

## Isle of Anglesey County Council

Report to:	EXECUTIVE COMMITTEE
Date:	27 JUNE 2023
Subject:	HOUSING REVENUE ACCOUNT OUT-TURN REPORT 2022/23
Portfolio Holder(s):	COUNCILLOR ROBIN WILLIAMS – DEPUTY LEADER & PORTFOLIO HOLDER - FINANCE
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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) 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 was £15,034k. This was initially expected 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 1<sup>st</sup> April 2022 to 31<sup>st</sup> March 2023.
4. **Overview**
  - 4.1 The HRA revenue surplus / deficit at out-turn shows an underspend of £955k compared to the budget. This compares to a forecasted overspend of £951k in quarter 3. £2,288k of the swing relates to an underspend on capital financing charges and recharges of staff costs from the Council Fund Housing budget and recharges for central services (Finance, HR, IT etc.). The significant underspend on capital financing charges arose as a result of changes in Minimum Revenue Provision (MRP) policy (approved by the Executive in March 2023), higher than anticipated levels of interest received, due to increasing interest rates, and lower borrowing costs. £300k relates to additional repairs and maintenance, this is partly due to increase in material costs, but also due to an increase in demand. More detail is shown in Appendix A.
  - 4.2 The Capital expenditure is £3,854k below the budget at out-turn. This compares to a forecasted underspend of £4,891k in quarter 3. The difference is mainly due to acquiring more properties in quarter 4 than initially expected, in addition to committing to expenditure on new sites ahead of schedule. £1,094k was received in additional capital grant funding during the

year, resulting in a revised out-turn position of £4,948k underspent. More detail is shown in Appendix B.

- 4.3** The deficit (combining both revenue and capital) was £225k at out-turn, this compares to a forecasted deficit of £2,187k in quarter 3, with the movement as a result of the reasons noted above.

## **5. Income**

- 5.1** At the end of quarter 4, the level of income received was £259k above the budget. However, £217k has been charged against income due to clearing a historical imbalance on the rent holding accounts. The revised out-turn position for income, after charging the above against income, is £42k overachievement.
- 5.2** Rental income overachieved by £27k at out-turn, this compares to a forecast of £52k overachieved in quarter 3. The variance between our quarter 3 forecasts and the out-turn figure was a direct result of lease negotiations for 8 flats at a development in Holyhead taking longer than anticipated. The £217k referred to above has been charged against dwelling income, meaning that the revised out-turn position for this budget heading was £190k underachieved.
- 5.3** Garage income overachieved by £7k at out-turn, this remains unchanged from our quarter 3 forecast.
- 5.4** Service charges income has underachieved by £22k at out-turn, compared to a forecast of £8k in quarter 3. The difference was due to an error in the calculation of the forecast at the end of quarter 3.
- 5.5** Other income overachieved by £74k at out-turn. This compares to a break even forecast in quarter 3. £115k relates to Affordable Housing Grant income, which is purely a revenue grant, although it was initially treated as a capital grant. This was offset by £41k of underachieved income, including Feed in Tariff income and general contributions.
- 5.6** Bad debt provision has underspent by £173k at out-turn. Due to the uncertainty surrounding the cost-of-living crisis, our forecasts during the year assumed that the bad debt provision would be expensed in full. However, due to the extensive work and support provided to tenants, bad debts were recorded at 0.625% of rental income, compared to a target of 1.5%, which has resulted in a lower actual bad debt provision.

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

- 6.1** At out-turn, non-repairs and maintenance expenditure was initially £52k below the budget. However, £114k has been charged against other revenue expenditure due to clearing historical imbalances on the rent prepayments holding accounts. The revised out-turn position for non-repairs and maintenance expenditure after factoring in the above charge is an overspend of £62k.
- 6.2** The Tenant Participation heading shows an underspend of £57k at out-turn, mainly due to vacant posts. This compares to a forecasted underspend of £70k in quarter 3, the variance is due to a vacant post being filled earlier than anticipated.
- 6.3** Rent administration and Estate Management overspent by £47k at out-turn due to staffing costs. The out-turn position is comparable to our quarter 3 forecast.

