

## Isle of Anglesey County Council

Report to:	EXECUTIVE COMMITTEE
Date:	29 JUNE 2022
Subject:	HOUSING REVENUE ACCOUNT OUTTURN REPORT QUARTER 4 2021/22
Portfolio Holder(s):	COUNCILLOR ROBIN WYN WILLIAMS
Head of Service / Director:	MARC JONES – DIRECTOR OF FUNCTION (RESOURCES) / SECTION 151 OFFICER
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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 the 2021/22 financial year.
2. **Background**
  - (i) The report here shows the revenue budget with a budgeted surplus of £8,771k.
  - (ii) The capital budget for 2021/22 was £22,561k, including allowance for expenditure that was not completed from the 2020/21 capital budget amounting to £2,248k. This was originally to be part funded by grants £2,674k and borrowing £2,000k.
  - (iii) The combination of both the revenue budget and adjusted capital budget gave a planned budget deficit of £9,116k, 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> March 2022.
4. **Overview**
  - (i) The HRA revenue surplus / deficit at the end of the year shows an overspend of £942k compared to the budget. More detail is shown in Appendix A.
  - (ii) The Capital expenditure is £12,667k below budget, this is after taking account of the additional Social Housing Grant funding of £706k. More detail is shown in Appendix A and B.
  - (iii) The surplus (combining both revenue and capital) is £11,726k lower than the budget, largely the result of lower than budgeted capital expenditure. This is an increase of £1,851k compared to the forecast shown in the Quarter 3 report, this mainly relates to additional Capital Grant Income received in Quarter 4 which offset the fall in the revenue surplus of £648k compared to the Quarter 3 forecast.

## **5. Income**

- (i) At the end of the financial year, total income was £230k below budget, as noted below.
- (ii) Rental income was £388k below budget at the end of the year, £149k worse than forecast at the end of Quarter 3. The actual income at the year end was lower than the previous forecast due to the fact that no rent was charged for the Christmas week. As previously reported, it is 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.
- (iii) Service charge income, which is based on the actual costs incurred, was £18k better than budget but £7k below the forecast at the end of Quarter 3.
- (iv) Other income included provision for grants that are traditionally received in the final quarter of the year. These have not been available this year, resulting in the income being £70k below budget.
- (v) Provision for bad debt was originally calculated at 1.5% of rent income, similar to last year. At the end of the financial year, the total rent arrears stood at £838k, compared to £818k at the same period last year, an increase of just £20k despite the effects of Covid on tenants' ability to pay. The final sum set aside in the accounts for bad debt is £79k, £213k better than the budget and an improvement of £63k from the Quarter 3 forecast.

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

- (i) At the end of the financial year, non repairs and maintenance expenditure was £67k below budget. This underspend has decreased by £43k from the £110k forecasted underspend in Quarter 3.
- (ii) Other revenue expenditure shows an overspend of £56k compared to a break even forecast at the end of Quarter 3. This is the result of expenditure on IT during the final quarter.
- (iii) The Tenant Participation heading has underspent by £117k compared to the budget, this is £7k higher than the £110k forecasted underspend at the end of Quarter 3. There have been staff vacancies (now successfully filled), and Covid has restricted the number of tenant participation events that could take place.

## **7. Repairs and Maintenance**

- (i) The Housing Maintenance Unit (HMU) shows an overspend of £942k at the end of the financial year, this is mainly due to an overspend of £219k on spending with subcontractors, £189k on stores materials, £100k specialist services, £74k relates to fleet costs and staffing overspends account for £59k of the overspend. A significant proportion of the subcontractor overspend was incurred engaging a contractor to undertake Electrical Installation Condition Reports (EICR) which were suspended during the Covid pandemic. Labour expenditure for this workstream alone exceeded £120k, with associated additional store materials costs also incurred in order to comply with expectations that homes should have EICR's undertaken every 5 years.
- (ii) There has been a programme of planned maintenance to recover the backlog caused when Covid restricted visits to essential maintenance. This is an increase of £492k compared to the forecast at the end of Quarter 3. As a result of this programme, there was a total of 31,037 (an increase of 26.8%) works orders raised during the financial year, compared to 24,475 works orders raised during the previous financial year.

