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Decision Report - Key Decision

Forward Plan Reference: FP/22/11/08
Decision Date - 13/02/23

SOMERSET County Council

Housing Revenue Account Rent Set Report 2023/24 and Updated 30 Year Business Plan

Executive Member(s): Cllr Federica Smith-Roberts - Lead Member for Communities
Local Member(s) and Division: All
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1. Summary / Background

1.1. This report presents The Somerset Unitary Housing Revenue Account (HRA) Rent Set for 2023/24 and the updated 30-year business plan for the New Unitary Council.

2. Recommendations to Council

That the Executive endorse and recommend the recommendations below for approval by the Council, which include changes for rents and service charges to be used to prepare the necessary notices to tenants ready for dispatch following the Council meeting on 22 February 2023 to ensure the 28 days, notice period is met.

That Members approve the following.

2.1. The updated assumptions and figures in the HRA 30-Year Business Plan as summarised in Section 12 and detailed in Appendix A1 (Operating Account) and B1(Capital Programme).

2.2. The single HRA Revenue budget for 2023/24 as detailed in Table 3, section 13, Appendix C.

2.3. An increase of 7% to Dwelling Rents for 2023/24 in line with the Governments rent cap. To continue to increase rent for relets by Sept CPI plus 1% (11.1%).

2.4. An increase of 7% for Sheltered/Extra Care housing Rents in line with the dwelling rents increase.

2.5. An increase of 7% for Shared Ownership properties.

2.6. An increase of 7% on affordable rental tenures, with the rent being reviewed at relet based on 80% of market value capped at LHA rate.

2.7. An increase based on Sept CPI 10.1% on temporary accommodation charges

2.8. The continuation of rent flex at relet for properties in SWT as included in the Rent charging policy, with the rent flex policy being considered in the future for properties within Sedgemoor.

2.9. An increase in service charges for tenants in the Sedgemoor area based on actual costs in line with the service charging policy. The service charges are contained in Appendix D

2.10. An increase in service charges for tenants in SWT properties of 7% (with the exception of Piper Lifeline at 3%, communal areas at 37%, the introduction of a new management fee at 10%, a new charge for utility for internal areas charge and a new charge for door entry system) 7% is based on the governments rent cap with a commitment to review the option of 'depooling' service charges for 2024/25 to align service charge policies. The detailed service charges are contained in Appendix E alongside a supporting report.

2.11. An increase of 7% for garage rents in the Sedgemoor Area and an increase of 7% for garages rented by council tenants in SWT and 10.1% for private/owner occupier rented garages in this area.

2.12. An increase of 7% to other Fees & Charges for 2023/24 in the Sedgemoor area (Appendix D) and CPI in SWT area (Appendix E)

2.13. The HRA Major Works Capital Programme for 2023/24 totalling £20,910,180 and notes the previously approved Housing Development programme budget totalling £26,423,920 (Appendix F)

2.14. The growth bids requested in section 20 totalling £607,170 for two one-year bids and £688,170 per year for two years (totalling £1,376,340 over the two years)

2.15. That members note the challenges and next steps for the HRA and landlord services.

3. Reasons for recommendations

3.1. The Council is required to set a budget for the Housing Revenue Account each year as part of the Council's annual budget process, and to formally determine the annual rent to be charged to tenants in line with regulations and the locally approved rent policy.

4. Other options considered

4.1. The Council must set a budget and present a single HRA for the New Somerset Council. The annual rent level also must be approved in order for rent notices to be sent to tenants in advance of April 2023. To meet the requirement of 28 days' notice of a change to a tenants rent it is essential that the rent is set at Council 22nd February 2023. The report contains the proposed estimates for income and expenditure for the single Housing Revenue Account for Somerset Council.

4.2. Options for Rent increases on dwellings are limited to a maximum 7% by the cap set by central Government. The government did not apply the cap to sheltered/extra care or shared ownership properties, but the local decision has been to apply the cap. A lower rent level would present significant financial sustainability pressures for the HRA and landlord services which are subject to regulation and considerable cost increases. Costs must be funded by tenants with the HRA being a ring-fenced account that cannot be subsidised by the General Fund.

5. Links to County Vision, Business Plan and Medium-Term Financial Strategy

5.1. The Council is required to produce a 30-Year Business Plan under the self-financing arrangements for the Housing Revenue Account (HRA). This was considered and approved by the Executive in December 2022 for the first time for Somerset Council following local government restructuring in Somerset, taking into account the preparations undertaken by the two predecessor Councils that currently operate a HRA (Sedgemoor and Somerset West and Taunton district councils). The HRA is a component of the council's total revenue and capital budgets and is also reflected in the Capital and Treasury Management strategies.

6. Consultations and co-production

6.1.

An Informal briefing was held with the Tenants Strategic Group at SWT on the budget proposals on the 16th of January. Discussions related to their support for the establishment of a hardship fund in light of cost-of-living pressures in particular.

7. Financial and Risk Implications

7.1 The risks are detailed in Section 22 of the report.
The Corporate Risk Register includes a Strategic Risks ORG0057 – Sustainable MTFP with a current risk score of 5x5=25. This risk will be reviewed in February in the light of the updated MTFP and final budget.

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8. Legal and HR Implications

8.1. The legal implications will be assessed as part of the overall budget process that will conclude in February 2023.

9. Other Implications

Equalities Implications

9.1 This report presents the updated HRA 30-year business plan the New Somerset Council. It also presents the Rent Set information for 2023/24 an equalities impact assessment an equality impact assessment has been completed see (Appendix G).

Community Safety Implications

9.2 There are no community safety implications arising from this report.

Sustainability Implications

9.3 There are no sustainability implications arising from this report.

Health and Safety Implications

9.4 There are no health and safety implications arising from this report.

Health and Wellbeing Implications

9.5 There are currently no implications.

Social Value

9.6 There are currently no implications.

10. Scrutiny comments / recommendations:

10.1. The 2023/24 budget proposals will be considered by the Councils Joint Scrutiny Committee in February 2023.

11. Background

11.1. Somerset Council will operate a single Housing Revenue Account (HRA) from 1 April 2023, as both Somerset West & Taunton (SWT) and Sedgemoor (SDC) own housing stock and currently operate separate Housing Revenue Accounts as local authority social housing landlords. All income and expenditure regarding Council housing landlord functions is accounted for in the HRA which is a ringfenced account separate from the General Fund.

11.2. In 2012 the Government abolished the subsidy system and self-financing was introduced for the Housing Revenue Account. The new system allowed all income from rents to be retained to fund expenditure on landlord functions such as decent homes and management of the stock. The requirement for self-financing was for each council to buy itself out of the system by taking on capital debt, in total this led to a combined debt transfer of approximately £133m and 30-year HRA business planning was introduced. The new system has financial benefits and more flexibility, particularly when the borrowing cap was removed in October 2018 which assisted with the ability to fund new build development. There are specific regulations which govern eligible income and expenditure, and this prevents any cross subsidy between the accounts. The Government have not given full control on issues such as rent rises and standards of delivery, for example decent homes but self-financing definitely gave financial benefits and greater flexibility.

11.3. The combined number of properties as of 1st April 2022 was 9,668 which makes the Unitary a significant social housing landlord within Somerset and gives opportunities for the New Unitary in terms of joint working with Adult Social Care to deliver joint resolutions to issues which improves the service to customers in an efficient way. Sedgemoor owns just under 4,000 properties which are managed by Homes in Sedgemoor (HIS), an Arm's Length Management Organisation (ALMO), under a management agreement. A management fee is paid to cover the day-to-day management and repairs plus a capital fee to keep the homes at the Government's Decent Homes standard. Somerset West & Taunton owns and manages in house approximately 5,700 properties and the landlord function is within the Housing & Communities directorate.

