

## Isle of Anglesey County Council

<b>Report to:</b>	<b>EXECUTIVE COMMITTEE</b>
<b>Date:</b>	<b>3 MARCH 2022</b>
<b>Subject:</b>	<b>HOUSING REVENUE ACCOUNT BUDGET MONITORING, QUARTER 3 2021/22</b>
<b>Portfolio Holder(s):</b>	<b>COUNCILLOR ROBIN WYN WILLIAMS – PORTFOLIO HOLDER FINANCE</b>
<b>Head of Service / Director:</b>	<b>MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER</b>
<b>Report Author:</b>	<b>BETHAN HUGHES OWEN – ACCOUNTANCY SERVICES MANAGER</b>
<b>Tel:</b>	01248 752663
<b>E-mail:</b>	BethanOwen@ynysmon.gov.uk
<b>Local Members:</b>	<b>n/a</b>

### **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 2021/22.
  - (ii) The forecast outturn for 2021/22.
2. **Background**
  - (i) The report here shows the budget with a budgeted surplus of £8.8m.
  - (ii) The capital budget for 2021/22 was £22.56m, including allowance for expenditure that was not completed from the 2020/21 capital budget. This was to be part funded by grants (£2.7m) and borrowing (£2m).
  - (iii) The combination of both the revenue budget and adjusted capital budget gave a planned budget deficit of £9.1m, 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 1<sup>st</sup> April 2021 to 31<sup>st</sup> December 2021.
4. **Overview**
  - 4.1 The HRA surplus/deficit at the end of Quarter 3 shows an overspend of £639k compared to the profiled budget. More detail is shown in Appendix A.
  - 4.2 The Capital expenditure is £3,394k below the profiled budget. The forecast expenditure is £12,169k below budget, as explained below. More detail is shown in Appendix B.
  - 4.3 The forecast surplus (combining both revenue and capital) is now £759k, £9,875k better than the budget, largely the result of lower than budgeted capital expenditure. This is an increase of £3,274k on the £2,515k deficit shown in the Q2 report.

## **5. Income**

- 5.1** At the end of the third quarter, the level of income received was £393k below the profiled budget, as noted below:-
- 5.2** Rental income was £403k below the profiled budget at the end of Quarter 3. The forecast has been reviewed, and takes into account the introduction of new homes into the portfolio (these include 15 dwellings at Rhosybol), whilst recognising the delays in the capital programme (see 9(ii) below), and is £239k below the original budget (a reduction of £90k since the Q2 report). It has become apparent that the budget was optimistic when set up, and steps have been taken to ensure that the budget is more accurately set for 2022/23.
- 5.3** Service charge income, which is based on the actual costs incurred, is £14k better than budget. The forecast has been reviewed and expected to be £25k better than the budget as shown in Q2.
- 5.4** Provision for bad debt was originally calculated at 1.5% of rent income, similar to last year. Currently, the total rent arrears stands at £899k, compared to £963k at the same period last year, an improvement of £64k. Taking into account that the actual provision within the statement of accounts in 2020/21 was only £46k, the forecast has been reduced by £150k, still leaving a prudent provision of £142k.
- 5.5** The overall forecast for income is now a shortfall by the end of the financial year of £64k (£124k in the Q2 report) compared to the original budget.

## **6. Non Repairs and Maintenance Expenditure**

- 6.1** At the end of the third quarter, non repairs and maintenance expenditure was £144k below the profiled budget.
- 6.2** Other revenue expenditure shows an underspend of £24k against the profiled budget, compared to an overspend of £221k at the end of Q2. This is the result of expenditure that it has now been confirmed as being covered by grant income.
- 6.3** The Tenant Participation heading shows an underspend of £98k at the end of Quarter 3. There have been staff vacancies (now successfully filled), and Covid has restricted the amount of contact with tenants. In the light of this, the forecast has been revised to show an underspend of £110k (£70k in the Q2 report) at the year end.

