Report Number: SWT 20/20

Somerset West and Taunton Council

Executive – 22 January 2020

Housing Revenue Account (HRA) Budget Estimates 2020/21 (Including Rent Setting and Fees and Charges)

This matter is the responsibility of Executive Councillor Francesca Smith

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1 Executive Summary

1.1 This report updates Members on the proposed HRA Annual Revenue Budget and Capital Programme for 2020/21, the proposed Rent Setting for the average weekly rent for 2020/21 and the proposed Fees and Charges for 2020/21.

1.2 The proposals included in this report would enable the Council to set a balanced budget for the HRA for 2020/21.

2 Recommendations

2.1 The Executive and Full Council are asked to approve the following recommendations:

2.2 In accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the Dwelling Rent for 2020/21 for existing tenants will be an increase of CPI+1% to the average weekly rent, from £80.87 per week to £83.05 per week.

2.3 In accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the Dwelling Rent for 2020/21 for new tenants only will be an increase of CPI+1% plus an additional 5% for general needs to the average weekly rent, from £80.87 per week to £87.21 per week.

2.4 In accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the Dwelling Rent for 2020/21 for new tenants only will be an increase of CPI+1% plus an additional 10% for sheltered/supported and extra care dwelling rents to the average weekly rent, from £80.87 per week to £91.36 per week.

2.5 To increase non-dwelling rent and service charges in line with national policy by CPI+1% for 2020/21, with the exception of garages for private and shared ownerships tenants which would increase from £10.32 (including VAT) to £12.00 (including VAT).

2.6 To approve the HRA Annual Revenue Budget for 2020/21.

2.7 To approve the HRA Capital Programme for 2020/21.

3 Risk Assessment

3.1 The purpose of this section is to highlight the key external risks that may pose a threat to the successful delivery of the HRA 2020 Business Plan. The Council will need to be alert to the following issues:

3.2 Welfare Reform: The HRA has already taken steps to try and prevent loss of income where possible. The potential impact of existing and further welfare reform measures will need careful management in order to protect our rental income. Universal Credit remains the greatest potential risk to our income for us and most other providers.

3.3 Exiting the EU: The process of exiting the European Union remains in a state of uncertainty about what is exactly going to happen. This could affect the cost of goods/materials, services, development and funding.

3.4 Housing Policy: On the 14 August 2018 the government published its Social Housing Green Paper in response to the tragedy at Grenfell Tower. Whilst the initial consultation has now closed, we are still awaiting the outcome of this consultation and any regulatory changes that this may bring.

3.5 Independent Review of Building Regulations and Fire Safety: The final report sets out over 50 recommendations for government as to how to deliver a more robust regulatory system to ensure that the buildings residents live in are safe and remain so. We are awaiting the final regulatory changes, but know that the Council will need to respond to the evolving requirements following the tragedy at Grenfell Tower and incorporate any financial impacts into the Business Plan once known.

3.6 The Regulator of Social Housing has published (October 2019) their Sector Risk Profile[1]

highlighting the common strategic and operational risks that pose a threat to housing providers.
(https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/848158/Sector_Risk_Profile_2019.pdf)

4 Background

4.1 The purpose of this report is to present the proposed Housing Revenue Account (HRA) Annual Budget and Capital Programme for 2020/21, as well as the Rent Setting and the Fees and Charges proposals for 2020/21.

4.2 The HRA is a ring fenced account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.

4.3 In April 2012, under the Localism Act 2011, the HRA (under the administration of Taunton Deane Borough Council (TDBC)) moved away from a national subsidy system (which required an annual payment from the HRA to Central Government) to become 'self-financing'. This enabled the Council to retain all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of debt. As part of the self-financing agreement, a one-off payment of £85.198m was made to Government.

4.4 In order to manage the freedoms gained by the HRA through self-financing, a new 30-Year Business Plan (2012-2042) was introduced. This set out the Council's overall aims and objectives for Housing Services, as well as laying out plans to manage the increased risks and opportunities.

4.5 The HRA Business Plan has been reviewed and updated annually since 2012, with a full review undertaken in 2016. In response to recent changes in national policies and local aspiration, another full and comprehensive 30-year Business Plan from 2020/21 onwards has recently been undertaken, with the support of consultants Savills, and can be found as a separate report called "HRA Business Plan Review". The key changes in revenue budget from 2019/20 to 2020/21 are summarised from paragraph 5.6 below.

4.6 The HRA continues to face a number of risks and uncertainties, many of which could be significant but the actual financial impact is not yet known. These are discussed in section 3 above.

4.7 As part of the self-financing agreement, an individual housing revenue borrowing cap of £116m was implemented for TDBC. This meant that the HRA was unable to exceed a capital borrowing requirement of £116m within the HRA Business Plan. In October 2018 this borrowing cap was officially removed.

5 The HRA 2020 Business Plan and Annual Revenue Budget for 2020/21

5.1 The 2020 Business Plan review was undertaken as a direct result of a number changes in both national policies and local aspiration; we have seen the debt cap removal in October 2018, the introduction of the Regulator of Social Housing's new Rent Standard from April 2020 and a new Somerset Housing Strategy published in March 2019. The Grenfell tragedy has prioritised landlord compliance such as fire and safety, the declaration of a climate emergency and a new leadership aspiration to build 1000 new homes in 30 years.

