

Isle of Anglesey County Council

Report to:	EXECUTIVE COMMITTEE
Date:	29 NOVEMBER 2022
Subject:	HOUSING REVENUE ACCOUNT BUDGET MONITORING, QUARTER 2 2022/23
Portfolio Holder(s):	COUNCILLOR ROBIN WYN WILLIAMS – PORTFOLIO HOLDER FINANCE, CORPORATE BUSINESS AND CUSTOMER EXPERIENCE
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 Quarter 2 2022/23.
 - (ii) The forecast outturn for 2022/23.
2. **Background**
 - (i) The report here shows the revenue budget with a budgeted surplus of £6,218k.
 - (ii) The capital budget for 2022/23 is £15,034k. This was to be part funded by grants (£2,688k).
 - (iii) The combination of both the revenue budget and adjusted capital budget gave a planned budget deficit of £6,128k, 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 2022 to 30th September 2022.
4. **Overview**
 - 4.1 The HRA revenue surplus / deficit at the end of Quarter 2 shows an overspend of £493k, compared to the profiled budget. The forecast has been reviewed, and shows a forecast overspend of £958k. £298k of this overspend relates to the 2022/23 pay award, which the HRA is required to fund in full. More detail is shown in Appendix A.
 - 4.2 The Capital expenditure is £2k above the profiled budget. The profiled budget assumes that much of the work is carried out in the second half of the year. The forecast expenditure for the year is £2,949k below budget, as explained below. More detail is shown in Appendix B.

4.3 The forecast deficit (combining both revenue and capital) is now £4,137k, £1,991k below budget, largely the result of lower than budgeted capital expenditure.

5. Income

5.1 At the end of Quarter 2, the level of income received was £19k below the profiled budget as noted below.

5.2 Rental income was £32k below the profiled budget at the end of Quarter 2. The forecast has been reviewed in the light of new properties being tenanted (49 new properties have recently become available for rent) and the forecast has been increased by £32k, to £19,452k.

5.3 A similar review has taken place indicating that garage revenue is expected to be £5k better than budget, and income from service charges are expected to be £7k better than budget.

5.4 Provision for bad debt has been calculated at 1.5% of rent income, similar to last year. Currently, the total rent arrears stands at £955k, compared to £871k at the same period last year, an increase of £84k (9.6%). Given the uncertainty surrounding the rate of inflation and the long term effect it will have on the cost of living crisis, the forecast is unchanged at present, but will be kept under review and revised during the year if the level of arrears suggests that there is an increased risk of a greater level of arrears not being collected.

5.5 The overall forecast for income is an improvement of £44k compared to the annual budget.

6. Non Repairs and Maintenance Expenditure

6.1 At the end of Quarter 2, non-repairs and maintenance expenditure was £42k below the profiled budget.

6.2 The Tenant Participation heading shows an underspend of £40k at the end of Quarter 2. The budget included allowance for additional staff, however, these vacant posts have not been filled and it is not expected that they will be filled in the current financial year. Accordingly, the forecast has been reduced by £70k.

6.3 The HRA is required to fund the full effects of the 2022/23 pay award. This is estimated to cost an additional £73k under this heading, and the forecast has been amended accordingly.

7. Repairs and Maintenance

7.1 The Housing Maintenance Unit (HMU) shows an overspend of £621k at the end of Quarter 2. The volume of work orders post Covid19 restrictions remains high, and Quarter 2 expenditure is a reflection of increased demand led reactive maintenance and the number and extent of works required at change of tenancy during Quarter 2 with, typically, works underway at between 40 and 50 properties at any given time. This increase in demand is reflected in the increased use of subcontractors, expected to cost an extra £700k above the original budget. The effect of inflation on materials prices is also a cause of concern, with the additional cost of materials forecast to be over £100k higher, and utility bills a further £100k in addition. The effect of the 2022/23 pay award accounts for a further £100k. There is no indication that the level of work will decrease, therefore, the forecast is that expenditure will be £1,000k above the original budget by the end of the financial year.

7.2 Expenditure on non HMU building maintenance staff is £30k below the profiled budget at the end of Quarter 2. The forecast has been reviewed, and the expectation is that the budget will be spent in full, as the additional costs due to the 2022/23 pay award directly cancels out the underspends from vacant posts.

7.3 Expenditure on Other Repairs and Maintenance is forecast to be £50k below budget by the end of the financial year, as additional costs arising from the repair of sewage treatment works has not been required.

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. It is expected that the recharge from the Housing Service will overspend by £32k, and the recharge from Central services will overspend by £30k, due to the effect of the 2022/23 pay award.

9. Capital Expenditure

9.1 The capital budget totals £15,034k, which was to be funded by the Major Repairs Allowance (MRA) (£2,688k) and a contribution from the HRA reserve (£12,346k). The forecast annual expenditure has been revised to £12,085k, £2,949k below budget. The most significant variances are outlined below.