11.4. The draft 30-year business plans were presented to the Executive in December 2022 along with a single business plan for the New Council. This has been reviewed as part of the Rent Set preparations and the summary together with the operating Account Appendix A1 and Capital budget Appendix B1 are included within this report to support members with the recommendation to approve the business plan.

11.5. The HRA revenue and capital budgets for 2023/24 have been prepared for the Somerset Unitary, the legal requirement is for a single Housing Revenue Account to be delivered for 1st April 2023. The rent increase is in line with the Government's cap of 7% which does have an impact on the financial viability of the business plan as inflation is significantly higher than 7%. The figures presented for 2023/24 show an in-year deficit of £1,650,000 with closing balances as at 31st March 2024 estimated at £11,329,000 which is significantly higher than minimum balances. It is important for members to consider the balance in the context of a 30-year business plan, currently the balances go below the minimum at year 8. Any funding decisions need to be made in consideration of the 30-year business plan, not looking at individual years in isolation.

12. Business Plan updates – Single Business Plan

12.1. In December the combined HRA 30-year business plan was presented with commentary explaining differences in delivery and operating models. Two business plans were produced because of the different operating models, and they were amalgamated to present a single business plan for the New Council. It is important to note that the authorities had different opening balances and there is a requirement to reduce the use of balances so that the HRA costs are contained within total income each year, and ensure ongoing financial resilience is maintained.

12.2. The business plan had two financial scenarios presented to show the material impact of the rent caps, the main source of revenue, being limited by a rent cap. The table below summarise the forecast general balances based on rents inflating by the Government's rent cap at 7% (as per the Autumn Statement 17th November 2022). This provides a clear picture of the significant financial impact from the governments rent cap because balances are not sustainable from year 8.

Table 1: December 2022 HRA business plan – HRA balances

Year		Scenario A1 7% rent cap applied Balances £' 000
1	2022/23	13,340
2	2023/24	11,515
3	2024/25	12,414
4	2025/26	11,818
5	2026/27	10,519
6	2027/28	8,404
7	2028/29	5,620
8	2029/30	Below minimum balances: 2,070
9	2030/31	(1,098)
10	2031/32	(5,603)
30	2051/52	(240,302)

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12.3. The HRA's income generating opportunities are restricted and heavily regulated by the Regulator of Social Housing's Rent Policy stipulating caps on increasing tenants' rents and reactive rent caps imposed as seen this November.

12.4. The HRA faces further regulatory pressures, for example in terms of the substantial investment required in existing stock to deliver (a) quality as per the Decent Homes Standard, (b) building safety compliance (as per the requirements of the Building Safety Act 2022 and the new regulatory regime being introduced by the Building Safety Regulator), (c) decarbonisation commitments by 2050, though there is a local ambition for this to achieved by 2030, as well as (d) continuing to invest in much needed new housing supply.

12.5. In addition, the HRA is operating within a volatile and dynamic economic and political environment.

12.6. The preparation of the HRA rent set budgets have been set following the main assumptions applied in the HRA business plan, for example no changes to rent increases or inflation rates. A summary of the changes between the HRA position for 2023/24 as per the HRA business plan and the HRA 2023/24 Rent Set budgets is shown in the table below. For 2023/24 the difference is £236k more than the HRA business plan which is not a material variance given the value of HRA balances and is mainly due to minor changes on interest on balances and opening balances.

Table 2 Comparison of HRA business plan against HRA rent set budgets for 2023/24

	HRA Bus. Plan (£000)	**Rent Set (£000)**	**Over/ (Under) (£000)**	**Variance %**
Total Income	51,103	51,114	**(11)**	
Total Expenditure	29,731	29,578	**153**	
Net Cost of HRA Services	**(21,372)**	**(21,536)**	**164**	
Central Costs and Movement in Reserves	23,197	23,186	**11**	
(Surplus) / Deficit	**1,825**	**1,650**	**175**	
HRA balance brought forward	(13,340)	(13,401)	**61**	
HRA balance carried forward	**(11,515)**	**(11,751)**	**236**	**-2%**

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12.7. The HRA Business plan figures are detailed in Appendix A1 (operating account) and Appendix B1 (capital budgets.)

13. Revenue Budget for 2023/24 - Summary Figures – Single HRA

13.1. The recommendation for the revenue budget is as follows:

- the single HRA Revenue budget for 2023/24 as detailed in Table 3, section 13 and Appendix C.

13.2. The draft HRA Revenue Budget for 2023/24 is summarised in Table 3 below.

13.3. The table presents the Revenue Budget for 2023/24 being proposed for each predecessor Council area based on their current operating model to create a combined budget for the single HRA.

Table 3 HRA Revenue Budget for 2023/24:

	SDC (£000)	SWT (£000)	Combined (£000)
Income			
Dwelling Rents	18,038	27,146	**45,184**
Non Dwelling Rents	556	739	**1,295**
Charges for Services/Facilities	1,513	1,853	**3,366**
Other income/contributions	1,084	185	**1,269**
Total Income	**21,191**	**29,923**	**51,114**
Expenditure			
Repairs and Maintenance	4,380	8,740	**13,120**
Supervision and Management	5,187	4,054	**9,241**
Special Services	1,311	1,631	**2,942**
Rents, Rates, Taxes and Other Charges	681	160	**841**
Central Recharges (to / from General Fund)	206	3,228	**3,434**
Total Expenditure	**11,765**	**17,813**	**29,578**
Net Cost of HRA Services	**(9,426)**	**(12,110)**	**(21,536)**
Central Costs and Movement in Reserves			
Interest Payable	2,536	3,256	**5,792**
Interest Receivable	(254)	0	**(254)**
Change in Provision for Bad Debts	0	147	**147**
Depreciation	7,251	9,087	**16,338**
Capital Financing	1,163	0	**1,163**
Total Central Costs and Movement in Reserves	**10,696**	**12,490**	**23,186**
(Surplus) / Deficit	**1,270**	**380**	**1,650**
HRA balance brought forward	(10,267)	(3,134)	**(13,401)**
HRA balance carried forward	**(8,997)**	**(2,754)**	**(11,751)**

13.4. The detailed HRA revenue account budgets are attached at appendix C.

13.5. The following two sections below provide an explanation of the main proposed changes to the annual revenue budget estimates from 2022/23 to 2023/24.

SWT Summary of Changes

13.6. The draft HRA Revenue Budget for 2023/24 that will be used to fund the current operating model for housing landlord services in the Somerset West and Taunton (SWT) area during 2023/24 is presented in Table 3 above.

13.7. The main changes to the HRA Revenue Budget from 2022/23 to 2023/24, for SWT, is summarised in Table 2 below.

13.8. The main areas of budget growth relate to inflationary pressures with increasing costs on salaries, electricity, gas, fuel, insurance, materials, contracts and the cost of borrowing to fund the capital programme to build new housing supply. The impact on the HRA Budget has been compounded by regulatory restrictions capping rents and service charge increases to 7% reducing the amount of additional income the HRA can generate to meet these pressures.