5.2 The HRA 2020 Business Plan review was undertaken to assess the affordability and viability of these aspirational schemes and the financial impact of regulatory changes, to determine what schemes could actually be delivered and when.

5.3 The current assumptions within the Business Plan indicate that the new build aspirations are affordable and viable but require the maximisation of future rental income through the application of options available within the boundaries of national policy, as this will require significant capital investment and borrowing over the next 10 years.

5.4 The HRA 2020 Business Plan aims to deliver 1,000 new homes over the next 30 years with a net gain of 400 homes as a result of tenants purchasing their homes through estimated RTB sales.

5.5 In response to the HRA 2020 Business Plan, table 1 below provides a summary of the main proposed changes to the annual revenue budget estimates from 2019/20 to 2020/21.

5.6 A summary of the overall HRA Revenue Budget for 2020/21 and 5-year Medium Term Financial Plan (MTFP), as a result of planned changes within the HRA 2020 Business Plan and other changes, is included in Appendix A.

Table 1: HRA Budget Setting 2019/20 to 2020/21 Changes

	Reference Paragraph	**£'000**
Original Budget 2019/20 – balanced budget		
Income	5.8	(555)
Service Expenditure		
Repairs & Maintenance	5.11	(10)
Grounds Maintenance	5.12	78
Insurance	5.13	(145)
Management Costs – salaries	5.14	1,533
Management Costs – other	5.18	(97)
Efficiency Savings	5.19	(100)
Central Costs / Movement in Reserves		
Provision for Bad Debt	5.20	120
Interest Payable	5.22	126
Interest Receivable	5.24	70
Provision for Depreciation	5.25	229
Provision for Repayment of Borrowing	5.27	0
Revenue Contribution to Capital (SHDF)	5.28	(1,170)
Movement in Reserves	5.29	(79)
Proposed Original Budget for 2020/21 i.e. net transfer to reserves		**0**

5.7 The main changes include:

5.8 **Rental Income**: between April 2016 and March 2020 all social housing landlords were required to reduce the rent payable by tenants by 1% each year in accordance with the Welfare Reform and Work Act 2016 Social Rent Reduction. The introduction of the Regulator of Social Housing's new Rent Standard from April 2020 states that social housing landlords can now increase the rent payable by tenants by CPI+1% annually for a period of five years. This rate also applies to service charges. More information can be found in section 6 below.

5.9 It is also being proposed to apply “rent flexibility” from April 2020 which could generate approximately £100k in the first year. However the financial impact is not being budgeted for until 2021/22 due to the application of this rent flexibility to new tenants only.

5.10 This also includes a realignment of the RTB Admin Grant and GF Contribution under ‘income’ instead of ‘expenditure’.

5.11 **Repairs & Maintenance**: an additional £50k has been included for Standard Assessment Procedure (SAP) energy performance certificates and stock validation as well as £42k to service 600 air source heat pumps. The repairs and maintenance service is also hoping to achieve a reduction in cost of £50k from contract savings and another £52k cost saving through the capitalisation of scaffolding costs.

5.12 **Grounds Maintenance Service Charges**: Tenants pay a weekly service charge towards the costs of maintaining the grounds around the area within which they live, for example grass cutting, shrub pruning, weeding, etc. The Service Level Agreement (SLA) for 2020/21 has been increased to £778k in line with the increase in the proposed Grounds Maintenance Service Charge from £1.90 to £1.95 per week.

5.13 **Insurance**: following an authority wide re-tender exercise for insurance premiums the new authority has been successful at significantly reducing their annual premiums. It is estimated that a saving against budget of £145k will be seen across the HRA including leaseholders, shops and meeting halls.

5.14 **Management Costs – salaries**: Following the Council decision to establish a structure of four Directorates, a new Housing staff structure will be implemented. Whilst most roles will “lift and shift” from the current structure some vacancies will arise where we require a new focus to meet the housing business objectives. The new structure contains growth and new emphasis in relation to development and regeneration to meet our current and future aspirations, along with landlord safety and compliance, tenant engagement and customer experience, performance and finance.

5.15 The Housing Directorate staff structure will incorporate direct staff costs relating to both the HRA and the general fund (GF) homeless function. The HRA will also receive the benefit of central support services delivered by staff in the GF, such as procurement, accounts payable, facilities management, HR/Payroll and finance, etc. The HRA will fund a proportion of these costs for the central support services received.

5.16 As reported to Full Council on the 3rd December 2019, the Council’s leadership team identified ongoing financial pressures in order to protect service standards and maintain capacity whilst completing the safe delivery of expected service process efficiencies and greater customer access to self-service. The HRA will need to take on a share of these transition and service resilience cost pressures in year 1, but will see a cost reduction going forwards as the Council works to deliver the service process efficiencies. The HRA will also need to fund a share of the temporary staff delivering the corporate change programme.

5.17 In table 1 above you can see an increase in budget of £1.533m relating to staffing costs for 2020/21 with table 2 below providing a breakdown of this cost and high level projections for future years.

Table 2: HRA Staffing Costs for 2020/21 and Future Year Projections

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	£'000	£'000	£'000	£'000	£'000	£'000
Housing Directorate - HRA Direct Staff Costs		6,323	6,481	6,643	6,809	6,979
Housing Directorate - GF Direct Staff Costs		960	984	1,009	1,034	1,060
Central Support Service Costs		845	866	888	910	933
Central Support Service Costs - One Off		315	-	-	-	-
Central Support Service Costs - Change Programme		140	72	-	-	-
	7,050	**8,583**	**8,403**	**8,539**	**8,753**	**8,972**
Inflation @ 2.5%			205	208	213	219

5.18 **Management Costs – other:** there has been some reduction in budget requirements through the reassessment of budget needs across tenancy and management delivering savings of £97k.

