse than the profiled budget as noted below.
- (ii) Rental income was £203k below budget (£105k Q2). The budget, however, assumes that new properties will come on stream during the year that have been delayed (see also the 'capital' section below). Consequently, the forecast is that income will be £150k below budget by the end of the year.
- (iii) Service charge income, which is based on the actual costs incurred, is on budget. The budget was completely reviewed following last year's significant budget underspend.
- (iv) Other income is £12k better than the profiled budget as the result of the timing of FIT receipts from the feed in tariff. The forecast for the year is unchanged.
- (v) The 30 year plan includes a provision of £280k towards bad debts, 1.5% of the total rent income. This was an increase from 1.25% in the previous year to allow for the continuing roll out of Universal Credit. A bad debt only arises when there is no realistic prospect of recovering the arrears of rent owed. The actual provision in the 2019/20 annual account was £118k, just 0.65% of the total rent income, reflecting the efforts made to ensure that the rent due is recovered. These provisions were made before the Covid 19 pandemic affected Anglesey. At the end of March 2020, the level of rent arrears was 2.41% of rental income (£438k). At the end of June, this had risen to 3.4% (£625k), an increase of 50%, at the end of September this had decreased to 3.33% (£612k), and at the end of December this had further reduced to 3.14% (£578k). The Welsh Government are monitoring the effects of Covid on the finances of all housing stock holding local authorities in Wales, and the most recent analysis (to the end of December) shows levels of debt ranging from around 2.5% to over 5.5% amongst the 11 local authorities, with Anglesey being 4th best of the 11. At this stage, there can be no certainty how much of the debt will be recovered over time, or will become irrecoverable and so have to be written off. Past experience would seem to indicate that the provision is currently adequate, but this will be kept under review.
- (vi) The overall forecast for income is now a reduction of £150k compared to the original budget by the end of the year (a £100k reduction shown at the end of Q2).

6. Non Repairs and Maintenance Expenditure

- (i) At the end of the third quarter, non repairs and maintenance expenditure was £47k below the profiled budget (£59k above at Q2) . Mostly, this is the result of the reduced level of work due to Covid (in particular the suspension of estate clean up days), offset by the annual cost of the Orchard Computer system being committed now. The forecast has been reviewed, and is now £21k better than budget (compared to £12k better at Q2), taking into account the reduced activities from the Tenant Participation team (£35k) and the additional costs from the development of the mobile working module (£14k).

7. Repairs and Maintenance

- (i) The Housing Maintenance Unit (HMU) shows an underspend of £259k (£332k at Q2). This is the direct result of the Covid 19 situation where only essential repairs are being undertaken, which has reduced the costs of materials and the use of subcontractors. At this stage, there is no evidence that there is a significant backlog of work waiting to be done. The effect of increased activity once Covid restrictions are reduced is hard to quantify, but a conservative forecast of a £200k (£70k at Q2) reduction in expenditure compared to the original budget has been made. The situation will continue to be monitored.
- (ii) Expenditure on non HMU building maintenance staff is £67k (£36k at Q2) below the profiled budget at the end of Q3. Recruitment has proved slower than hoped, so the forecast year end position is that expenditure should be £60k below budget (£30k at Q2).
- (iii) Other Repairs and Maintenance costs are overspent by £134k (£124k in Q2) compared to the profiled budget. The main areas of overspend are grounds maintenance and urgent work on sewage treatment plants. It is now apparent that the original budget was insufficient, so a forecast overspend of £100k is now provided for. The budget will be reviewed for 2021/22.

8. Year End Adjustments

- (i) This heading covers items of expenditure (capital financing costs and recharges from the General Fund) that form part of the year end accounting process. At this stage, no changes are envisaged.

9. Capital Expenditure

- (i) The original capital programme approved by the Council in March 2020, totalled £19,114k, which was to be funded by the Major Repairs Allowance (£2,660k), other capital grants (£1,450k) and a contribution from the HRA reserve of £15,034. This includes expenditure carried forward from the 2019/20 capital programme. In the event, not all of the expenditure to be carried over was required, so there is now a revised budget of £19,032k (£14,992k after allowing for £4,110k of grant funding). Based on the current information, it is forecast that the actual expenditure after grants will be £6,900k, which is £8,022k below the revised budget (£6,244k at Q2).
- (ii) Capital projects have been seriously affected by Covid 19, leading to significant delays in projects. This is particularly so in the case of acquiring ex right to buy properties due to the effective suspension of the house property market. There has been considerable progress during Q3, however, with actual expenditure almost doubling from £3,680k to £7,355k. Additional work has been carried out during the remodeling of Llawr Y Dref (converting 6 small units into 4 larger ones) which resulted in the additional expenditure on this project. Currently, there are only 3 units remaining to be let in the remodeled scheme.
- (iii) The capital forecast has been completely revised to take into account all the above, and expenditure is now forecast to be £8,022k below the revised budget at the end of the year. Further details are shown in Appendix B.
- (iv) The underspend on capital expenditure means that the amount funded from the HRA revenue account is similarly reduced. The balance is then available to fund the projects that have been deferred into next year.

10. HRA balance

- (i) The opening balance of the HRA reserve stood at £8,597k. The revised budget allowed for the use of £7,088k of this balance. However, forecast underspend will result in the forecast surplus for the year of £965k being transferred into the reserve. This will give a reserve balance of £9,562k by the end of the financial year. This balance is ringfenced, so is available to fund future HRA expenditure only.

B - What other options did you consider and why did you reject them and/or opt for this option?

n/a

C - Why is this a decision for the Executive?

This matter is delegated to the Executive.

CH - Is this decision consistent with policy approved by the full Council?

Yes

D - Is this decision within the budget approved by the Council?