Table 4: HRA Budget Setting 2022/23 to 2023/24 Changes

	£000	**£000**
Original Budget 2022/23 (balanced)		**0**
Reversal of One-Off Budgets in 2022/23		**865**
Growth in 2023/24:		
Depreciation	1,420	
Net Staffing Costs (including inflation)	1,266	
Net Interest Payable	456	
Cost of Materials Inflation	363	
Shared Staff & Cost Inflation	287	
Vehicle Fleet	178	
Electricity Inflation	96	
Gas Inflation	90	
Hardship Fund	50	
Contractual Inflation	34	
Shop Income	32	
Insurance Premiums Inflation	27	
Grounds Maintenance	23	
Fuel Inflation	21	

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	£000	£000
Meeting Hall Income	7	
Other	45	
Total Growth		**4,395**
Savings / Increase in Income:		
Dwelling Rents	1,565	
Service Charges	293	
Central Recharges	380	
Pension Deficit	375	
Compliance Activity	136	
One-off Funding	95	
SAP and EPCs	91	
Social Development Enabling Fund	60	
Quarterly Newsletters	12	
Tenants Action Group	10	
Other	42	
Total Savings / Increase in Income		**3,059**
Budget Gap		**2,201**
One-Off Adjustment to remove Debt Repayment in 2023/24		(1,821)
One-Off Funding from General Reserves		(380)
Proposed Original Net Budget for 2023/24		**0**

13.9. The main changes in growth include:

13.10.Depreciation: Depreciation is transferred to the Major Repairs Reserve (MRR) and must be used to fund the capital programme and/or repay capital debt. Depreciation is calculated at the end of the financial year and is based on each of the major components of each property e.g., kitchen, bathroom, roof, etc.

13.11. The significant growth of £1.420m for depreciation is the net impact of an increase in the Housing Price Index inflating the value of assets, the inflated increase in the cost of materials, the reduced useful life as recommended by the External Auditors, offset in part by a reduction in non-dwelling depreciation based on updated projections.

13.12.Net Staffing Costs: The majority of this growth relates to inflationary pressures including the 2022/23 pay award, an estimated 5% pay award for 2023/24, increase in employers pension contribution (from 17.5% to 20.1%) and reduced NI Rate – amounting to £731k.

13.13. Another significant element of growth in this area relates to the outcome of a job evaluation process that has increased the salaries of trade staff so that job grades are more consistent with the local and sector marketplace to ensure we can recruit and retain suitable staff to fulfil our repairs and maintenance obligations. This, in addition to other changes such as requested permanent reduction in working hours, has imposed a financial pressure on the service of £365k.

13.14. The budget estimates for 2023/24 contains some extra resource in areas of the business that are under significant pressure, for example in the Leasehold Team to provide sufficient capacity to deal with demand and compliance with relevant legislation, in the Tenancy Management team to meet the growing demand from tenants since Covid and the cost of living crisis to help address increasingly complex and challenging case work in terms of multiple vulnerabilities, and the Property Team to provide sufficient capacity meet increasing regulatory and legislative requirements e.g. Decent Homes, H&S compliance, and our retrofit strategic aims. The financial impact of this extra resource has been offset in part by a number of vacant posts being repurposed to place resource in areas of the business where it is needed most.

13.15.Net Interest Payable: The majority of our capital financing requirement is funded from existing long term external borrowing which continues into 2023/24 and is based on fixed interest rate loans. Therefore, we are able to predict the interest payments for these elements with a high degree of certainty and will cost £2.553m. An assumption has been made that the HRA will refinance £15m at 4.5% at the end of 2022/23 adding a further cost of £675k. The remainder of this budget is subject to the year-end capital financing requirement position and the rate of internal borrowing; this is estimating an internal borrowing cost of c£27k.

13.16.Cost of Materials Inflation: This reflects the rising cost of materials impacting the repairs and maintenance, and voids services.

13.17.Shared Staff and Cost Inflation: This relates to the shared staffing costs inflationary pressure for the 2022/23 pay award, an estimated 5% pay award for 2023/24, increase in employers pension contribution (from 17.5% to 20.1%) and reduced NI Rate. This also includes an inflationary increase in costs for shared (non-staff) costs with the GF.

13.18.Fleet: The 2022/23 revenue budget assumed that the lease element of the fleet contract would be capitalised under IFRS16 Leases. However, the adoption of IFRS16 has been delayed until 2024/25. Therefore, the main growth is for a one-off revenue budget in 2023/24 to cover the lease costs as revenue. These estimates also include updated projections for the cost of vehicles during the year.

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13.19.Electricity Inflation: This growth is a combination of adjusting for inflation in both 2022/23 and estimated inflation for 2023/24 at 57%.

13.20.Gas Inflation: This growth is a combination of adjusting for inflation in both 2022/23 and estimated inflation for 2023/24 at 283%.

13.21.Hardship Fund: A new hardship fund is being proposed to recognise the real challenges tenants will face to be able to afford to live over the coming year. It is a relatively small budget, and the criteria will therefore need to be set at a reasonable high threshold to ensure we reach those most in need, it is envisaged that this fund will be deployed by the SWT Housing Rent Recovery team. It should help minimise the necessity for tenant evictions through non-payment of rent and support those struggling to afford living costs. It is proposed that this is funded by a contribution from HRA General Reserves.

13.22.Contractual Inflation: Across the HRA various supplier contracts have inflated in price as a reaction to the economic climate and rising costs, for example waste disposal, contract cleaning, Deane helpline and water.

13.23.Shop Income: The income from shop rentals is estimated to decrease due to difficulties in reletting void units.

13.24.Insurance Premiums: This growth is a combination of adjusting for inflation in both 2022/23 and estimated inflation for 2023/24 at 10%.

13.25.Grounds Maintenance: The contracted price for the Service Level Agreement for the provision of grounds maintenance across the HRA housing stock open spaces has been reviewed and the price for 2023/24 updated, with an increase of £23k.

13.26. Fuel Inflation: This growth is a combination of adjusting for inflation in both 2022/23 and estimated inflation for 2023/24, as well as adjusting for levels of usage.

13.27.Meeting Hall Income: During COVID the meeting halls were restricted from use. Since the COVID restrictions have lifted the meeting halls have been under-utilised. The expected income from this groups of assets has been reduced by £7k (down to £3k).

13.28. The main changes in savings / increase in income include:

13.29.Dwelling Rent Income: As per section 14, we are proposing to increase rents by 7% (as capped by the government) which provides £1.785m of additional income. We have also adjusted for anticipated stock changes (e.g., RTB Sales of 35 units per year) and updated our void projections which reduces our income by £242k. We also have an estimated £22k of new income from the Housing First model which offers additional support to tenants housed (via the homelessness function) through this route. The cost of this additional support is recovered from higher service charges applied that are fully funded for the tenant through benefits.

13.30. For information, the SWT HRA has lost the opportunity of generating c£1m 4.1% (the difference between the cap at 7% and CPI+1% formula rent) of dwelling rent income in 2023/24 due to the rent cap imposed by the government.

13.31. Service Charges: As per section 14 we are proposing to increase service charges by 7% (as capped by the government), with exception to Piper Charges inflating at 3%, communal at 37% and sewerage charges, which gives us an extra £119k of income. We have also adjusted for anticipated stock changes (e.g., RTB Sales of 35 units per year) and updated our void projections which increases our income by £12k. We also have an estimated £162k of new income from the introduction of an administration fee, communal utility charge and door entry charge.

13.32. For information, the SWT HRA has lost the opportunity of generating c£56k (4.1%) of service charge income in 2023/24 due to the cap imposed by the government.

13.33. Central Recharges: The HRA is required to periodically review its share of corporate costs (with the General Fund). The last review undertaken during 2022/23 identified a saving of £380k shared costs. This ensures that the HRA is compliant with the Accounting Code of Practice and that there is no cross subsidy between funds.