## **7. Repairs and Maintenance**

- 7.1** The Housing Maintenance Unit (HMU) shows an overspend of £489k at the end of Quarter 3, including an overspend of £153k on spending with subcontractors and £207k on stores materials. There was a programme of planned maintenance to recover the backlog caused when Covid19 restricted visits to essential maintenance which was completed at the end of December. As a result of this programme, there was a total of 11,256 works orders completed to the end of December, compared to 7,336 works orders for the same period last year. As a result of the recovery plan, expenditure is forecast to be £450k (£300k in the Q2 report) above budget by the end of the financial year.
- 7.2** Expenditure on non HMU building maintenance staff is £36k below the profiled budget at the end of Quarter 3. There are problems with recruiting staff in this area, so the forecast year end position is that expenditure will be £45k (£35k in the Q2 report) underspent.

**7.3** Other Repairs and Maintenance costs are underspent by £63k compared to the profiled budget. Expected expenditure on sewage treatment works has been deferred until 2022/23, so there is now a forecast underspend of £65k at the end of the year.

## **8. Year End Adjustments**

**8.1** 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**

**9.1** The original capital programme, approved by the Council in March 2021, totalled £20,313k, which was to be funded by the Major Repairs Allowance (MRA) (£2,674k), and a contribution from the HRA reserve (£17,639k). This excluded expenditure carried forward from the 2020/21 capital programme, totalling £2,248k, giving a total budget of £22,561k. This was to be funded by the MRA (£2,674k), borrowing (£2,000k) and a contribution from the revenue account (£17,887k). The forecast has now been revised to total £7,718k, £12,169k below the revised budget. The most significant variances are outlined below:

**9.2** The budget assumed that 15 former Council houses would be purchased but, since the Covid Pandemic, we are finding our ability to procure them made more difficult due to increased house prices and greater competition from private buyers. In addition, the cost of the materials required to bring the properties up to the required standard has also increased, exacerbated by a shortage of contractors willing to undertake the work. To date, we have purchased 5 houses with our offer being accepted on a further 6 (although 4 are unlikely to be complete by the end of the financial year). Additionally, the newbuild housing process includes the requirement to obtain a number of approvals, for example: Planning, SAB (drainage) and Welsh Government grant approval. Three significant developments that were forecast to commence this financial year in Newborough (14 houses), Pentraeth (10 houses) and Holyhead (15 houses), have suffered from delays in the process, and building contracts will not now be signed until the 2022/23 financial year. These factors account for £7,581k of the forecast underspend.

**9.3** The Covid pandemic and associated working restrictions has also impacted on planned investment in the existing stock. In particular, schemes involving significant time working inside people's homes have not been progressed as planned. Examples include planned WHQS kitchen replacement works and plans to install fire suppression systems in two medium rise sheltered blocks of flats. In addition, there is an under expenditure on Energy Efficiency Improvements which is due to on-going negotiations with the District Network Operator (DNO). Unfortunately, the DNO has had network capacity issues, significantly reducing the number of systems approved by the DNO for installation during 2021/22.

**9.4** Covid risk assessments and method statements adopted during the pandemic, together with a shortage or total unavailability of certain key products, has also resulted in delays with the completion of existing schemes. This has impacted negatively on the timing of scheme preparation and tendering in the current financial year.

**9.5** Expenditure on some replacement HMU vehicles has been brought forward from 2022/23, totalling £159k.

**9.6** 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 projects that have been deferred into next year.

## 10 HRA Balance

**10.2** The opening balance of the HRA reserve stood at £9,722k. The revised budget allowed for the use of £9,116k of this balance. However, the revised forecasts highlighted above will increase the balance by £759k. This will give a reserve balance of £10,480k by the end of the financial year. This balance is ringfenced and is, therefore, only available to fund future HRA expenditure.