5.19 **Efficiency Savings**: an efficiency target of £100k in 2020/21 rising to £150k per year from 2021/22 has been included within the Business Plan, as we aspire to drive forward improvements in service delivery to realise cash benefits. We have "lean" reviews underway in the "big three" processes of income management, voids and response repairs. With more reviews planned.

5.20 **Change in Provision for Bad Debt**: the previous two iterations of the Business Plan, in 2012 and 2016, made a provision at 2% for the expectation that the changes in Welfare Reform would result in increased levels of non-payment of rent and service charges. Whilst new claimant's moved to the new Universal Credits scheme from 2016, the migration of existing claimants has experienced continued delays. It is also worth noting that the Universal Credit scheme pays claimants in arrears and not in advance, as we currently expect our rental payments to be made.

5.21 The 2020 Business Plan includes a new two year provision at 0.75% (£180k in 2020/21) of dwelling rental income, dropping to 0.5% thereafter, to mitigate the financial risk associated with a possible increase in unrecoverable rental income due to the forthcoming "managed migration" to the Universal Credits scheme that is indicated to be completed by March 2023. Provision for bad debt is a year-end accounting adjustment that cannot be forecast with certainty prior to closing the final accounts. Any un-used provision for bad debt will be transferred into an earmarked reserve at the end of the year to manage any further timing differences in the implementation of the Universal Credits scheme.

5.22 **Interest Payable**: The majority of existing external borrowing is based on fixed interest rates for the term of the loan, with only two loans based on variable rates of interest. Therefore we are able to predict the interest payment for these elements with a high degree of certainty. The HRA has also increased internal borrowing from the General Fund which is charged at the average borrowing rate across the authority. The estimated budget for 2020/21 is £2,744,700 which is an increase of £125,900.

5.23 The HRA is investigating taking on additional external borrowing to fund the North Taunton regeneration scheme to reduce internal borrowing. The Section 151 Officer is seeking advice from Arlingclose, the Council's Treasury advisors, to identify the optimum route that minimises debt costs and risk to finance these loans. Consequently budgets will be revised during the year to accommodate this cost with funding available, for example from repayment of borrowing.

5.24 **Interest Receivable**: with internal borrowing exceeding investments there is no expectation to obtain any interest receivable payments.

5.25 **Provision for Depreciation**: Depreciation is transferred to the Major Repairs Reserve (MRR) and is used to fund the capital programme and/or repay debt. From 2017/18 depreciation has been required to be included within the HRA accounts on a component accounting basis. This means depreciation will need to be calculated on each of the major components of each house e.g. kitchen, bathroom, rather than being based on the Major Repairs Allowance (MRA), an estimation of the works needed to maintain the stock in good condition.

5.26 Depreciation is a year-end accounting adjustment that cannot be forecast with certainty prior to closing the final accounts. The estimated depreciation for 2020/21 is based on those calculations made for 2018/19 plus an allowance for sales and purchases during the year. This is an increase of £227,580.

5.27 **Provision for Repayment of Borrowing**: The current voluntary revenue provision (VRP) to repay debt is £1.821m. The Business Plan proposes to continue to use this amount to reduce future capital financing requirements for the next 10 years. Thereafter all surplus funds will be prioritised to repay debt at the earliest opportunity.

5.28 **Revenue Contribution to Capital**: a revenue budget of £1.17m has previously been used to help fund the Social Housing Development Capital Schemes. It is proposed to remove a budgeted revenue allocation entirely as a source of funding for capital schemes in order to provide more revenue resources for direct service delivery capacity.

5.29 **Movement in Reserves**: the social housing development fund earmarked reserve will be used to fund the development team ahead of becoming part of the base budget.

5.30 Other changes not directly influenced by the Business Plan include:

5.31 **Minimum general reserve balance**: under the Council's wider Financial Strategy the Executive has agreed a new minimum Operational Target of £2.4m and a new minimum Financial Resilience Target of £1.8m, for the HRA general reserve balance. Remaining at or above these targets provides added financial resilience to risks such as bad debt, if needed.

5.32 **Inflation:** Staffing costs have been inflated by 2.5% (0.5% for increments and 2% for pay inflation). Income has been inflated at Consumer Price Index (CPI) plus 1% where CPI is 1.7% at September 2019.

6 Income

6.1 Dwelling Rental Income (including Shared Ownership)

6.1.1 The Government introduced the Welfare Reform and Work Act 2016 Social Rent Reduction, which required all social housing landlords to reduce the rent payable by tenants by 1% each year for 4 years between April 2016 and April 2019 (excluding shared ownership homes and temporary accommodation). This superseded the Government's previous 10 year rent increase policy implemented in April 2015.

6.1.2 On 26 February 2019 the Ministry of Housing, Communities and Local Government confirmed that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. The September 2019 CPI figure is 1.7% as published by the Office for National Statistics on the 16 October 2019.

6.1.3 The Regulator of Social Housing has now issued a new Rent Standard for 2020 under the direction of the Government. This new Rent Standard will now apply to all housing associations, whereas previously Local Authorities were excluded from such standards.