- (iii) Following consultation and securing Human Resource support, the Housing Maintenance Unit employed a further 3 apprentices at total cost of approximately £75k, which did not form part of the original core budget for 2021/22.
- (iv) Expenditure on non HMU building maintenance staff was £36k below budget at the end of the financial year, and £9k less than the forecast at the end of Quarter 3. There are problems with recruiting staff in this area, causing the underspend.
- (v) Other Repairs and Maintenance costs were underspent by £19k at year end, this is £46k less than the Quarter 3 forecast underspend of £65k. Expected expenditure on sewage treatment works has been deferred until 2022/23 and, during the final quarter, there was expenditure on fire prevention works that had originally been planned to form part of the capital programme.

## **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. In the event, these showed an underspend of £108k compared to the original budget, with the lower than planned capital expenditure resulting in capital financing charges being lower by £136k.

## **9. Capital Expenditure**

- (i) The original capital programme, approved by the Council for 2021/22 in March 2021, totalled £20,313k. This excluded an amount 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 of £2,674k, borrowing of £2,000k and a contribution from the revenue account of £17,887k. At the end of the financial year, the expenditure totalled £10,458k, an underspend of £12,103k plus additional grant funding was received to the sum of £565k. Overall, the total underspend on capital expenditure amounted to £12,667k. The majority of the expenditure plans will be rolled forward into the 2022/23 capital programme and the HRA fund will be available to fund the programme in 2022/23. The most significant variances are outlined below:-
- (ii) The budget assumed that 15 former Council houses would be purchased but, since the Covid Pandemic, the Service is finding a greater level of difficulty to procure houses at a price which meets the investment criteria because of increased house prices and greater competition from private buyers. During the financial year, 27 ex Council houses for sale were viewed but only 9 of these properties were actually purchased. 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 £7,446k of the underspend in the capital programme.
- (iii) 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.

- (iv) 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. For example, the proposed boiler replacement programme for 2021/22 was delayed following contract award due to manufacturing delays as a result of industry wide issues with sourcing key elements. The scheme eventually commenced towards the end of Quarter 4.
- (v) Due to uncertainty around Covid restrictions, unavoidable delays on other planned schemes and problems encountered by contractors with sourcing core materials, Housing Services suspended the preparation and tendering of a traditional planned maintenance scheme programmed for 2021/22. This decision impacted negatively on expected expenditure levels. The scheme will now be tendered during Quarter 1 2022/23.
- (vi) Expenditure on some replacement HMU vehicles has been brought forward from 2022/23, totalling £159k.
- (vii) 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

- (i) The opening balance of the HRA reserve stood at £9,723k. The revised budget allowed for the use of £9,116k of this balance. However, the outturn position means that the sum of £2,610k can be added to the balance, therefore, the closing balance of the HRA reserve as at 31<sup>st</sup> March 2022 is £12,333k. 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.
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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)	
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 4</li> <li>Appendix B – Capital expenditure and forecast to end of quarter 4</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>		