13.34. Pension Deficit: The latest actuarial valuation of the pension fund deficit reports a reduced pension deficit payment for 2023/24. This saving has been shared by the GF and the HRA proportionately.

13.35. Compliance Activity: The HRA undertakes a number of compliance activities across its services including gas safety checks (LGSR's), water risk assessments and remedial works, electrical inspections (EICR's), asbestos surveys and re-inspections, fire risk assessment and remedial works, fire safety checks, and lift and stair-lift checks and remedial work. The estimated spend on delivering this activity is reviewed on a regular basis and feeds into the annual budget setting process. The updated estimates for compliance activity in 2023/24 is estimating a saving of £136k against the current years' budget.

13.36. One-Off Funding: The HRA has been able to secure one-off Hinkley Housing mitigation funding of £95k to support existing expenditure such as community and voluntary sector grant payments to third parties to provide enhanced support to tenants and transfer removal grants to help downsize tenants to free up bed spaces. These activities will again come under pressure in 24/25.

13.37.SAP and EPCs: The Standard Assessment Procedure (SAP) is the UK government's recommended method system for measuring the energy rating of residential dwellings. The EPC is Energy Performance Certificate are a rating scheme to summarise the energy efficiency of buildings. The EPCs are being carried out as part of the capital programme and therefore will be capitalised as they are part of creating the asset or bringing it in use. Once the asset is formed then traditionally the EPC would be treated as revenue. There is a saving of £91k against the current years' budget.

13.38.Social Development Enabling Fund: This budget is to enable the exploration of future social development and regeneration schemes. The HRA is currently fully committed in this respect the next 8 years development activity pipeline and therefore this fund is not needed in 2023/24, as all costs are now contained in specific scheme project budgets.

13.39.Quarterly Newsletters: The HRA currently produces, prints and posts a quarterly newsletter to tenants. The proposal is to continue producing a quarterly newsletter but to reduce print and post to two quarters only, providing the other two quarters online / electronically.

13.40.Tenants Action Group: There has been a historical underspend of £10k in this area that is being proposed to be taken as a saving from 2023/24 onwards.

13.41.One-Off Adjustment to Voluntary Revenue Provision (VRP): As part of the 2022/23 budget there was a one-off adjustment to fund £800k (of the £1.821m base budget) from existing non-RTB capital receipts. Due to the significant inflationary pressures impacting the finances of the HRA and the government imposed cap on rent and service charge increases, the full £1.821m will need to be released from the revenue voluntary repayment of provision (debt) to provide further revenue capacity for on-going in-year operational costs. This will be funded using £350k of new non-RTB capital receipts as per the 5-Year Asset Strategy from 2023/24 (agreed by SWT Full Council 8 Feb 2022 as part of the Budget Setting report). The remaining £1.471m will be funded using Right to Buy (RTB) 'unadjusted allowable debt' capital receipts. This ensures the continued contribution by the HRA to make a voluntary repayment of debt whilst temporarily releasing funds to meet revenue pressures.

13.42.One-Off Funding from General Reserves: The one-off funding of £380k from general reserves has been included subject to 2022/23-year end balances remaining above at least £2.380m. If this is not feasible then we will need to manage this through the budget monitoring process in 2023/24. For example, if there is less spend on the capital programme than anticipated in the budget then this will reduce the Capital Financing Requirement (CFR) which will either reduce the cost of borrowing and / or increase investment income – if this is the case we would look to reduce the transfers from general reserves against any variance on net interest payable.

SDC Summary of Changes

Revenue Budget 2023/24

13.43 The draft HRA Revenue Budget for 2023/24 that will be used to fund the current operating model for housing landlord services in the Sedgemoor area during 2023/24 is presented in Table 3 above.

13.44 The main changes to the HRA Revenue Budget from 2022/23 to 2023/24, for SDC is summarised in Table 3 below. The opening HRA balances at 1st April 2023 are at £10.267m and closes balances at 31st March are lower at £8.997m because of an in year net cost of the service at £1.27m. Noting the presentation of the table below is reflective of the different operating model at SDC because the main operating area of expenditure in the HRA is the management fee payable to Homes in Sedgemoor (HiS). The breakdown of the fee is explained in more detail further on in this section and is consistent with the information presented in the HRA business plan (Executive 14th December 2022).

Table 5: HRA Budget Setting 2022/23 to 2023/24 Changes

Changes in original budget 2022/23 to original budget in 2023/24		
	£'000	**Main reason**
Expenditure		
Repairs & maintenance	284	Mainly due to increase in management fee, see section in report for more about this contained in report item 15.5
Supervision & management	132	
Special services	195	
Rents, rates, taxes and other charges	240	
Depreciation	2,203	Need to increase see item for more detail 15.4
HRA interest payable	791	Per loan agreements
Capital expenditure funded by revenue reduction	(1,614)	Dependant on the capital programme requirements
Net increase in expenditure	**2,231**	
Income		
Rent income - additional income	1,057	See report section on rents
Service charge income and other income - additional income	104	See report section on service charges
Net increase in income	**1,161**	
Net increase in expenditure to be funded from HRA	**1,070**	
Original budget 2022/23 net cost of in year HRA service	200	
Original budget 2023/24 net cost of in year HRA service	1,270	
Difference as explained above	**1,070**	

13.45 In the budgets presented in 2023/24 the charge for depreciation has been increased when compared to the original budget in 2022/23, similar to the situation at SWT because of the national pressures faced of increased construction industry prices and the need to review component lifetimes.

HiS Management Fee

13.46 The housing stock in the Sedgemoor area is owned by SDC and managed by HiS under a management agreement with HiS being paid a fee. The annual management fee payable to HiS was included in the business plan and historically had always included annual inflationary increases. If HiS require additional funding this has been requested as growth in addition to the annual fee. The total Housing Management Fee payable to HiS in 2023/24 is at £9,710,320. This includes inflation and an ongoing sum of £224,000. The sum of £224,000 approx. has been in the budget since 2019/20 as an annually assessed one-off growth budget each year following the cessation of the supporting people grant. The grant helped fund the sheltered housing services. A review of the service was carried out for the 'Independent Living Service' (sheltered housing) with a revised scheme being rolled. The revised scheme is now in place and the funding requirement assessed. HiS advised that in 2023/24 a firm ongoing assessment of revenue funding for the Independent Living Service would be required, this assessment is at £224,000 and has to be accommodated in the new fee because the associated income from the new service has been included in the service charges income as an ongoing item.

13.47 HiS have reviewed in detail the management fee for 2023/24 with challenge regarding the increase. Of the increase a sum of £556,500 represents the increase for electricity and gas. Pay increase inflation costs an extra £164,780 and is based upon an estimated 5% pay award, in-line with Somerset Council assumptions because HiS are subject to the same NJC terms and conditions. Asset management inflation for repairs and maintenance is estimated at £287,410. This represents an 8.5% increase. The latest index published by BEIS (Department for Business, Energy and Industry Strategy) shows that the cost of repairs and maintenance materials rose by 22% during 2021/22. The table below shows how the management fee is allocated out across the HRA, noting the budget allocated to each line will be updated in year by advice from HiS.

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Table 6: HiS Revenue Management Fee for 2023/24

Income	**2023/24 Annual Charge £**
Other income	1,077,790
Total Income	**1,077,790**
Expenditure	
Repairs & maintenance	4,370,050
Supervision and management	4,642,490
Special services	1,237,280
Rents, rates, taxes and other charges	538,290
Total Expenditure	**10,788,110**
Sub-total: Net management fee	**9,710,320**

13.48 HiS has produced a MTFP and has a policy on the use of reserves which will present options for investing in initiatives to support the tenants and improve the stock. They have recently approved funding from reserves for a development officer for 3 years to boost development of new homes. HiS reserves need to be considered along with the plans Somerset Council has to invest in the stock and develop new build.