6.1.4 A separate Rent Setting Policy, covering the content and those elements proposed to be adopted by the Council contained within the Regulator of Social Housing's Rent Standard 2020, is also being presented to the Strategic Tenants Board and the Council to recommend the Dwelling Rental Income and Shared Ownership Rent for 2020/21, as part of the HRA 2020 Business Plan report.

6.1.5 The Rent Setting Policy recommends that social rents for existing tenancies will be reviewed annually and any increases will not exceed the limit of Consumer Price Index (CPI) plus 1% for 5 years from April 2020.

6.1.6 *Therefore in accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the recommended Dwelling Rent for 2020/21 <u>for existing tenants</u> will be an increase of CPI+1% to the average weekly rent, from £80.87 per week to £83.05 per week.*

6.1.7 The new Rent Standard also provides the option to apply a one-off rent flexibility allowance to increase rents further. Therefore, in addition to applying CPI+1%, the

Council's new Rent Setting Policy provides an additional option to apply this one-off increase of 5% on general need and 10% on sheltered/supported housing. This would be applied to rents for new tenants only. This would provide an estimated additional income of £100k per year, which we would budget to see the benefit of this from 2021/22 onwards.

6.2 *Therefore in accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the recommended Dwelling Rent for 2020/21 <u>for new tenants only</u> will be an increase of CPI+1% plus an additional <u>5% for general needs</u> to the average weekly rent, from £80.87 per week to £87.21 per week.*

6.3 *Therefore in accordance with the Regulator of Social Housing's new Rent Standard from April 2020, the recommended Dwelling Rent for 2020/21 <u>for new tenants only</u> will be an increase of CPI+1% plus an additional <u>10% for sheltered/supported and extra care</u> dwelling rents to the average weekly rent, from £80.87 per week to £91.36 per week.*

6.3.1 Whilst in the past the Council did not apply such tolerances, the Council now has an increasingly important role to play in providing great homes for local communities. This will require having the necessary rental income with which to fund the maintenance and management of existing homes, whilst also supporting the delivery of new homes and to supporting tenants within their communities. This is emphasised and explained further within the Business Plan and Rent Policy.

6.3.2 This ability to increase rents also enables the Council to play catch-up following the last 4 years imposed 1% reduction in rents. Table 3 below shows what the average weekly rent would have been if rents had been increased by 1% or 2% each year from a base line of 2015/16 (e.g. before the 4 year 1% rent reduction was imposed).

<u>Table 3 – Average Weekly Rents Comparison</u>

	Baseline	1% reduction each year for 4 years				CPI+1% for 5 years				
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2020/22	2020/23	2020/24	2020/25
Actual / Proposed	84.15	83.32	82.50	81.68	80.87	83.05	85.30	87.60	89.96	92.39
If increased by 1%	84.15	85.00	85.85	86.70	87.57	88.45	89.33	90.22	91.13	92.04
If increased by CPI at 2%	84.15	85.84	87.55	89.30	91.09	92.91	94.77	96.67	98.60	100.57

6.3.3 Therefore where options are presented to increase rents within the boundaries of national policies these should be considered carefully. These decisions will have a long term impact on the 30-year Business Plan, with regards to the affordability of operating the service, planned capital investment, and meeting debt repayment obligations.

6.3.4 **Void Loss**: Rent lost through void periods continue to be lower than the 2% allowed in the original Business Plan. Therefore it has been deemed appropriate to reduce the expected void rate to 1.25% for a five year period, reducing to 1% thereafter, and to also consider voids as a result of regeneration needs.

6.4 **Non-Dwelling Rental Income and Service Charges Income**

6.4.1 This incorporates income from non-dwelling rents (mainly garages but also shops, land access and meeting halls), charges for services and facilities, and contributions to HRA costs from leaseholders and council tenants. This accounts for approximately 8% (c£2m) of total HRA income.

6.4.2 **Service Charges**: Housing Service Charges are made to housing tenants for the services that they use. Service Charges are set locally each year and are in addition to the Rent Charges.

6.4.3 Charges to leaseholders will continue to be based on actual costs incurred.

6.4.4 The Government issued a direction to the Regulator of Social Housing to set a new Rent Standard to be effective from April 2020. The proposed Policy Statement recommends registered providers should endeavour to keep increases for service charges within the limit on rent changes, of CPI+1%, to help keep charges affordable. The September 2019 CPI figure is 1.7% as published by the Office for National Statistics on the 16 October 2019.

6.4.5 The Council is proposing to increase service charges by CPI+1% for 2020/21, as shown in Appendix B - Table 1 and 2, to ensure they remain affordable for the tenants.

6.4.6 **Garage Rents**: The proposal is to increase garage rents for private tenants and owner occupier so that they are in line with the open market value rental rate at £12 (including VAT) per week for 2020/21. Thereafter, these will be increased on an annual basis using CPI+1%. The increase for garage rents for council tenants will be CPI+1%. Please see Appendix B - Table 3.

6.4.7 This means for council tenants the weekly rent will increase from £6.37 per week to £6.54 per week – an increase of £0.17 per week or 2.7% (last year 3.3%). For private tenants and owner occupiers the weekly rent will increase from £10.32 (including VAT) per week to £12 per week (including VAT) – an increase of £1.68 per week or 16.3% (last year 3.3%). This equates to additional income of approximately £54k.