**6.4** Other revenue expenditure has underspent by £42k at out-turn. This compares to a forecasted overspend of £15k in quarter 3. The majority of this variance relates to an underspend on Council Tax expenditure (£31k). As stated above, £114k has been charged to this revenue heading due to the historical imbalance on the rent prepayments holding accounts. Therefore, the revised out-turn position for this heading is an overspend of £72k.

## **7. Repairs and Maintenance**

**7.1** At out-turn, Repairs and Maintenance overspent by £1,251k, compared to a forecasted overspend of £950k in quarter 3.

**7.2** The Housing Maintenance Unit (HMU) shows an overspend of £1,300k at out-turn, this compares to a forecasted overspend of £1,000k at the end of quarter 3. The increase in expenditure is partly due to an increase in material costs, but also due to an increase in demand.

**7.3** Expenditure on Other Repairs and Maintenance and BMU Staffing underspent by £49k at out-turn as additional costs arising from the repair of sewage treatment works has not been required. The out-turn position is comparable to our quarter 3 forecasts.

## **8. Year End Adjustments**

**8.1** This heading covers items of expenditure (capital financing costs and recharges from the General Fund) and interest receivable income that form part of the year end accounting process.

**8.2** Due to the Authority's change in MRP policy, from 2% of HRA CFR to the asset life annuity method, and the reduced borrowing requirements of the Authority, capital financing costs has underspent by £1,995k. As the change of policy was introduced late in quarter 4, no provision was made for such a substantial underspend.

**8.3** Interest receivable income overachieved by £241k. This relates to the interest receivable on the HRA reserve balance during the year. The sudden and sharp increase in interest rates was not factored into the budget when it was set.

**8.4** Recharges from housing services has overspent by £81k, this compares with a forecasted overspend of £32k in quarter 3. The recharge mainly relates to staff costs. Staff can undertake work for both the HRA and the Council Fund Housing Services and the additional cost reflects the fact more time of some staff was spent on HRA work than was anticipated.

**8.5** Recharges from central services have underspent by £72k at out-turn, this compares to a forecasted overspend of £30k in quarter 3. The underspend at out-turn is a direct result of lower use of some central services and those central services having lower costs, mainly due to staff vacancies.

## **9. Capital Expenditure**

**9.1** The capital budget totalled £15,034k which was, initially, planned to be funded by the Major Repairs Allowance (MRA) (£2,688k) and a contribution from the HRA reserve (£12,346k). The capital expenditure at out-turn amounted to £11,180k, compared to forecasted expenditure of £10,143k in quarter 3. These additional costs are offset by the increase in grant funding received in quarter 4, whereby £1,094k additional funding was received. £587k of the income relates to HCF and ICF funding that contributes to the renovation costs of Cartref Clyd Rhosybol and extensive works at Haulfryn, the new children's day service

provision. £378k relates to an Optimal Retrofit Programme funding awarded in quarter 4. A Welsh Government capital grant of £124k was received in relation to Fire Risk Management.

- 9.2** The revised Capital budget for each new build / acquisition scheme, including the total number of new units per scheme, and the out-turn expenditure compared to the annual budget, are shown in Appendix C. Initial design works on the following sites has also commenced ahead of schedule, which has contributed to the additional expenditure in quarter 4. Details of the sites are noted below, more information can be found in Appendix C.

Maes William Williams in Amlwch, Bryn Glas in Brynsiencyn, Plas Penlan in Llangefni, Maes Mona in Amlwch, Kings Road in Holyhead, former Thomas Ellis primary school in Holyhead, former Newborough primary school and Maes yr Ysgol in Holyhead.