14. Dwelling Rent Income

14.1. Recommendations for rent increases are as follows:

- an increase of 7% to Dwelling Rents for 2023/24 in line with the Governments rent cap. To continue to increase rent for relets by Sept CPI plus 1% (11.1%).
- an increase of 7% for Sheltered/Extra Care housing Rents in line with the dwelling rents increase.
- an increase of 7% for Shared Ownership properties.
- an increase of 7% on affordable rental tenures, with the rent being reviewed at relet based on 80% of market value capped at LHA rate.

14.2. The HRA is a landlord account. The main sources of revenue to finance the housing stock and housing services is from dwelling rents and service charges. Other sources of income are also included such as rent of garages and shops. Because the HRA is a statutory ring-fenced account from the rest of the General Fund the rents cannot be used to subsidise council tax (or vice versa).

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14.3. The setting of social rents is governed by the Government's Rent Standard. In 2019 the Government set a rent policy for social housing that would permit rents to increase by up to CPI plus 1 percentage point per year until 2024/25. There was no commitment to rent increases thereafter. However, whilst rent policies are in place the Government has in the past made changes to the policy for example there was a four-year progressive rent cut period which only ended in 2019/20. The 2019 rent policy then applied for future rent increases. However, the country is facing extreme financial challenges with a cost-of-living crisis and increasing rates of inflation which would have meant social rents for 2023/24 would be increased by 11.1% (September CPI plus 1%). This is a large increase which would severely impact on both tenants that are self-funders/part self-funders and the Government in financing the benefits bill.

14.4. On 31st August 2022 the Government published a consultation paper seeking views on a new Direction to the Regulator of Social Housing in relation to social housing rent policy from April 2023. The consultation closed on 12th October. The paper focussed on the introduction of a rent ceiling from 1st April 2023 to 31st March 2024 which would act as an upper limit on the amount by which social housing providers can increase actual rents in that year. Suggested actual rent ceilings in the consultation were 3%, 5% and 7%.

14.5. On 16th November the Government confirmed in the autumn budget statement that the rent increase ceiling would be at the 7% level with an exception for supported housing and shared ownership properties. It should be remembered that we still have the Government's rent formula for social rents (this does not include affordable rents) which is based on bedroom numbers, property value and local earnings, the formula rent increase does remain at 11.1%. This means for any relet property after 31st March the rent would then be let the Government's formula rent, an increase of 11.1%. Usually both the 'actual rents' and 'formula rents' increase by the same amount.

14.6. The application of formula rents at relet is detailed in the rent policy. This allows actual rents to converge with formula rents for social rent properties. This is in alignment with the Government's policy of rents at local authorities being at the formula rent level. This is because of the long-standing rent convergence process which started back in 2002/03, with subsequent changes meaning now that rent levels can only converge to the prescribed formula rent upon the relet of the property. It is important that rents move towards formula rent in line with both Government and local policy. The HRA is ring fenced and the rent income is the main source of funding. Given the HRA business plan presented in December shows that the plan is not balanced over the 30-year period it is crucial that the income be sensitively managed to cover the essential service costs. Any property being relet would be advertised with this rent level.

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14.7. It should be noted that for affordable rent properties the rent is set at 80% of the market value, thereafter the rent increases according to Government rent increase advice. However upon relet the property then moves to an updated affordable rent following an annual review carried out the authority's valuer, this is so that rents keep track of the local market, albeit being charged at 80% of market value. Affordable rents are capped to LHA levels.

14.8. The Government has, since the HRA business plan was completed requested that local authorities for shared ownership properties voluntarily opt to apply the 7% rent cap in 2023/24 rather than the allowed 11.1%. The actual rents therefore for this category are recommended to also increase in 2023/24 by the 7% increase.

14.9. Locally it is felt that to allow sheltered/extra care properties to increase by the allowed 11.1% would be unfair and unjust when the other tenures have an actual rent cap of 7% applied. Therefore it is recommended that as a local decision for rent set that this tenure also sees an actual rent 7% rent increase applied.

14.10. For all properties then the 'actual' rent increase is recommended at 7%. This is appliable for:

- General Needs tenures
- Affordable rent tenures
- Shared ownership tenures (complying to the voluntary request to apply a 7% cap)
- Sheltered/extra care tenures (local decision)

14.11. We should be mindful of the impact on the HRA business plan of setting rents below inflation. The plan assumed after 2023/24 the rents increasing by CPI plus 1% in 2024/25 which is back in line with the Government rent policy, so at an estimated increase of 6.5%. In the plan thereafter rents are increasing by just CPI, set at 2%. If the Government were to confirm that rents beyond 2024/25 could further increase by a rate more than CPI this will have a beneficial impact on the HRA future balances. The table below shows the impact of two rent sensitivity analyses at CPI plus 0.5% from 1st April 2025/26 and onwards and CPI plus 1% from 1st April and onwards which would improve balances. Noting that at year 30 only the CPI plus 1% per annum is the only sensitivity that brings balances back to positive levels.

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Table 7 Rent Sensitivity Analysis and Impact on Balances

Year	Year	Extra Rent Per Year From 2025/26		HRA Minimum Balance £'000	HRA Balances	
		CPI + 0.5% £'000	CPI + 1.0% £'000		CPI + 0.5% £'000	CPI + 1.0% £'000
30	2051/52	11,615	24,801	6,993	**(38,094)**	**181,036**

14.12. The impact on the HRA business plan in 2023/24 with rents set at below inflation means rental income is below the base case model by £1.744m in 2023/24. Over the full 30 years of the plan the total revenue lost is just over £70m. The guidance issued suggests rent increases in future years however we need to keep this situation under review, being mindful that the loss of rental income whilst inflation is higher in 2023/24 cascades through each year because of the cumulative loss.

14.13. The rent budgets presented must take into account voids and bad debts. Advice on the levels for these are taken from HiS for the stock that they manage and SWT for the stock in that geographical area. Stock lost through the Right to Buy is also taken into account in the rent budgets. These factors place a downward pressure on the income collected in year.

Rent Flex

14.14. The recommendation for rent flex is as follows:

- the continuation of rent flex at relet for properties in SWT as included in the Rent charging policy, with the rent flex policy being considered in the future for properties within Sedgemoor.

14.15. The New Somerset rent policy allows rents to have 'rent flex' applied. The means: Flexibility to set rents at up to 5% above social formula rate on general needs housing and up to 10% for sheltered and supported housing. In applying the flexibility, a housing provider should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.

14.16. Rent Flex has already been implemented at SWTC. However for tenants in SDC this would be a change in practice and policy and so in accordance with the Housing Act 1985 s105 3b HiS would need to consult with tenants on this policy. It is the intention in 2023/24 this policy will be consulted on with the view to consider applying this in 2024/25 given the current cost of living crisis and the rent increase situation explained earlier in this part of the report.

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14.17. Temporary Accommodation in SWTC area rents

14.18. The recommendation for temporary accommodation rents is as follows:

- an increase based on Sept CPI 10.1% on temporary accommodation charges

14.19. The Homeless Service has an obligation to provide interim accommodation for Customers whom they owe a statutory duty. Their use of our HRA stock, designated as temporary accommodation is preferable to commercial Bed and Breakfast which does not have cooking facilities and is more expensive. The demand for Temporary Accommodation is extremely high at present and the costs of regular turnover of occupants reflects the need for a higher daily rate to cover these related costs.