6.4.8 **Meeting Halls**: The fees levied for 2020/21 for meeting room hire will be increased by CPI+1% and then rounded to the nearest 10p as requested by tenants during feedback provided in 2017/18. Please see Appendix B - Table 4.

6.4.9 **Guest Rooms**: The fees levied for 2020/21 for meeting room hire will be increased by CPI+1% and then rounded to the nearest 50p as requested by tenants during feedback provided in 2017/18. Please see Appendix B - Table 5.

6.4.10 **Temporary Accommodation:** The fee for temporary accommodation is broken down into two elements: the licence fee and the service charge. The proposed licence fee and service charge for 2020/21 are summarised in Appendix B – Table 6.

6.4.11 **Licence Fee**: Whilst the Housing Benefit (HB) subsidy is regulated, the amount social landlords can charge for temporary accommodation is not. Temporary accommodation is also exempt from the new Rent Standard. The proposal for 2020/21 is to continue setting the temporary accommodation licence fee at 100% of the permitted Local Housing Allowance (LHA) ordinary rate as of April 2020.

6.4.12 The LHA for 2020/21 will not be published until approximately January 2020, so therefore the rates shown in table 6 state the current 2019/20 LHA rates and these will change in accordance with the rates officially published by the LHA.

6.4.13 This will result in an increase of £1.56 per week on a 3 bedroom, a £0.98 per week on a 2 bedroom and a £0.12 per week increase on either a 1 bedroom or studio.

6.4.14 **Service Charge**: The proposal for 2020/21 is to increase service charges by CPI+1%.

6.4.15 **Exceptions**: Charges for properties not on mains sewerage. These properties charges for sewerage will be increased in line with the Wessex Water increases for 2020/21 once known. Wessex Water rates for sewerage standing charge per annum and poundage charges are used in the system calculation. For 2019/20 these are £7.00 per annum for unmetered sewerage standing charge and £1.6379 for the poundage charge payable per £ of rateable value of the property. Wessex Water will publish their new charges in February 2020 (available from their website) for 2020/21.

7 Housing Revenue Account Capital Programme for 2020/21

7.1 The HRA 2020 Business Plan proposes significant levels of capital investment to deliver the aspiration of 1000 new homes within the next 30 years whilst maintaining a decent homes standard.

7.2 The HRA Capital Programme for 2020/21, that will deliver the capital investment proposed within the Business Plan, is shown in table 4 below.

7.3 The 5-Year HRA Capital Programme from 2020/21 to 2024/25, that will deliver the capital investment proposed within the Business Plan, is shown in Appendix C.

7.4 This report does not include social housing development schemes that have been previously approved where the spending is planned to be incurred in 2020/21 onwards, for example North Taunton Regeneration.

Table 4: HRA Capital Programme for 2020/21

Capital Investment	**Total Cost £000**
Major Works	5,379
Improvements	2,150
Related Assets	100
Exceptional Extensive	350
Disabled Adaptations	300
Vehicles	121
ICT	546
Social Housing	6,898
Total Proposed HRA Capital Programme 2020/21	**15,844**

7.5 The estimated capital investment per scheme and the scheme itself is explained in more detail below. Whilst Officers have estimated the planned spend based on information currently available to them, these estimates are subject to change depending on contract negotiations, contractor availability, demand on the business, the condition of voids returned to the council and changing business priorities. Therefore any changes to the profile of spend between schemes will be subject to approval by the Housing Director and the Housing Portfolio Holder, and reported as part of the 4-monthly budget monitoring reports.

7.6 It is proposed that the HRA Capital Programme for 2020/21 shown above in table 4 will be funded from an appropriate combination of Major Repairs Reserves (from depreciation), revenue contributions (RCCO), capital receipts (Right to Buy), capital grants and borrowing.

7.7 A summary of the estimated funding profile for the 2020/21 capital programme is shown in the table 5 below. The final funding profile will be agreed by the Section 151 Officer as per the financial procedure rules.

Table 5: Capital Investment Funding Estimates

Capital Investment	**Total Funding £000**
Major Repairs Reserve	6,759
Revenue (RCCO)	0
Capital (RTB) Receipts	2,069
Capital Grant Receipts	187
Borrowing	6,829
TOTAL Funding	**15,844**

7.8 **Major Works**

7.8.1 These schemes will be focusing on ensuring that a decent homes standard is maintained and that the housing stock major components are replaced periodically as per our capital works programme for 2020/21. This will also include unplanned major works on voids where the property is returned in a poor condition and requires a full re-work ahead of the capital works programme.

7.8.2 The Major Works capital programme will be broken down into component schemes, with table 6 below showing the estimated amount to be spent on each scheme.

Table 6: Major Works

Capital Scheme	Total Cost £000
Kitchens	100
Bathrooms	100
Roofing	50
Windows	1,000
Heating (Open Vented)	1,050
Doors	100
Fasciae and Soffits	750
Door Entry Systems	400
Voids Kitchens and Bathrooms	150
Drainage	50
Scaffolding	979
Heating for Warmer Homes	262
Insulation	388
Total	**5,379**

7.9 **Improvements**

7.10 The Improvements capital programme will be focusing on ongoing fire safety works and ensuring all housing stock continues to adhere to the fire safety regulations. The one-off fire safety works will focus on the replacement of key components.