Works on the Clwb Cymdeithasol Biwmares site are running slightly behind schedule. Despite forecasting an underspend of £487k in quarter 3, we made excellent progress in quarter 4, resulting in an underspend of £271k at out-turn. These works are expected to be completed by summer 2023.

The Ysgol Llanfachraeth project has run over budget to the value of £76k, this is mainly due to unforeseen drainage works encountered during the contract. This contract has now drawn to a completion.

The project at Plas Alltran commenced at the latter stage of quarter 4, whilst the Cae Braenar project is currently being re-assessed to ensure financial viability.

The project at Parc y Coed in Llangefni has overspent by £440k. This is due to works progressing ahead of schedule.

The expenditure on the Extra Care Facility is lower than our forecasts in quarter 3, this is due to the programme slipping due to ongoing discussions regarding the exact accommodation requirements.

Works at Ysgol Llaingoch have now drawn to a conclusion.

- 9.3** WHQS expenditure was lower than expected following a combination of a longer than expected mobilisation period for a kitchen replacement contract and lower than anticipated capital related expenditure during change of tenancies.
- 9.4** Expenditure in connection with Fire Risk, specifically the retrospective installation of sprinkler systems at two medium rise blocks of flats, did not meet expectations following the redesign of contractor proposals to overcome technical issues encountered on site. This scheme is fully contracted and has attracted WG grant funding in the sum of £394k, £124k of which has been utilised in 2022/23. It is expected to be completed early in 2023/24.
- 9.5** Public Sector Adaptations expenditure was lower than anticipated. Demand for adaptations remains high, however, it is proving difficult to appoint contractors to undertake the works which leads to longer than desirable lead times.
- 9.6** 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, and continues to be, difficult due to a requirement to reinforce the network prior to installing Solar PV.

**9.7** The underspend on traditional planned maintenance is significant. The primary reason is that, when the budget was originally set for 2022/23, the intention was to undertake works at Cemaes Bay under one scheme scheduled to be tendered and awarded during quarter 1. It was subsequently decided to undertake the work over two phases. Phase 1 is currently on site and progressing well, and the contract for Phase 2 has been awarded in quarter 4, with works expected to commence in 2023/24. In addition, a further scheme involving 10 properties at Menai Bridge, Llandegfan and Brynteg was tendered via sell2wales during quarter 3, and work commenced in quarter 4.

**9.8** The environmental budget allowed 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 landowner and securing a Permit for the scheme from NRW. Whilst the permit has been approved, discussions are still ongoing with the landowner and the contractor.

**9.9** 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 out-turn position above shows that we only require £225k from the HRA Reserve in 2022/23. This will give a reserve balance of £12,108k as of 31<sup>st</sup> March 2023. This balance is 'ringfenced' and is, therefore, only available to fund future HRA expenditure.

**10.2** The balance will be utilised during 2023/24 to fund capital expenditure, including the continued development of new properties. The HRA balance will be reduced to the minimum level, as set out in the HRA Business Plan. Once this minimum level is reached, further capital investment will be funded from the revenue surplus generated and through external borrowing.

**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 / Leadership Team (LT) (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 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
<b>F - Appendices:</b>		
<ul style="list-style-type: none"> <li>Appendix A – Revenue expenditure for 2022/23</li> <li>Appendix B – Capital expenditure for 2022/23.</li> <li>Appendix C – New Build capital schemes for 2022/23</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 2022/52 (as approved by this Committee in May 2022).</li> </ul>		