14.20. In 2022/23 a new daily charge was introduced. It is proposed to inflate this rate by the September 2022 CPI at 10.1% as Temporary Accommodation is exempt from the Rent Standard. The table below shows the daily rates that will be applied for 2023/24.

Table 8: Daily Rates for Temporary Accommodation

No. of Bedrooms	Daily Rate 2022/23	Daily Rate 2023/24	Change
Studio	16.53	18.20	1.67
1-bed	16.53	18.20	1.67
2-bed	20.82	22.92	2.10
3-bed	24.37	26.83	2.46
4-bed	29.84	32.85	3.01

15. Fees and Charges

Service Charges

15.1. The recommendations for service charges are as follows:

- an increase in service charges for tenants in the Sedgemoor area based on actual costs in line with the service charging policy. The service charges are contained in Appendix D

- . increase in service charges for tenants in SWT properties of 7% (with the exception of Piper Lifeline at 3%, communal areas at 37%, the introduction of a new management fee at 10%, a new charge for utility for internal areas charge and a new charge for door entry system) 7% is based on the governments rent cap with a commitment to review the option of 'depooling' service charges for 2024/25 to align service charge policies. The service charges are contained in Appendix E alongside a supporting report

15.2. The other major source of revenue for the HRA associated with the tenancies are service charges. There are differences between the two district council's approaches to service charges for social rent properties. The charges for services/facilities budget for 2023/24 is at £3.366m, noting the 2022/23 pre unitary original budget was at £3.044m, a movement of £0.322m.

15.3. At SDC the service charges have been depooled meaning that for social rents the service charges are separate from the rents and are charged based on actual cost in agreement with the local service charging policy. This makes service charges transparent and easy to understand. HiS hold data on their systems for calculating and apportioning service charges except for careline and estate sewerage charges.

15.4. In the SWT area service charges have not yet been depooled and are largely within the rent and therefore increase by the same amount as the rents. This is something that will be looked at in the future to align these charges and potentially generate more revenue. A review of the service charging policies will also be required.

15.5. For more information on SWT fees and charges please see appendix E.

Garage Rents:

15.6. The recommendation for garage rents are as follows:

- an increase of 7% for garage rents in the Sedgemoor Area and an increase of 7% for garages rented by council tenants in SWT and 10.1% for private/owner occupier rented garages in this area.

15.7. The Council owns a number of block garages which are rented out to both HRA housing tenants and private people/organisations.

15.8. In the SDC area there are around 1,200 garages over 95 sites. Many required investments and HiS had reviewed the garages and gave them RAG rating for future use. A number had been identified for demolition and redevelopment and some of the sites are being brought forward as part of the housing development plans (currently including the Sydenham site in the capital programme). A number of garages were also identified for investment and HiS committed to spend up to £1m from their own reserves to fund their refurbishment. HiS have made good progress on these garage sites refurbishing them and an increased rental charge has been approved on the relet of these garages. This investment has not only improved the neighbourhood look and feel but has also had a position impact on the street scene with ASB in these areas seeing a large reduction. The garage charge levels are shown later in the report alongside the service charges.

15.9. The refurbishment programme has had positive feedback and HiS have been successful with the letting. However being mindful of the cost-of-living crisis and the fact that garages are not necessarily a top priority demand for them is fragile. With the market conditions in mind the SDC area garages are looked to increase by 7% in line with the housing rents in order to keep income at least at base line budget levels. Noting there are two levels of charges being non-refurbished and newly refurbished. Any income above the pre-agreed base line budget of £307,300 is paid back to HiS to cover the £1m investment, until the investment is repaid the gain on council balances is nil.

Table 9: Garage rent levels in SDC area (based on a 50-week rent year)

	Weekly Rent 2022/23	Weekly Rent 2023/24	Change
Non refurbished garage (excluding VAT)	9.31	9.96	0.65
Newly refurbished garage (excluding VAT)	11.20	11.98	0.76

15.10. In the SWT area there are around 1400 garages. For 2023/24, private tenants and owner occupiers the weekly rent will increase by September 2022 CPI at 10.1% whereas for council tenants the weekly rent increase will be capped at 7%. The table below shows the weekly rents that will be applied for 2023/24. The level of voids is c240 units. There are some sites earmarked for possible future demolition and redevelopment, however the social development capital programme is at full capacity for the next few years. In terms of asset maintenance there is a £20k capital budget for 2023/24 and a £20k revenue budget for repairs and maintenance.

16. Table 10: Garage rent levels in SWT area

	Weekly Rent 2022/23	Weekly Rent 2023/24	Change
Private Tenants and Owner Occupiers (excluding VAT)	10.57	11.64	1.07
Council Tenants	6.91	7.39	0.48

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Other Income:

16.1. The HRA does have a number of shops/other rental properties and the income from these is laid out in specific rent/lease agreements and income from these will be charged and collected as stipulated.

16.2. The HRA also has a small number of communal / meeting halls can be hired out across both the SDC and SWT areas. The scale of charges for these is shown on the service charges page, income from this activity is minor however we are obliged to show this charge in this report.

17. Capital

17.1. The HRA Capital Programme which consists of three main elements: Major Works, Improvements, and Development and Regeneration. This significant investment will be funded from an appropriate combination of Major Repairs Reserves (from depreciation), revenue contributions, capital receipts, capital grants and borrowing.

17.2. In December the combined Business Plan was presented. There have been no material changes to the capital programmes put forward then. The plan assumed capital expenditure of £1.114billion over the next 30 years. Of this, £346m (including the current year) will be spent during the next 10 years (see table 5 below) and will deliver works as described below. There are some clear differences in the current delivery plans between the two existing Councils that will need to be reviewed and realigned during the next 12-18 months. The 2023/24 detailed capital budget is attached in Appendix F.

Table 11: HRA Business Plan Combined Projected Capital Spend 2022/23 to 2032/33

	2022.23	2023.24	2024.25	2025.26	2026.27	2027.28	2028.29	2029.3	2030.31	2031.32	2032.33
	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000
Capital Expenditure:											
Major Works & Improvements	22,801	20,910	19,657	18,179	22,152	22,076	22,697	22,268	22,388	23,947	18,330
Development & Regeneration	24,036	25,934	18,147	15,520	7,182	9,798	10,881	10,131	4,774	3,374	3,476
Total Expenditure	**46,837**	**46,844**	**37,803**	**33,699**	**29,334**	**31,874**	**33,578**	**32,399**	**27,162**	**27,321**	**21,805**
Capital Financing:											
MRR	20,895	18,066	17,833	18,454	18,968	19,397	19,911	20,484	21,082	20,042	17,030
Borrowing	16,432	20,979	-	4,541	4,104	6,023	7,015	5,060	-	-	-
RTB 141 Receipts	4,164	4,258	6,314	6,073	2,873	3,919	4,206	4,052	1,909	1,350	1,390
Grants	3,240	1,532	338	-	-	-	-	-	-	-	-
Other Capital Receipts	1,635	847	11,141	2,389	1,081	159	-	285	2,563	3,261	637
Other RTB Receipts	470	-	2,178	2,242	2,308	2,376	2,446	2,518	1,608	2,669	2,748
RCCO	-	1,163	-	-	-	-	-	-	-	-	-
Total Financing	**46,836**	**46,844**	**37,803**	**33,699**	**29,334**	**31,874**	**33,578**	**32,399**	**27,162**	**27,321**	**21,805**

Table 12 Movement from HRA business plan to Rent Set on the Capital Programme

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Capital Expenditure	2023/24 Per HRA business plan £'000	2023/24 Per HRA rent set £'000	2023/24 Over/ (Under) £'000	Reason
Major works & improvements	20,910	20,910	0	No change
Development & Regeneration	25,934	26,424	490	New scheme approved SDC 30.11.2022 Carrotts Farm, 3 homes
Total expenditure	**46,844**	**47,334**	**490**	

17.3. Major Works: 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 the capital works programme. 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.