7.10.1 The Improvements capital programme will be broken down into component schemes, with table 7 below showing the estimate amount to be spent on each scheme.

Table 7: Improvements

Capital Scheme	Total Cost £000
Fire Safety (ongoing)	150
Fire Safety (one off)	2,000
Total	**2,150**

7.11 **Related Assets**

7.11.1 The Council also owns a number of related assets in addition to the housing stock. These include garages, meeting / community halls and shops. The proposed capital investment of £100k will ensure that these assets are maintained as required.

7.12 **Exceptional Extensive Works**

7.12.1 This capital investment of £350k will be used primarily for asbestos removal and works to the Council’s non-traditional properties.

7.13 **Disabled Facilities and Aids and Adaptations**

7.13.1 This is an annual recurring budget for small and large scale home aids and adaptations in tenants' homes where there are mobility issues. This budget is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are made through the Somerset West Private Sector Housing Partnership.

7.13.2 The demand for adaptations has been historically lower than budget and provision has been made in the 2020 Business Plan to reduce this to £300k per annum. This will be achieved with a number of steps being taken, such as moving towards more cost effective installations of wet floor shower rooms through a new fixed price contract; switching from concrete ramps to better value metal modular ramps; and a move toward stairlift loans and recycling, rather than purchases. These measures will ensure that the service stays within reduced budgets without impacting tenants.

7.14 **Vehicles**

7.14.1 The service uses a combination of both owned and leased vehicles depending on the complex nature of the vehicle requirements, to deliver services to our tenants. This capital investment of £121k per year is to cover the replacement cost of owned vehicles on a cyclical basis.

7.15 **IT Systems and Software Improvements**

7.15.1 There are a number of business critical IT systems and software applications used to run the HRA. These include Academy, Open Contractor, Codeman, Abritas and e5. This capital investment of £546k is to support the Housing Technology Programme which is planning to deliver the replacement of Academy into the Open Housing as well as the implementation of Open Assets.

7.15.2 The HRA will also need to fund a share of the future corporate technology change programme which includes renewing contracts / licence agreements and upgrading to Microsoft 365, as well as e5 contractual upgrades and the implementation of new accounts payable invoicing software.

7.15.3 All of the above will also require IT infrastructure upgrades to add additional server capacity into the data centre to allow us to create the new services that these projects required.

7.16 **Social Housing Development**

7.16.1 A budget of £6.898m has been included within the capital programme as a back stop to ensure that we are able to meet our total spend requirements for 2020/21 under the RTB "1-4-1 Agreement" (explained in section 9 below). This would be funded 30% from retained RTB capital receipts.

7.16.2 This equates to approximately 42 new social housing units and directly delivers on the aspiration for an additional 500 homes in the next 10 years

7.16.3 There are a number of individual social housing schemes that are currently being developed. As individual schemes are presented to Full Council for approval, the need for the notional amount of £6.898m would reduce as RTB spend is met through specific schemes.

8 HRA Borrowing

8.1 In 2012 the Council took out additional external borrowing of £85.198m as part of the self-financing settlement with the Government. This meant that the total debt owed by the HRA at the start of self-financing was £99.649m (which included £9m of pre self-financing loans and £5.451m of internal borrowing).

8.2 As part of the self-financing agreement, an individual housing revenue borrowing cap of £116m was implemented for TDBC. This meant that the HRA was unable to exceed capital borrowing of £116m within the HRA Business Plan. Although the Government abolished the HRA Debt Cap in October 2018, it is proposed to set a prudent debt cap for the HRA.

8.3 The total capital borrowing requirement (debt balance) owed by the HRA at the start of 2019/20 was £103m.

8.4 The HRA 2020 Business Plan assumes that there will be a significant increase in new borrowing over the next 10 years to meet the increased ambitions for capital investment. This will result in additional cost pressures to cover the financing of this new investment and refinancing of existing loans.

8.5 The budgeted annual provision of £1.821m for the repayment of debt will be used to repay existing debt, finance any new external borrowings as required or to reduce the year-on-year capital financing requirement. Any surplus funds from the revenue account will be used to protect reserves in the first instance but will then be used to reduce future capital financing requirements.

8.6 Whilst this report is focusing on the budget for year 1 of the HRA 2020 30-Year Business Plan, it is important to consider the impact that decisions taken now have on the entirety of the plan, for example the cumulative impact of future rental income and the future financing requirements of borrowings.

8.7 The one-off application of the rent flexibility allowance for new tenants only, if approved, will provide more headroom against our internal debt cap which means that there is less risk and more interest cover available, and enables the Business Plan to deliver the new build aspirations and reduce debt back down to approximately £129m over the 30 years.

8.8 The S151 Officer is working with Arlingclose, the Council's Treasury advisors, on how best to refinance the existing loans as they fall due over the next 10 years and how to take out new external borrowing to fund approved schemes such as the North Taunton Regeneration scheme, in a way that minimises debt costs and risk.

8.9 The funding and cash flow implications of the HRA 2020 Business Plan will be managed in line with the Council's Capital, Investment and Treasury Strategies which is approved alongside the annual budget each year.

9 Right to Buy (RTB) Receipts

9.1 The RTB scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The scheme saw the maximum discount increase significantly in 2012 to up to £75,000 followed by a steady increase year on year to up to £82,800 in April 2019.