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

Not applicable

### **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 – Assessing the potential impact (if relevant):**

1	How does this decision impact on our long term needs as an Island?	The report is for monitoring purposes only and is used along with other reports to set the HRA business plan and annual budget. In setting the annual budget, the impact on the long term needs of the Island will be assessed.
2	Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority? If so, how?	Not applicable
3	Have we been working collaboratively with other organisations to come to this decision? If so, please advise whom.	Not applicable
4	Have Anglesey citizens played a part in drafting this way forward, including those directly affected by the decision? Please explain how.	The Housing Service regularly consult with their tenants and the results of those consultations are fed into the business planning process and then on to the annual budget process.
5	Note any potential impact that this decision would have on the groups protected under the Equality Act 2010.	Not applicable
6	If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.	Not applicable
7	Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.	Not applicable

<b>E – Who did you consult?</b>		<b>What did they say?</b>
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	The report has been considered by the SLT at its meeting on 8 November 2021 and the comments made incorporated into the report.
2	Finance / Section 151 (mandatory)	n/a – this is the Section 151 Officer’s report
3	Legal / Monitoring Officer (mandatory)	The Monitoring Officer is a member of the SLT.
4	Human Resources (HR)	N/A
5	Property	N/A
6	Information Communication Technology (ICT)	N/A
7	Procurement	N/A
8	Scrutiny	The results of the HRA quarterly monitoring reports are reported to the Finance Scrutiny Panel.
9	Local Members	N/A
<b>F - Appendices:</b>		
<ul style="list-style-type: none"> <li>• Appendix A - Revenue expenditure and forecasts to end of quarter 3.</li> <li>• Appendix B - Capital expenditure and forecast to end of quarter 3.</li> </ul>		
<b>Ff - Background papers (please contact the author of the Report for any further information):</b>		
<ul style="list-style-type: none"> <li>• HRA 30 Year Business Plan 2020/50 (as approved by this Committee in May 2021).</li> </ul>		

<b>HRA ACCOUNT 2021/22</b>						
	<b>Annual Budget 2021/22</b>	<b>Profiled Budget to Month 9</b>	<b>Actual to Month 9</b>	<b>Variance to Month 9</b>	<b>Year End Forecast</b>	<b>Year End Variance</b>
	£	£	£	£	£	£
<b>REVENUE ACCOUNT</b>						
<b>Income</b>						
Dwellings	(19,167,000)	(14,375,251)	(13,972,729)	402,522	(18,928,000)	239,000
Garages	(220,000)	(165,000)	(161,679)	3,321	(220,000)	0
Service Charges	(216,000)	(162,000)	(176,094)	(14,094)	(241,000)	(25,000)
Other	(203,000)	(97,127)	(95,886)	1,241	(203,000)	0
Bad Debt Provision	292,000	0	0	0	142,000	(150,000)
<b>TOTAL INCOME</b>	<b>(19,514,000)</b>	<b>(14,799,378)</b>	<b>(14,406,388)</b>	<b>392,990</b>	<b>(19,450,000)</b>	<b>64,000</b>
<b>Non Repairs &amp; Maintenance Expenditure</b>						
Tenant Participation	248,820	186,538	88,302	(98,236)	138,820	(110,000)
Rent Administration	497,573	372,667	359,355	(13,312)	497,573	0
Estate Management	176,911	132,435	123,343	(9,092)	176,911	0
Other Revenue Expenditure	958,339	653,320	630,069	(23,251)	958,339	0
<b>Total Non R &amp; M Expenditure</b>	<b>1,881,643</b>	<b>1,344,960</b>	<b>1,201,069</b>	<b>(143,891)</b>	<b>1,771,643</b>	<b>(110,000)</b>
<b>Repairs and Maintenance</b>						
Housing Maintenance Unit (HMU)	3,143,119	2,356,840	2,845,645	488,805	3,593,119	450,000
Building Maintenance Staff (non HMU)	935,282	700,448	663,988	(36,460)	890,282	(45,000)
Other Repairs and Maintenance	662,572	554,438	491,763	(62,675)	597,572	(65,000)
<b>Total Repairs &amp; Maintenance</b>	<b>4,740,973</b>	<b>3,611,726</b>	<b>4,001,396</b>	<b>389,670</b>	<b>5,080,973</b>	<b>340,000</b>
<b>Year End Adjustments</b>						
Capital Financing Charges	2,518,000	0	0	0	2,518,000	0
Recharge from Housing Services	790,630	0	0	0	790,630	0
Recharge from Central Services	811,780	0	0	0	811,780	0
<b>Total Year End Adjustments</b>	<b>4,120,410</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,120,410</b>	<b>0</b>
<b>TOTAL REVENUE EXPENDITURE</b>	<b>10,743,026</b>	<b>4,956,686</b>	<b>5,202,465</b>	<b>245,779</b>	<b>10,973,026</b>	<b>230,000</b>
<b>TOTAL REVENUE (SURPLUS) / DEFICIT</b>	<b>(8,770,974)</b>	<b>(9,842,692)</b>	<b>(9,203,923)</b>	<b>638,769</b>	<b>(8,476,974)</b>	<b>294,000</b>