<b>HRA ACCOUNT 2022/23</b>					
	<b>Annual Budget 2022/23</b>	<b>Outturn</b>	<b>Variance to Month 12</b>	<b>Q3 Forecasted Outturn</b>	<b>Change from Q3 Forecast</b>
	<b>£</b>	<b>£</b>	<b>£</b>		
<b>REVENUE ACCOUNT</b>					
<b>Income</b>					
Dwellings	(19,420,000)	(19,229,990)	190,010	(19,472,000)	242,010
Garages	(223,000)	(230,330)	(7,330)	(230,000)	(330)
Service Charges	(201,000)	(178,899)	22,101	(193,000)	14,101
Other	(207,060)	(280,872)	(73,812)	(207,860)	(73,012)
Bad Debt Provision	296,000	122,703	(173,297)	296,000	(173,297)
<b>TOTAL INCOME</b>	<b>(19,755,060)</b>	<b>(19,797,388)</b>	<b>(42,328)</b>	<b>(19,806,860)</b>	<b>9,472</b>
<b>Non Repairs &amp; Maintenance Expenditure</b>					
Tenant Participation	260,653	203,661	(56,992)	190,653	13,008
Rent Administration	500,013	477,659	(22,354)	530,013	(52,354)
Estate Management	180,788	250,412	69,624	195,788	54,624
Other Revenue					
Expenditure	1,770,934	1,842,857	71,923	1,785,934	56,923
<b>Total Non R &amp; M Expenditure</b>	<b>2,712,388</b>	<b>2,774,589</b>	<b>62,201</b>	<b>2,702,388</b>	<b>72,201</b>
<b>Repairs and Maintenance</b>					
Housing Maintenance Unit (HMU)	3,795,464	5,094,991	1,299,527	4,795,464	299,527
Building Maintenance Staff (non HMU)	958,583	968,106	9,523	958,583	9,523
Other Repairs and Maintenance	793,655	735,317	(58,338)	743,655	(8,338)
<b>Total Repairs &amp; Maintenance</b>	<b>5,547,702</b>	<b>6,798,414</b>	<b>1,250,712</b>	<b>6,497,702</b>	<b>300,712</b>
<b>Year End Adjustments</b>					
Capital Financing Charges	3,674,000	1,679,327	(1,994,673)	3,674,000	(1,994,673)
Interest Receivable	0	(240,643)	(240,643)	0	(240,643)
Recharge from Housing Services	790,630	871,906	81,276	822,630	49,276
Recharge from Central Services	812,831	740,939	(71,892)	842,831	(101,892)
<b>Total Year End Adjustments</b>	<b>5,277,461</b>	<b>3,051,529</b>	<b>(2,225,932)</b>	<b>5,339,461</b>	<b>(2,287,932)</b>
<b>TOTAL REVENUE</b>					
<b>EXPENDITURE</b>	<b>13,537,551</b>	<b>12,624,532</b>	<b>(913,019)</b>	<b>14,539,551</b>	<b>(1,915,019)</b>
<b>TOTAL REVENUE (SURPLUS) / DEFICIT</b>	<b>(6,217,509)</b>	<b>(7,172,856)</b>	<b>(955,347)</b>	<b>(5,267,309)</b>	<b>(1,905,547)</b>

	<b>Annual Budget 2022/23</b>	<b>Outturn</b>	<b>Variance to Month 12</b>	<b>Q3 Forecasted Outturn</b>	<b>Change from Q3 Forecast</b>
<b>CAPITAL EXPENDITURE ACCOUNT</b>					
2022/23 Expenditure	15,034,000	11,179,599	(3,854,401)	10,142,691	1,036,908
Major Repairs Allowance	(2,688,000)	(3,782,011)	(1,094,011)	(2,688,000)	(1,094,011)
Other Grants/Borrowing					
<b>TOTAL CAPITAL (SURPLUS) / DEFICIT</b>	<b>12,346,000</b>	<b>7,397,588</b>	<b>(4,948,412)</b>	<b>7,454,691</b>	<b>(57,103)</b>
<b>NET (INCREASE) / DECREASE IN HRA RESERVE</b>	<b>6,128,491</b>	<b>224,732</b>	<b>(5,903,759)</b>	<b>2,187,382</b>	<b>(1,962,650)</b>
Opening HRA Balance	(12,333,000)	(12,333,000)		(12,333,000)	
Net (Increase) / Decrease in HRA Reserve	6,128,491	224,732	(5,903,759)	2,187,382	(1,962,650)
Closing HRA Balance	<b>(6,204,509)</b>	<b>(12,108,268)</b>	<b>(5,903,759)</b>	<b>(10,145,618)</b>	<b>(1,962,650)</b>