9.2 Taunton Deane Borough Council signed up to a “1-4-1 Agreement” with the Treasury/MHCLG to retain a higher proportion of RTB the additional receipts on the proviso, and agreed that these receipts would be used to fund new social housing. This agreement continues now under SWT until such time as the Council decides to opt out. Only a small percentage of receipts from RTB sales are retained by the Council. These additional RTB receipts can only account for 30% of spend on new social housing costs, with the remaining 70% coming from other funds such as revenue funding or borrowing.

9.3 The RTB receipts cannot be used in the same scheme as other Government funding such as grants from Homes England. They must also be spent within three years of the capital receipt, or must be returned to Government with interest at 4% over base rate from the date of the original receipt. Receipts can be returned to Government in the quarter in which they are received with no interest payable.

9.4 Alternatively, the 30% RTB funding could be granted to and used by Housing Associations in the area, providing they meet the same match funding requirements. The new housing doesn’t need to be provided by the Council.

9.5 To date, the Council has successfully spent all of their retained 1-4-1 receipts resulting in no returns being made to the Treasury/MHCLG.

9.6 **RTB Receipts Year to Date**: Table 8 below shows the number of RTB sales, the total (capital) receipts received under the new RTB discount scheme, the Council retained 1-4-1 receipts to be used for new social housing, and the total amount that would need to be spent by the Council in order to fully retain them.

Table 8: Right to Buy Receipts

	Total 2012/13	Total 2013/14	Total 2014/15	Total 2015/16	Total 2016/17	Total 2017/18	Total 2018/19
Sales	37	47	35	38	44	53	34
Total Receipts (£k)	2,330	2,705	2,317	2,666	3,568	3,971	2,576
1-4-1 Receipts (£k)	1,234	1,230	1,005	1,193	1,864	2,069	1,149
1-4-1 Receipts Spend - Per Year (£k)				1,234	1,230	1,005	1,193
Match Funding Spend - Per Year (£k)				2,879	2,871	2,345	2,783
Total Spend Required - Per Year (£k)	**-**	**-**	**-**	**4,112**	**4,102**	**3,350**	**3,976**
Total Spend Required - Cumulative (£k)	-	-	-	4,112	8,214	11,563	15,539
Average number of units per year				25	25	20	24

	Total 2019/20	Total 2020/21	Total 2021/22	Total 2022/23
Sales	35	32	32	32
Total Receipts (£k)	2,317	2,576	2,576	2,576
1-4-1 Receipts (£k)	1,005	1,149	1,149	1,149
1-4-1 Receipts Spend - Per Year (£k)	1,864	2,069	1,149	1,005
Match Funding Spend - Per Year (£k)	4,349	4,829	2,681	2,345
Total Spend Required - Per Year (£k)	**6,213**	**6,898**	**3,830**	**3,350**
Total Spend Required - Cumulative (£k)	21,752	28,650	32,480	35,829
Average number of units per year	38	42	23	20

[Note that the grey data is estimated.]

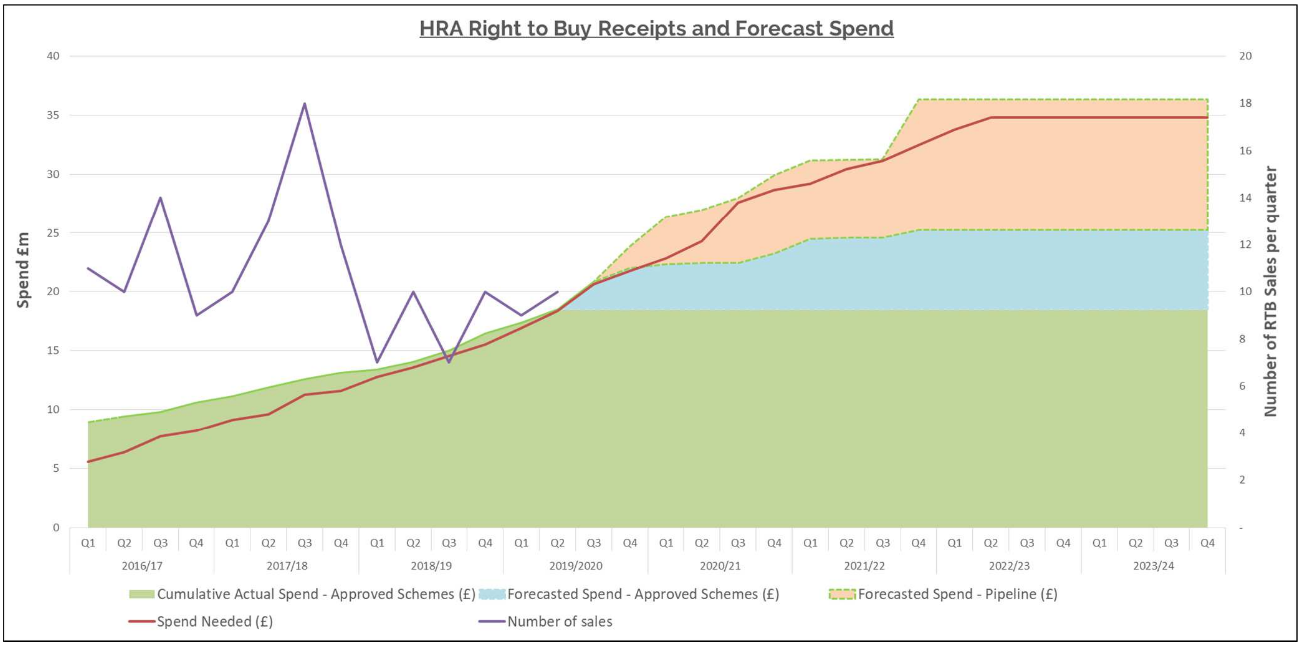
9.7 **Forecast Spend of RTB Receipts**: The spend year to date and the current forecast spend can be shown in graph 1 below. The estimated spend on approved schemes, such as Outer Circle and Laxton Road, together with additional open market buybacks, will be sufficient to meet the RTB match funding requirements to quarter 4 of 2019/20.