<b>CAPITAL EXPENDITURE ACCOUNT</b>						
2021/22 Expenditure	22,560,797	10,060,000	6,666,469	(3,393,531)	10,392,142	(12,168,655)
Major Repairs Allowance	(2,674,000)	0	0	0	(2,674,000)	0
<b>Other Grants/Borrowing</b>	(2,000,000)	0	0	0	0	2,000,000
<b>TOTAL CAPITAL (SURPLUS) / DEFICIT</b>	<b>17,886,797</b>	<b>10,060,000</b>	<b>6,666,469</b>	<b>(3,393,531)</b>	<b>7,718,142</b>	<b>(10,168,655)</b>
<b>NET (INCREASE) / DECREASE IN HRA RESERVE</b>	<b>9,115,823</b>	<b>217,308</b>	<b>(2,537,454)</b>	<b>(2,754,762)</b>	<b>(758,832)</b>	<b>(9,874,655)</b>
<b>Opening HRA Balance</b>	(9,722,000)				(9,722,000)	
<b>Net (Increase) / Decrease in HRA Reserve</b>	9,115,823				(758,832)	
<b>Closing HRA Balance</b>	<b>(606,177)</b>				<b>(10,480,832)</b>	

APPENDIX B

Service	Annual Budget (£)	Profiled Budget (£)	Total Expenditure (£)	Variance To Profile (£)	Projected Expenditure (£)	Projected Under / Over (£)
<b>Housing HRA</b>						
Central Heating Contract	400,000	100,000	0	(100,000)	300,000	(100,000)
Planned Maintenance Contract	4,725,000	3,000,000	1,915,323	(1,084,677)	2,750,000	(1,975,000)
Energy Performance Improvement	1,000,000	200,000	101,136	(98,865)	400,000	(600,000)
Environmental Works	880,000	580,000	120,481	(459,517)	207,623	(672,377)
Acquisition of Existing Properties/ Development of New Properties	13,005,797	5,000,000	3,783,679	(1,216,321)	5,425,086	(7,580,711)
Public Sector Adaptations	350,000	250,000	214,779	(35,221)	350,000	0
Fire Risk	450,000	225,000	221	(224,779)	50,000	(400,000)
WHQS	1,750,000	705,000	492,587	(212,413)	750,000	(1,000,000)
Housing Maintenance Unit Vehicles	0	0	38,263	38,263	159,433	159,433
<b>Totals for Housing HRA</b>	<b>22,560,797</b>	<b>10,060,000</b>	<b>6,666,469</b>	<b>(3,393,531)</b>	<b>10,392,142</b>	<b>(12,168,655)</b>