Somerset West and Taunton

17.4. The services are currently aligning low carbon retrofit expenditure and grants to the Major Works capital programme in order to efficiently deliver low energy targets for 2030 and zero carbon targets for 2050. The services are finding opportunities to increase the specification of decent homes components such as windows, doors, loft insulation and heating to achieve both decency and reduced heat demand. The services are proactive in seeking grant funding to support our low energy targets including Social Housing Decarbonisation Funds and ECO4. Decent homes components have different replacement timespans creating challenges identifying the optimum date at which to replace components to minimise the number of non-decent home and maximise low carbon benefits. The profile of decent homes components is established through stock condition surveys and updating property records following works. Over the next ten years the Council (or the HRA/both) plans to renew c40,000 (increase if for HiS stock) major components from kitchens to windows to roofs to bathrooms.

Sedgemoor District Council

17.5. SDC is committed to keeping homes safe and well maintained, improving energy efficiency to lower bills, and building much needed new social homes. The cost-of-living crisis and a 7% rent cap in 2023/24 will have a significant impact in all areas of the business and has led to the need to achieve savings of more than £24 million in the 30-year Capital Investment Programme.

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17.6. The savings that have been proposed will not have any impact on Landlords Safety or Decent Homes Compliance and our homes will remain safe, legal and to a good standard. The main changes in the Programme will be around the timings of component replacements, delivering services differently and a change in the methodology for certain types of works such as external works. Investment proposals are based upon comprehensive stock condition surveys conducted during 2020 to 2021. The surveys have identified the required component replacement requirements to maintain homes to a Decent Home Standard.

17.7. The cost of achieving Net Zero across the stock in the Sedgemoor district has been previously identified as £70m. This level of possible investment is not included in the 30-year programme. Despite no long-term funding HiS have developed a Sustainability Strategy covering the period up until 2025. By the end of 2025 HiS will have gathered data informed intelligence on the most effective and efficient net zero solutions before embarking on an expensive retrofit programme. Identifying sufficient resource to deliver the required investment presents a significant challenge. Opportunities for securing funding through the Social Housing Decarbonisation Fund (SHDF) and ECO4 grant are being explored. Please see the report item 21 requesting growth to progress a matched funding bid to be able to progress net zero carbon investment works.

17.8. Improvements Programme: This includes schemes such as: Fire Safety which focuses on ongoing fire safety works and ensuring all housing stock continues to adhere to the fire safety regulations; maintenance of Related Assets including garages, meeting / community halls and shops, mobility vehicle storage, package septic treatment plants (PSTP), door entry systems; Exceptional Extensive Works such as asbestos removal, installation of radon sensors and community alarms ; disabled Facilities and Aids and Adaptations for small and large scale home aids and adaptations in tenants homes where there are mobility issues. This is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are currently made through the Somerset West Private Sector Housing Partnership; Vehicles, the lease costs can be capitalised whilst the maintenance remains a revenue cost.

17.9. The SDC stock does require some other urgent works for general improvements at La Ciotat House to both the internal and external spaces. And also, recent surveys on Radon presence has identified a need for remediation, please see report item 20 requesting additional funding requirements for these items.

17.10. Development and Regeneration: The predecessor Councils have been developing new Council homes for some years now after a period of not being able to fund new housing for many years. Two major changes enabled this to happen:

- The ability to retain some of the RTB receipts to invest in new housing which is a complex agreement and requires participating authorities to sign a legal RTB receipts retention agreement with the Government. This change applied from April 2012. The detail of RTB is discussed in section 19.

- The removal of the HRA borrowing cap, in October 2018, allowing investment decisions to be made for housing capital including new housing development.

17.11. Despite the new build programmes the financial viability of the HRA as detailed in the sections above are currently having an impact on the New Build funding within the plans presented. SDC has only included the minimum to utilise right to buy receipts which does not match its aspirations.

Somerset West and Taunton

17.12. The development and regeneration programme includes 341 new homes in its business plan to be delivered up to 2029 over seven schemes or phases. SWT has an ambition of a total of 1000 new homes by 2049. All new homes are built to low energy and low or zero carbon standards meaning they are either carbon neutral from the first day of letting or they will be carbon neutral once the national grid decarbonises. The HRA mainly develops on existing HRA residential land or underused HRA land.

17.13. SWT has a major regeneration project in progress at North Taunton which is a significant financial commitment and one with a significant impact on the community. The scheme involves demolishing a large number of defective non-traditional build Woolaway Homes and replacing them with a larger number of low carbon homes with a wide range of bed sizes and all to a lifetime homes standard. The homes are all built to accessibility standards and the development includes a good proportion of fully adapted properties. The cost of regeneration is high compared to development on a clean site as some properties have to be purchased from private owners before demolition and building and decanting is required and compensation paid.

17.14. Regeneration schemes also place emphasis on initiatives which strengthen the community such as jobs and apprenticeships, school outreach work and community environmental projects. Seaward Way, Minehead and Oxford Inn, Taunton schemes are less complex. Although they will be zero carbon when built they are able to attract more subsidy and the communities have significantly less disruption. The HRA has refined its specification for building new homes to support zero carbon ambitions although budgets have had to reflect the costs of a higher specification for air tightness, insulation and renewable heat and power costs.

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17.15. As the housing stock ages and the service has to consider decency, compliance and energy efficiency some properties may not merit investment. Wordsworth Drive and Coleridge Crescent Flats is an example of a block of properties which has come to the end of its life. The Service is decanting and demolishing the blocks at a cost to the business plan and will come forward with options for the site in due course.

17.16. The HRA Business plan takes into account investing in low carbon measures and has established pathways for its existing homes to Zero carbon. Some homes require a moderate amount of investment to achieve the 2030 target and all homes require a greater amount of investment to achieve the 2050 target. The costs of meeting the 2050 zero carbon target are not calculated within the business plan. The service has identified that alignment of decent homes investment and retrofit investment is essential to move towards zero carbon and that pursuing grant and subsidy is essential. Although the business plan has identified £13m (SWT) of major works capital investment to be aligned to retrofit over the next eight years the full cost of achieving zero carbon in our homes has not been included in the business plan.

17.17. A few homes due to their construction type and structural challenges require a significant amount of investment and the two retrofit schemes at Oake and North Taunton phase E are such examples. These schemes are retaining defective council dwellings through comprehensive structural, and refurbishment works. These homes will be brought up to a zero-carbon standard but require significant investment. A small amount of grant funding has been awarded for these schemes.

SDC (HiS)

17.18. SDC's development and regeneration programme has to date focussed on additional supply of new-build council homes funded within the HRA. The programme includes 144 new rented homes, to be delivered by 2025 and a further phase of 178 new rented homes with potential to be delivered between 2024-2028.

17.19. The SDC HRA new build council development and investment programme operates on a long-term cost neutral basis. Simply put every new build property and project will eventually pay for itself (from future rental income and externally sourced subsidy support) within an agreed payback time period, typically 30 years. It does increase borrowing and does have revenue impact in the early years, but the business case has to demonstrate payback.

