

**NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL
CABINET – TUESDAY, 26 MARCH 2024**



Title of Report	2023/24 QUARTER 3 HOUSING REVENUE ACCOUNT (HRA) UPDATE	
Presented by	Councillor Andrew Woodman Housing, Property and Customer Services Portfolio Holder PH Briefed <input checked="" type="checkbox"/>	
Background Papers	Cabinet 19 September 2023: 2023/24 Quarter 1 General Fund and Housing Revenue Account (HRA) Finance Update	Public Report: Yes
	Cabinet 21 November 2023: 2023/24 Quarter 2 General Fund and Housing Revenue Account (HRA) Finance Update	Key Decision: Yes
Financial Implications	Any financial implications of this report are detailed in the body of the report and the attached appendices.	
	Signed off by the Section 151 Officer: Yes	
Legal Implications	No legal implications arising from this report.	
	Signed off by the Monitoring Officer: Yes	
Staffing and Corporate Implications	Any staffing implications of this report are detailed in the body of the report and the attached appendices.	
	Signed off by the Head of Paid Service: Yes	
Purpose of Report	To provide Cabinet with an update on the financial position on the Housing Revenue Account as at Quarter 3 2023/24.	
Reason for Decision	To update Cabinet on Quarter 3.	
Recommendations	CABINET IS RECOMMENDED TO: 1. NOTE THE FORECASTED OVERSPEND ON THE HOUSING REVENUE ACCOUNT OR 2023/24 OF £94K BASED ON QUARTER 3 INFORMATION.	

	2. NOTE THE REVISED HOUSING CAPITAL FORECAST DETAILED IN APPENDIX 2.
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1.0 PURPOSE OF THE REPORT

- 1.1 To inform Members of the spending position for the period 1 April 2023 to 31 December 2023 for the Council's Housing Revenue Account (HRA) focusing on the significant variances from the approved budgets. It should be noted that due to the ongoing implementation of the new finance system, the ongoing audit of the 2021/22 Statement of Accounts and the vacancies within the Finance team, the in depth analysis of the figures which would usually be undertaken has not been possible. Therefore, the focus has been on reporting the major variances based on the information available and discussions between Finance and the budget holders.
- 1.2 To update Members on the HRA capital programme for the period 1 April 2023 to 31 December 2023 on the proposed resourcing of the capital programme and the level of Council capital resources available, including capital receipts.
- 1.3 To update Members on the changes to the capital programme and note the variations to scheme budgets and re-profiling of budgets to future years.

2.0 HOUSING REVENUE ACCOUNT

2.1 HRA Income and Expenditure

- 2.1.1 Table 1 below shows the summary income and expenditure forecast outturn and variance for the HRA which is currently forecasting an overspend position at the end of quarter three of £94k.

Table 1 – HRA 2023/24 Quarter 3 Forecast Outturn Position

	Budget £'000	Forecast £'000	Variance £'000
Income	(20,139)	(20,213)	(74)
Operating Expenditure	17,077	17,245	168
Operating (surplus)/deficit	(3,062)	(2,968)	94
Appropriations	7,541	7,541	0
Net (surplus)/deficit	4,479	4,573	94

- 2.1.2 The service will continue to work to recover the position with use of reserves if required. A more detailed table of the forecast outturn position can be found at Appendix 1.
- 2.1.3 The Council continues to work actively to improve services delivered by the HRA and ensure the impact on tenants is considered in all service delivery. Work on this so far has included:
- Commissioning an independent review of processes.

- Use of contractors to assist in delivering against repairs backlogs.
- Working on reconfiguration of IT systems to improve efficiency and facilitate improved processes.
- Recruiting staff to key vacant roles.
- A plan for further actions within the service is also under preparation.

2.1.4 Other variances include:

- £552k forecast underspend on staff. This is due to a number of vacant posts across the organisation. This underspend is offset by a shortfall in income recharges to capital schemes which are forecast to be £305k lower than budgeted.
- Improvement in expected investment income of £100k due to higher interest rates.
- £101k adverse variance for expenditure on procurement due to a change in the way procurement advice is provided and a significant volume of procurement work for the HRA as part of the improvement plans.
- £164k additional interest on debt as some loans split between the General Fund and HRA were not included in the budget.
- £110k forecast overspend on Finance recharges. This is due to use of agency staff to cover roles which have been difficult to recruit to.

2.2 HRA Reserves

2.2.1 The HRA currently has a balance of £7.2m. A minimum balance of £1.0m is maintained to ensure the HRA has sufficient funding to cover unforeseen revenue expenditure and the remaining £6.2m to be used for capital projects and for the repayment of debt.

2.2.2 Earmarked reserves were reviewed in 2022/23 and as a result, all earmarked reserves were transferred to a Medium Term Financial Planning reserve for the HRA. This will enable reserves to be allocated corporately to achieve strategic aims.

2.2.3 Table 2 below shows a summary of usable HRA reserves:

Table 2 – HRA Usable Reserves forecast 2023/24

Reserves	Balance at 31/03/23	Forecast Contributions Received	Forecast Spend Required	Balance at 31/03/24
	£'000	£'000	£'000	£'000
<u>Housing Revenue Account</u>				
HRA Medium Term Financial Plan Reserve	530			530
HRA Balance	7,200		(4,574)	2,626

Reserves	Balance at 31/03/23	Forecast Contributions Received	Forecast Spend Required	Balance at 31/03/24
	£'000	£'000	£'000	£'000
	7,730	0	(4,574)	3,156
HRA Capital Receipts	11,340	2,760	(6,510)	7,590
Major Repairs Reserve	2,730	3,400	(3,470)	2,660
Debt Repayment Reserve	0	3,730	0	3,730
	21,800	9,890	(14,554)	17,136

2.3.1 HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME

2.3.2 The Housing capital programme broadly consists of the Improvements and Modernisation programme as well as the New Build programme.