Yes

DD - Who did you consult?**What did they say?**

1	Chief Executive / Strategic Leadership Team (SLT) (mandatory)	The draft report was considered by the SLT and any comments have been incorporated into the final report.
2	Finance / Section 151 (mandatory)	n/a – this is the Section 151 Officer's report.
3	Legal / Monitoring Officer (mandatory)	Will be consulted as part of SLT.
4	Human Resources (HR)	
5	Property	
6	Information Communication Technology (ICT)	
7	Scrutiny	
8	Local Members	
9	Any external bodies / other/s	

E - Risks and any mitigation (if relevant)

1	Economic	
2	Anti-poverty	
3	Crime and Disorder	
4	Environmental	
5	Equalities	
6	Outcome Agreements	
7	Other	

F - Appendices:

Appendix A – Revenue expenditure and forecasts to end of quarter 3.
Appendix B – Capital expenditure and forecast to end of quarter 3.

FF - Background papers (please contact the author of the Report for any further information):

- 2020/21 HRA budget (as approved by this Committee in March 2020).
- HRA 30 Year Business Plan 2020/50 (as approved by this Committee in June 2020).

APPENDIX A

HRA ACCOUNT 2020/21

	Annual Budget 2020/21	Profiled Budget to Month 9	Actual to Month 9	Variance to Month 9	Year End Forecast	Year End Variance
	£	£	£	£	£	£
REVENUE ACCOUNT						
Income						
Dwellings	(18,407,000)	(13,805,251)	(13,601,786)	203,465	(18,257,000)	150,000
Garages	(218,000)	(163,501)	(157,696)	5,805	(218,000)	0
Service Charges	(212,000)	(159,000)	(159,302)	(302)	(212,000)	0
Other	(199,000)	(117,000)	(129,201)	(12,201)	(199,000)	0
Bad Debt Provision	280,000	0	0	0	280,000	0
TOTAL INCOME	(18,756,000)	(14,244,752)	(14,047,985)	196,767	(18,606,000)	150,000
Non Repairs & Maintenance Expenditure						
Tenant Participation	136,170	102,053	63,489	(38,564)	101,170	(35,000)
Rent Administration	450,220	337,161	363,717	26,556	450,220	0
Estate Management	247,430	185,330	123,800	(61,530)	247,430	0
Other Revenue	899,340	640,382	666,866	26,484	913,340	14,000
Expenditure						
Total Non R & M Expenditure	1,733,160	1,264,926	1,217,872	(47,054)	1,712,160	(21,000)
Repairs and Maintenance						
Housing Maintenance Unit (HMU)	3,112,000	2,333,510	2,074,241	(259,269)	2,912,000	(200,000)
Building Maintenance Staff (non HMU)	926,020	693,511	626,790	(66,721)	866,020	(60,000)
Other Repairs and Maintenance	448,200	336,157	470,899	134,742	548,200	100,000
Total Repairs & Maintenance	4,486,220	3,363,178	3,171,930	(191,248)	4,326,220	(160,000)
Year End Adjustments						
Capital Financing Charges	3,093,000	0	0	0	3,093,000	0
Recharge from Housing Services	790,630	0	0	0	790,630	0
Recharge from Central Services	818,990	0	0	0	818,990	0
Total Year End Adjustments	4,702,620	0	0	0	4,702,620	0
TOTAL REVENUE EXPENDITURE	10,922,000	4,628,104	4,389,802	(238,302)	10,741,000	(181,000)

TOTAL REVENUE (SURPLUS) / DEFICIT	(7,834,000)	(9,616,648)	(9,658,183)	(41,535)	(7,865,000)	(31,000)
CAPITAL EXPENDITURE ACCOUNT						
2020/21 Expenditure	19,032,093	7,715,000	7,355,346	(359,654)	11,010,058	(8,022,035)
Major Repairs Allowance	(2,660,000)	0	0	0	(2,660,000)	0
Other Grants	(1,450,000)	0	0	0	(1,450,000)	0
TOTAL CAPITAL (SURPLUS) / DEFICIT	14,922,093	7,715,000	7,355,346	(359,654)	6,900,058	(8,022,035)
NET (INCREASE) / DECREASE IN HRA RESERVE	7,088,093	(1,901,648)	(2,302,837)	(401,189)	(964,942)	(8,053,035)
Opening HRA Balance	(8,597,000)				(8,597,000)	
Net (Increase) / Decrease in HRA Reserve	7,088,093				(964,942)	
Closing HRA Balance	1,508,907				(9,561,942)	

APPENDIX B

Service	Annual Budget (£)	Profiled Budget (£)	Total Expenditure (£)	Variance To Profile (£)	Projected Expenditure (£)	Projected Under / Over (£)
<u>Housing HRA</u>						
Central Heating Contract	400,000	0	0	0	0	(400,000)
Planned Maintenance Contract	6,120,000	3,500,000	3,072,558	(427,442)	4,500,000	(1,620,000)
Energy Performance Improvement	537,000	0	3,978	3,978	150,000	(387,000)
Environmental Works	750,000	65,000	63,909	(1,091)	100,000	(650,000)
Acquisition of Existing Properties/Development of New Properties	9,230,000	3,500,000	3,559,810	59,810	5,250,000	(3,980,000)
Premises Remodelling of Existing Stock	2,218	0	50,485	50,485	50,485	48,267
Public Sector Adaptations	350,000	90,000	83,682	(6,318)	150,000	(200,000)
Fire Risk	450,000	60,000	38,619	(21,381)	100,000	(350,000)
WHQS	1,172,875	500,000	482,305	(17,695)	700,000	(472,875)
Remediation Work	20,000	0	0	0	9,573	(10,427)
Totals for Housing HRA	19,032,093	7,715,000	7,355,346	(359,654)	11,010,058	(8,022,035)