9.8 Looking forwards over the next three years, there are a number of new build and off-the-shelf buybacks being investigated that, if approved by Full Council, together with a minimal amount of open market buybacks, will see our RTB match funding requirements achieved for the next three years.

9.9 This will support the aspiration for an additional 1000 homes in the next 30 years, being able to achieve this with 30% match funding from RTB Receipts, whilst ensuring we do not have to return our RTB receipts (plus interest) back to the Government.

9.10 However this will require significant borrowing, which is now possible since the removal of the debt cap, and will have to be managed carefully within the overall 2020 Business Plan to ensure that the revenue account can fund the interest payments and principal loan repayment.

Graph 1: Right to Buy Receipts and Forecast Spend



10 Links to Corporate Strategy

10.1 The budget proposals for 2020/21 have been prepared in line with the HRA 2020 Business Plan and newly adopted Corporate Strategy[2]. (https://www.somersetwestandtaunton.gov.uk/your-council/corporate-strategy/)

11 Finance / Resource Implications

11.1 This is a finance report and therefore no further finance comments are required.

12 Legal Implications

12.1 The HRA is governed by the following legislations:

- Housing Act 1985 (Part II)
- Housing Act 1988
- Local Government and Housing Act 1989 (section 74)
- Local Government Act 2003
- Localism Act 2011

12.2 The introduction of the Local Government and Housing Act 1989 meant that the HRA was now required to become a ‘ring-fenced’ account, completely separated from the GF. As a consequence local authorities can only include items in the HRA for which there is statutory provision, and transfers of income and expenditure between the HRA and the General Fund are only allowed in very specific circumstances. In essence, rents cannot be subsidised by transfers from the General Fund, and Council Tax cannot be subsidised by transfers from the HRA.

12.3 The introduction of the Localism Act 2011 reformed local authority housing financing with the abolition of the national subsidy system and a move to 'self-financing' from April 2012. This meant that local authority housing revenue accounts are able to retain all rental income to meet the costs of managing and maintaining their housing stock.

13 Climate and Sustainability Implications

13.1 As part of the HRA 2020 Business Plan review a "Strategic Asset Investment Proposal For Housing In Relation to Achieving Affordable Warmth & Carbon Neutrality (Retrofit Strategy)" report was commissioned. This report was produced to inform the Council on how they could achieve carbon neutrality within the housing stock by 2050 as recommended within the "SWT Carbon Neutrality and Climate Resilience Plan".

13.2 As part of the Major Works capital programme, the HRA will be looking to replace components in a thermally efficient way where possible, for example installing air source heat pumps, external wall insulation and thermally efficient windows.

14 Safeguarding and/or Community Safety Implications

14.1 The HRA has an ongoing responsibility for the safeguarding of vulnerable people within its communities. There are no changes proposed within this report.

15 Equality and Diversity Implications

15.1 The Housing Specialist has assessed the proposals presented within this report as driven by the HRA 2020 Business Plan and Rent Policy. An equality impact assessment form can be found in Appendix D.

16 Social Value Implications

16.1 Our approach to social value will encompass the full procurement and commissioning cycles, service planning and review, decision making and policy development as described in the Council's Social Value Statement (Social Value within Procurement - June 2018).

17 Partnership Implications

17.1 The HRA budget includes significant expenditure on services provided by MIND, citizen's advice, Inspire to Achieve, Taunton East Development Trust, North Taunton and Wiveliscombe Area partnership.

18 Health and Wellbeing Implications

18.1 None for the purposes of this report. Any relevant information and decisions with regard to health and wellbeing will be reported as these emerge through the financial planning process.

19 Asset Management Implications

19.1 This report includes a section relating to the capital programme for 2020/21 and therefore no further comments are required.

20 Data Protection Implications

20.1 None for the purposes of this report.

21 Consultation Implications

21.1 Consultation will be undertaken with tenants through the Strategic Tenants Board.

22 Scrutiny Comments / Recommendation(s)

22.1 Due to the timing of publishing the report for the Executive Committee meeting on 22 January, a verbal update will be provided on any comments and/or recommendations arising from the Strategic Tenants Board and Scrutiny Committee.

Democratic Path:

Committee / Board	Yes / No	Date
Informal Executive	Yes	6 Jan 2020
Strategic Tenants Board	Yes	15 Jan 2020
All Members Briefing	Yes	16 Jan 2020
Scrutiny	Yes	20 Jan 2020
Executive	Yes	22 Jan 2020
Full Council	Yes	19 Feb 2020

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	HRA Revenue Budget and Medium Term Financial Plan
Appendix B	Proposed Fees and Charges 2020/21
Appendix C	Five Year Capital Programme
Appendix D	Equality Impact Assessment Form

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