Appendix B

Service	Annual Budget (£)	Total Expenditure (£)	Variance to Q4 (£)	Q3 Forecast (£)	Variance (£)
<b>Housing HRA</b>					
Central Heating Contract	800,000	805,927	5,927	800,000	5,927
Planned Maintenance Contract	3,955,000	2,190,844	(1,764,156)	2,000,000	190,844
WHQS	1,901,950	1,107,530	(794,420)	1,300,975	(193,445)
Vehicles	27,383	27,383	0	27,383	0
Environmental Works	870,667	245,920	(624,747)	200,000	45,920
Fire Risk	600,000	260,230	(339,770)	400,000	(139,770)
Acquisition of Existing Properties and Development of new properties	5,479,000	6,099,484	620,484	4,936,888	1,162,596
Public Sector Adaptations	400,000	343,600	(56,400)	400,000	(56,400)
Energy Performance Improvement	1,000,000	98,682	(901,318)	77,445	21,237
<b>TOTAL</b>	<b>15,034,000</b>	<b>11,179,599</b>	<b>(3,854,401)</b>	<b>10,142,691</b>	<b>1,036,908</b>

**New development budget 2022/23**

**Appendix C**

<b>Scheme</b>	<b>Number of Additional Units</b>	<b>2022-23 Budget</b>	<b>Expenditure to P12</b>	<b>Variance</b>	<b>Q3 Forecast</b>	<b>Variance between Q3 forecast and Q4 Forecast</b>
Armenia St, Caergybi	5	£8,000	£1,690	(£6,310)	£8,000	(£6,310)
Retentions from 2021/22	1	£16,000	£26,248	£10,248	£16,000	£10,248
Marquis, Rhosybol	15	£34,000	£45,954	£11,954	£45,989	(£35)
Ysgol Llanfachraeth	8	£100,000	£176,326	£76,326	£158,789	£17,537
Extra Care	55	£100,000	£30,939	(£69,061)	£191,812	(£160,873)
Plas Alltran, Caergybi	4	£250,000	£39,898	(£210,102)	£0	£39,898
Ysgol Llaingoch, Caergybi	26	£300,000	£363,657	£63,657	£288,681	£74,976
Cae Braenar, Caergybi	23	£460,000	£3,828	(£456,172)	£3,828	£0
Parc y Coed, Llangefni	12	£500,000	£939,827	£439,827	£770,970	£168,857
Clwb Cymdeithasol Biwmares	6	£1,000,000	£728,910	(£271,090)	£513,500	£215,410
Renovation	0	£1,318,955	£1,341,355	£22,400	£1,198,334	£143,021
Buyback 18 Units	18	£1,392,045	£2,140,135	£748,090	£1,740,985	£399,150
Safle Hen Ysgol, Niwbwrch	14		£5,928	£5,928	£0	£5,928
Ysgol Thomas Ellis, Caergybi	43		£37,462	£37,462	£0	£37,462
Bungalows, Kings Road, Caergybi	4		£6,882	£6,882	£0	£6,882
Maes Mona Amlwch	40		£29,879	£29,879	£0	£29,879
Plas Penlan, Llangefni	11		£26,029	£26,029	£0	£26,029
Bryn Glas, Brynsiencyn	0		£1,853	£1,853	£0	£1,853
Maes William Williams, Amlwch	4		£8,808	£8,808	£0	£8,808
Maes Yr Ysgol, Holyhead	4		£143,879	£143,879	£0	£143,879
<b>Total Allocation 2022-23</b>	<b>293</b>	<b>£5,479,000</b>	<b>£6,099,484</b>	<b>£620,484</b>	<b>£4,936,888</b>	<b>£1,162,596</b>