9.2 The revised Capital budget for each new build / acquisition scheme, including the total number of new units per scheme, the expenditure to date, the forecast expenditure, the forecasted under or overspend per scheme and the anticipated completion date for each scheme is shown in Appendix C.

Works on the Clwb Cymdeithasol Biwmares site are running slightly behind schedule. It is anticipated that these works will be completed by December 2023. Therefore, we are forecasting an underspend of £281k on this project in 2022/23.

The Ysgol Llanfachraeth project has run over budget to the value of £58k, this is mainly due to unforeseen drainage works encountered during the course of the contract.

It was initially anticipated that the purchase of 10 affordable dwellings from Clwyd Alyn at the Pentraeth site would have been completed during the 2023/24 Financial Year. However, following recent negotiations between the Authority and Clwyd Alyn, it has been agreed that we will be contributing towards the cost of these dwellings as they are being constructed. These dwellings will be held as assets under construction until they have been completed. It is anticipated that we will overspend by £750k on this project in the current financial year, as these costs were not initially budgeted for in 2022/23.

9.3 The WHQS project has been delayed whilst the design for the new kitchen programme is completed. This originally involved 135 properties. The programme now envisages 80 properties being completed, and tender documentation has now been issued. Detailed forecasting and project specification work within the Housing department has identified a further slippage of £47k compared to Quarter 1 forecasts.

9.4 The Energy Performance budget relies on consultation with the District Network Operator (DNO) prior to installing Solar PV panels to generate renewable electricity. Unfortunately, gaining DNO approval to undertake large scale Solar PV work has been and continues to be difficult, due to a requirement to reinforce the network prior to installing Solar PV. It has been confirmed that the necessary strengthening works will be carried out at the DNO's expense, resulting in a further £412k underspend compared to our Quarter 1 forecast.

9.5 The approved public sector planned maintenance budget for 2022/23 is in the sum of £9,555k. During Quarter 2, major external planned maintenance works at Llangoed and Llanddona continued on site, with the works now practically complete. A contract for the replacement of over 300 gas boilers continued on site and progressed well during Quarter 2. The main traditional planned maintenance contract scheduled for 2022/23 involves properties at Cemaes Bay.

9.6 The environmental budget allows for significant investment involving upgrading sewage disposal arrangements at Carreglefn, in order to comply with requirements set out by Natural Resources Wales (NRW). The proposed solution involves negotiations with a private land owner and securing a Permit for the scheme from NRW. Whilst the permit has been approved, discussions are still ongoing with the land owner and the contractor. Realistically work is not expected to commence before the turn of the current financial year, resulting in a further underspend of £113k compared to our Quarter 1 forecast.

9.7 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

10.1 The opening balance of the HRA reserve stood at £12,333k. The revised budget allowed for the use of £6,128k of this balance. However, the revised forecasts highlighted above will use only £4,137k. This will give a reserve balance of £8,196k 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.
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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
E – Who did you consult?		What did they say?
1	Chief Executive / Senior Leadership Team (SLT) (mandatory)	The report has been considered by the Senior Leadership Team at its meeting on 7/11/2022 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 Senior Leadership Team
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
F - Appendices:		
<ul style="list-style-type: none"> • Appendix A – Revenue expenditure and forecasts to end of Quarter 2 2022-23 • Appendix B – Capital expenditure and forecast to end of Quarter 2 2022-23. • Appendix C – New Build / Acquisition capital schemes 		
Ff - Background papers (please contact the author of the Report for any further information):		
<ul style="list-style-type: none"> • HRA 30 Year Business Plan 2022/52 (as approved by this Committee in May 2022). 		

HRA ACCOUNT 2022/23						
	Annual Budget 2022/23	Profiled Budget to Month 6	Actual to Month 6	Variance to Month 6	Year End Forecast	Year End Variance
	£	£	£	£	£	£
REVENUE ACCOUNT						
Income						
Dwellings	(19,420,000)	(9,904,200)	(9,872,330)	31,870	(19,452,000)	(32,000)
Garages	(223,000)	(113,730)	(116,336)	(2,606)	(228,000)	(5,000)
Service Charges	(201,000)	(102,509)	(94,922)	7,587	(208,000)	(7,000)
Other	(207,860)	(60,961)	(78,670)	(17,709)	(207,860)	0
Bad Debt Provision	296,000	0	0	0	296,000	0
TOTAL INCOME	(19,755,860)	(10,181,400)	(10,162,258)	19,142	(19,799,860)	(44,000)
Non Repairs & Maintenance Expenditure						
Tenant Participation	260,653	130,292	90,270	(40,022)	190,653	(70,000)
Rent Administration	500,013	249,673	242,685	(6,988)	530,013	30,000
Estate Management	180,788	90,238	88,267	(1,971)	195,788	15,000
Other Revenue Expenditure	1,770,934	566,197	572,850	6,653	1,785,934	15,000
Total Non R & M Expenditure	2,712,388	1,036,400	994,072	(42,328)	2,702,388	(10,000)
Repairs and Maintenance						
Housing Maintenance Unit (HMU)	3,795,464	1,897,465	2,518,035	620,570	4,795,464	1,000,000
Building Maintenance Staff (non HMU)	958,583	478,333	448,449	(29,884)	958,583	0
Other Repairs and Maintenance	793,655	489,171	414,651	(74,520)	743,655	(50,000)
Total Repairs & Maintenance	5,547,702	2,864,969	3,381,135	516,166	6,497,702	950,000
Year End Adjustments						
Capital Financing Charges	3,674,000	0	0	0	3,674,000	0
Recharge from Housing Services	790,630	0	0	0	822,630	32,000
Recharge from Central Services	812,831	0	0	0	842,831	30,000
Total Year End Adjustments	5,277,461	0	0	0	5,339,461	62,000
TOTAL REVENUE EXPENDITURE	13,537,551	3,901,369	4,375,207	473,838	14,539,551	1,002,000
TOTAL REVENUE (SURPLUS) / DEFICIT	(6,218,309)	(6,280,031)	(5,787,051)	492,980	(5,260,309)	958,000