## HOUSING REVENUE ACCOUNT OUTTURN 2021/22

	Annual Budget 2021/22	Outturn	Variance	Q3 Forecasted Outturn	Change from Q3 Forecast
	£	£	£		
<b>REVENUE ACCOUNT</b>					
<b>Income</b>					
Dwellings	(19,167,000)	(18,779,013)	387,987	(18,928,000)	148,987
Garages	(220,000)	(217,561)	2,439	(220,000)	2,439
Service Charges	(216,000)	(233,981)	(17,981)	(241,000)	7,019
Other	(203,000)	(132,611)	70,389	(203,000)	70,389
Bad Debt Provision	292,000	79,109	(212,891)	142,000	(62,891)
<b>TOTAL INCOME</b>	<b>(19,514,000)</b>	<b>(19,284,057)</b>	<b>229,943</b>	<b>(19,450,000)</b>	<b>165,943</b>
<b>Non Repairs &amp; Maintenance Expenditure</b>					
Tenant Participation	248,820	131,747	(117,073)	138,820	(7,073)
Rent Administration	497,573	499,357	1,784	497,573	1,784
Estate Management	176,911	169,825	(7,086)	176,911	(7,086)
Other Revenue Expenditure	958,339	1,014,147	55,808	958,339	55,808
<b>Total Non R &amp; M Expenditure</b>	<b>1,881,643</b>	<b>1,815,076</b>	<b>(66,567)</b>	<b>1,771,643</b>	<b>43,433</b>
<b>Repairs and Maintenance</b>					
Housing Maintenance Unit (HMU)	3,143,119	4,084,624	941,505	3,593,119	491,505
Building Maintenance Staff (non HMU)	935,282	899,618	(35,664)	890,282	9,336
Other Repairs and Maintenance	662,572	643,294	(19,278)	597,572	45,722
<b>Total Repairs &amp; Maintenance</b>	<b>4,740,973</b>	<b>5,627,536</b>	<b>886,563</b>	<b>5,080,973</b>	<b>546,563</b>
<b>Year End Adjustments</b>					
Capital Financing Charges	2,518,000	2,382,485	(135,515)	2,518,000	(135,515)
Recharge from Housing Services	790,630	832,051	41,421	790,630	41,421
Recharge from Central Services	811,780	797,491	(14,289)	811,780	(14,289)
<b>Total Year End Adjustments</b>	<b>4,120,410</b>	<b>4,012,027</b>	<b>(108,383)</b>	<b>4,120,410</b>	<b>(108,383)</b>
<b>TOTAL REVENUE EXPENDITURE</b>	<b>10,743,026</b>	<b>11,454,639</b>	<b>711,613</b>	<b>10,973,026</b>	<b>481,613</b>
<b>TOTAL REVENUE (SURPLUS) / DEFICIT</b>	<b>(8,770,974)</b>	<b>(7,829,418)</b>	<b>941,556</b>	<b>(8,476,974)</b>	<b>647,556</b>

CAPITAL EXPENDITURE ACCOUNT					
2021/22 Expenditure	22,560,797	10,458,046	(12,102,751)	10,392,142	65,904
Major Repairs Allowance	(2,674,000)	(2,685,000)	(11,000)	(2,674,000)	(11,000)
<b>Other Grants/Borrowing</b>	(2,000,000)	(2,553,578)	(553,578)	0	(2,553,578)
<b>TOTAL CAPITAL (SURPLUS) / DEFICIT</b>	<b>17,886,797</b>	<b>5,219,468</b>	<b>(12,667,329)</b>	<b>7,718,142</b>	<b>(2,498,674)</b>
<b>NET (INCREASE) / DECREASE IN HRA RESERVE</b>	<b>9,115,823</b>	<b>(2,609,950)</b>	<b>(11,725,773)</b>	<b>(758,832)</b>	<b>(1,851,118)</b>
<b>Opening HRA Balance</b>	(9,723,000)	(9,723,000)		(9,723,000)	0
<b>Net (Increase) / Decrease in HRA Reserve</b>	9,115,823	(2,609,950)	(11,725,773)	(758,832)	(1,851,118)
<b>Closing HRA Balance</b>	<b>(607,177)</b>	<b>(12,332,950)</b>	<b>(11,725,773)</b>	<b>(10,481,832)</b>	<b>(1,851,118)</b>

## APPENDIX B

Service	Annual Budget (£)	Outturn (£)	Variance (£)	Q3 Forecasted Outturn (£)	Change from Q3 Forecast (£)
<b><u>Housing HRA</u></b>					
Central Heating Contract	400,000	15,482	(384,518)	300,000	(284,518)
Planned Maintenance Contract	4,725,000	2,753,345	(1,971,655)	2,750,000	3,345
Energy Performance Improvement	1,000,000	226,009	(773,991)	400,000	(173,991)
Environmental Works	880,000	103,966	(776,034)	207,623	(103,657)
Acquisition of Existing Properties/Development of New Properties	13,005,797	5,559,856	(7,445,941)	5,425,086	134,770
Land Acquisition	0	735,000	735,000	0	735,000
Public Sector Adaptations	350,000	266,001	(83,999)	350,000	(83,999)
Fire Risk	450,000	0	(450,000)	50,000	(50,000)
WHQS	1,750,000	665,852	(1,084,148)	750,000	(84,148)
HMU Vehicles	0	132,535	132,535	159,433	(26,898)
<b>Totals for Housing HRA</b>	<b>22,560,797</b>	<b>10,458,046</b>	<b>(12,102,751)</b>	<b>10,392,142</b>	<b>65,904</b>