2.3.3 The Improvements and Modernisation Programme includes:

- Vital fire safety works.
- Major aids and adaptation works around safety, accessibility and increasing independent living for residents.
- Transforming older persons schemes to an integrated digital service, giving full and timely works and events and visits information to residents. This also allows the Council to share a digital layout with the Fire Service so in the event of an incident they can guide crews through the building.
- Replacement heating scheme, installing new Ideal Logic (hydrogen ready) efficient boilers or air source heat pumps (if replacing solid fuel systems) and correct insulation to improve thermal efficiency of Council homes. This will improve affordability of heating for tenants this winter as well as assisting the Council in achieving progress towards every property meeting Energy Performance Certificate Level C by 2028.

2.3.4 Most of the projects in the new build scheme are still at the design stage. The Council is exploring a number of delivery models to increase the number of affordable and social housing units across the District.

2.3.5 Table 3 shows the expenditure and forecast against budget as at quarter three.

Table 3 - Quarter 3 2023/2024 Outturn on the HRA Capital Programme

Scheme	Original Budget	Prior Year C/fwd	In-year Changes	Revised Budget	Expenditure @ Q3	23/24 Forecast Outturn	Variance (Revised Budget v Outturn)	Carry- Forward to Future Years
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Improvements and Modernisation	12,226	8,555	(13,125)	7,656	2,603	7,656	0	13,125

Scheme	Original Budget	Prior Year C/fwd	In-year Changes	Revised Budget	Expenditure @ Q3	23/24 Forecast Outturn	Variance (Revised Budget v Outturn)	Carry-Forward to Future Years
New Build	2,948	6,003	(8,896)	55	5	55	0	8,896
Total	15,174	14,558	(22,021)	7,711	2,608	7,711	0	22,021

2.3.6 Expenditure for quarter three was £2.61m and this was largely from the Improvements and Modernisation programme. The low level of expenditure on the New Build programme is due to schemes being at the design stage and also delays in procuring contractors.

Table 4 - Reprofile of Future Years' Budgets

Scheme	Reprofiled to 24/25 £'000	Reprofiled to 25/26 £'000	Reprofiled to 26/27 £'000	Total £'000
Improvements and Modernisation	5,607	0	7,518	13,125
New Build	2,879	0	6,017	8,896
Total	8,486	0	13,535	22,021

2.3.7 The Improvements and Modernisation programme has the largest budget allocation to future years and this is to undertake projects such as fire safety works, asbestos remediation, major aids and adaptations and zero-carbon schemes.

2.3.8 It should be noted the table shows the re-profiling of expenditure from the budget agreed in February 2023, the majority of the re-profiling was reported to Cabinet as part of the Outturn Report 2022/23. It is being reported again for completeness and transparency.

2.3.9 The Council's modifications to the QL Housing and Repairs data system involve enhanced recording capabilities, allowing them to track budget expenditures in greater detail and real-time, including information on when and where the spending occurs." This system is in the process of being integrated with the Unit4 Finance system so that weekly reconciliation of forecast and actual budgets can be undertaken. Where programmes fall behind in delivery, adjustments can be made to ensure the Council delivers what it promises or communicates and takes action to intervene.

Policies and other considerations, as appropriate	
Council Priorities:	The spending from the budget provides funding for the Council to deliver against all its priorities.
Policy Considerations:	None
Safeguarding:	None
Equalities/Diversity:	None
Customer Impact:	None
Economic and Social Impact:	None

Environment and Climate Change:	The Council is forecast to invest £850k retrofitting Council homes to reduce their environmental impact.
Consultation/Community/Tenant Engagement:	This report will go to Corporate Scrutiny Committee on 23 May 2024
Risks:	<p>High levels of inflation can undermine the Council's financial reserves. As inflation rises, the real purchasing power of the Council's reserves steadily erodes, meaning the same amount of money can purchase progressively fewer goods and services. This erosion of value poses a challenge to the organisation's ability to maintain financial stability and achieve its long-term financial objectives.</p> <p>Furthermore, the Council has opted to allocate its increased interest earnings (resulting from increased base rate) towards funding its base revenue budget rather than reinvesting them into reserves. This strategic choice, combined with the inflationary pressure, leads to an overall devaluation of reserves. Essentially, this practice leaves the organisation with reduced financial resilience, as it does not adequately account for the eroding effect of inflation on its reserves.</p> <p>Although the current high levels of inflation are causing problems, reserves might be expected to grow with more moderate levels of inflation over the long term. Real returns (i.e. after inflation) are and have been negative despite investment returns rising. So even if the Council changed its policy to add interest earnings to reserves it still would not solve the whole problem. Indeed, very few investment returns are beating inflation and in general if you wanted higher returns you'd need to invest for a longer period and/or with riskier assets, which the council has decided not to do.</p> <p>There is a risk of availability of staff to resource the programme of work. There is also a national problem with increased costs of temporary staff. The service works closely with colleagues in Human Resources to recruit to vacant posts and continues to recruit through the apprentice programme.</p> <p>The budgets will continue to be monitored throughout the year to ensure the Council remains within its funding envelope.</p>
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