CAPITAL EXPENDITURE ACCOUNT						
2022/23 Expenditure	15,034,000	4,013,358	4,014,874	1,516	12,085,464	(2,948,536)
Major Repairs Allowance	(2,688,000)	0	0	0	(2,688,000)	0
Other Grants / Borrowing	0	0	0	0	0	0
TOTAL CAPITAL (SURPLUS) / DEFICIT	12,346,000	4,013,358	4,014,874	1,516	9,397,464	(2,948,536)
NET (INCREASE) / DECREASE IN HRA RESERVE	6,127,691	(2,266,673)	(1,772,177)	494,496	4,137,155	(1,990,536)
Opening HRA Balance	(12,333,000)				(12,333,000)	
Net (Increase) / Decrease in HRA Reserve	6,127,691				4,137,155	
Closing HRA Balance	(6,205,309)				(8,195,845)	

Service	Annual Budget (£)	Profiled Budget (£)	Total Expenditure (£)	Variance To Profile (£)	Projected Expenditure (£)	Projected Under / Over (£)
<u>Housing HRA</u>						
Central Heating Contract	800,000	549,387	441,477	(107,910)	800,000	0
Planned Maintenance Contract	3,955,000	612,474	648,204	35,730	2,500,000	(1,455,000)
Energy Performance Improvement	1,000,000	62,178	52,178	(10,000)	250,000	(750,000)
Environmental Works	870,667	62,676	80,694	18,018	500,000	(370,667)
Acquisition of Existing Properties / Development of New Properties	5,479,000	2,100,000	2,129,968	29,968	6,006,131	527,131
Public Sector Adaptations	400,000	143,050	200,754	57,704	400,000	0
Fire Risk	600,000	7,737	29,345	21,608	600,000	0
WHQS	1,901,950	448,473	404,871	(43,602)	1,001,950	(900,000)
Housing Maintenance Unit Vehicles	27,383	27,383	27,383	0	27,383	0
Totals for Housing HRA	15,034,000	4,013,358	4,014,874	1,516	12,085,464	(2,948,536)

APPENDIX C

Scheme	Number of Additional Units	2022-23 Budget	Expenditure to P6	Forecasted Expenditure P7 to P12	Total Forecasted Expenditure 2022-23	Overspend/ (Underspend)	Estimated Completion Date
Pentraeth (Clwyd Alyn)	10	0	0	750,000	750,000	750,000	August 2023
Armenia St, Caergybi	5	8,000	(6,610)	14,610	8,000	0	Complete
Retentions from 2021-22	1	16,000	16,000	0	16,000	0	Complete
Marquis, Rhosybol	15	34,000	10,802	23,198	34,000	0	Complete
Ysgol Llanfachraeth	8	100,000	158,004	0	158,004	58,004	Complete
Extra Care	55	100,000	8,821	91,179	100,000	0	December 2026
Plas Alltran, Caergybi	4	250,000	(3,596)	253,596	250,000	0	December 2023
Ysgol Llaingoch, Caergybi	26	300,000	678	299,322	300,000	0	Complete
Cae Braenar, Caergybi	23	460,000	6,528	453,472	460,000	0	September 2024
Parc y Coed, Llangefni	12	500,000	3,973	496,027	500,000	0	November 2023
Clwb Cymdeithasol Biwmares	6	1,000,000	119,126	600,000	719,126	(280,874)	December 2023
Renovation of 15 units	0	1,318,955	424,197	894,759	1,318,956	0	August 2023
Buyback 12 Units	12	1,392,045	1,392,045	0	1,392,045	0	March 2023
Total Allocation 2022-23	177	5,479,000	2,129,968	3,876,163	6,006,131	527,131	