17.20. The SDC programme is delivered through a deliberately diverse model which includes the redevelopment of redundant or underused HRA land. SDC has redeveloped and regenerated existing HRA homes, this approach to new supply has been small scale to date due to the financial impact on the HRA. The acceleration and expansion of further large-scale redevelopment and regeneration of existing HRA homes is subject to option appraisal review. This review will be informed and influenced by the proactive asset management as the authority strives to modernise the ageing existing HRA stock to the standard demanded in the 21st century and where stock rationalisation will invariably see economically unsound homes sold to generate funds for new replacement homes. The current redevelopment of 6 existing HRA homes at Pen lea House in Bridgwater will see the delivery of 33 low carbon homes. Further exciting community inspired plans exist for HRA homes and land in Highbridge and form part of the wider SDC levelling up bid plans for the town.

17.21. The SDC new build HRA programme goes beyond simply using existing LA land and assets. The programme includes delivery through routes such as purchasing s106 grant free homes secured by the planning system, a unique bespoke homes initiative delivering homes for families with unusual housing need, working alongside parish council(s) to project management and build community sponsored new council homes and the re-purchase of former council homes previously sold under the RTB. The authority remains open to alternative options capable of supporting the delivery of a new generation of council homes.

17.22. The New Somerset Authority will want to in the future align the existing development strategies that currently exist.

17.23. To help finance the new build programmes local authorities can use the retained RTB receipts and homes England grants. For an authority to have access to grant funding from Homes England an extensive application has to be submitted to be on their register. Approved authorities can then place bids for funding from the national Affordable Homes Programme. A new build scheme can only have one source of Government funding so is not permitted to have both Homes England and retained RTB receipts as funding. It is possible that a scheme could not have either of these financing sources however it is good practice for any new build scheme to have a business case established to ensure the scheme is financially viable. Typically, this is usually over a 30-year period to be consistent with the HRA business plan, however there may be exceptions whereby the business case repays over a longer period before becoming self-financing.

17.24. It should be noted that the RTB receipts can only fund up to a maximum of 40% of the scheme costs (assuming enough receipts are available). The balance would have to come from other sources, usually borrowing. Grant funding from Homes England varies but a significant proportion of any approved scheme would be funded from borrowing.

Schemes Partially Funded by RTB Receipts

Because the authorities have signed up to the RTB retention agreement it is crucial that development plans to utilise the receipts are in place. Because of the time limits and flow of receipts there are more detailed plans in place in the earlier part of the plan. The current approved new build and / or regeneration schemes in the capital programme part funded by RTB receipts are as shown in the table below.

Table 13: Current Schemes in the Business Plan

New Build Financed in Part by Retained RTB Receipts from 2023/24		
Scheme	**No of homes**	**Estimated Completion Year**
Cricketers Farm, Nether Stowey	16	2023/24
Tuckerton Lane, North Newton	6	2023/24
North Taunton Woolaway Project (NTWP) phase A	47	2023/24
SDC area purchase of existing properties	3	2023/24
Sydenham garage redevelopment site, Bridgwater	14	2023/24
Carrotts farm site, North Petherton	3	2023/24

Partially Funded by Homes England Grant

17.25. In the capital programme we can see in next year, 2023/24, will see the completion of the first new build development, being the Bigwood & Staple site in Bridgwater, which has grant funding from Homes England at over £2m, being significant funding of the scheme. The site will have 29 new homes, and all let at social rent levels which was a condition of the grant. One smaller project delivering 2 homes in 2023/24 is underway (one in North Petherton and one at Brent Knoll) which has homes England grant contributing towards the build cost.

17.26. The application to Homes England has continued with a further scheme at the Penlea House site in Bridgwater which delivers 33 new homes, with a completion date in 2024/25. This scheme has been a long time in the planning stage, so it is good to be able to report the actual build of the new homes has just started.

17.27. Future housing development schemes that could potentially be put forward for Homes England grant funding is an area the Housing Development Team work on. Noting these schemes cannot also use retained RTB receipt monies for funding.

Other Schemes

17.28. The HRA also acquires or builds new homes to support the General Funds Homelessness responsibilities. The HRA is purchasing a small number of properties (6) using a combination of Government Rough Sleeper Approved Programme (RSAP) and Better Care funding. The HRA is also considering a new build scheme in Partnership with Citizens Somerset using Modern Methods of Construction (MMC). Both models offer benefits to the HRA by increasing the stock and management and maintenance allowances. The HRA is exploring these models with homelessness, children services and adult social care as they could be cost effective ways to support some accommodation requirements.

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18. Impact of the Right to Buy Policy

18.1. Similar to the HRA business plan the rent set process takes into account the impact of RTB sales. The process of RTB involves a tenant submitting an application for RTB; the authority's Valuer will provide a valuation of the property. However, the tenant is eligible for a discount, according to Government rules, of up to maximum of £87,200 (April 2022 prices) depending on how long they have been a tenant. The increase in the discount from £30,000 started in 2012. Since the discount changes sales have increased; the discount plus houses at Decent Homes standard makes the prospect of buying more attractive. It is estimated that in 2023/24 the average RTB property valuation will be discounted by around 42%.

18.2. In the rent section of the report the income levels will have taken into account RTB sales because less income will be collected. Current estimates of RTB sales are around 55 sales per annum based on current figures. Clearly the sales are demand lead. Whilst this may not seem material given the size of the stock over time this does impact on rental income.

18.3. From each council house sale, a receipt is derived. The receipt has to be 'pooled', so the Council does not get to keep all of the receipt, which has already been diminished by the discount. The receipt is split over the following areas:

- paid back to Government
- sales costs and buy back allowances
- towards historic debt (from self-financing)
- replacement homes (40% maximum of the cost)
- with a fraction for other capital use

18.4. Both SDC and SWT had signed up to a retention of RTB receipts agreement with the Government so this means that the portion of the receipt for replacement homes can be used within the Council boundary instead of having to pay this back to the Government; there are timing restrictions: a retained RTB receipt has to be used within 5 years of being realised; the receipt can only be used to fund a maximum of 40% of the new housing capital spend with no other government funding. This places pressure on other HRA capital funding sources to meet this cost: the inflow of rental income will help the HRA; however, it is clear that the cost of developing new social housing far outweighs proportion of receipt from the sale (loss) of the RTB property. The capital programme shows the new council house development programme to ensure the Council uses the retained receipts and so none has to be paid back to the Government.

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19. Treasury Management

19.1. Day to day cash flow, investment and borrowing related to housing activity will be undertaken within the overarching framework and operations for treasury management within Somerset Council. Whilst the HRA is a ring-fenced account for accounting and reporting purposes it is not a separated within the Council in terms of cash flow, bank accounts etc. Treasury management implications are explained in the Business Plan as reported to the Executive on 14 December 2022.

19.2. The HRA will be charged with the costs of borrowing – both for external loans attributed to HRA capital investment and internal borrowing from Council cash reserves as needed to fully cover the need to borrow (the Capital Financing Requirement – CFR). The estimated CFR on 1 April 2023 is £189m. It is currently projected this will be funded with £139m of external loans and £50m of internal borrowing. These figures will be updated as capital expenditure is incurred, and treasury management decisions are taken regarding use of internal and external borrowing throughout the year. The business plan model uses Major Repairs Reserve and other capital reserves and income first to finance capital spend, with borrowing used as 'last resort' for the residual balance of financing required.

19.3. Current HRA external loans carry an annualised interest rate of 2.83%. It is assumed any new borrowing next year will incur interest costs at an average 4.5%. The 2023/24 Budget includes an estimate of £5.792m (SDC £2.536m and SWT £3.256m) for total interest costs taking into account the forecast financing requirements for the year ahead.

19.4. The HRA will also receive an apportionment of investment interest earned by the Council in proportion to HRA reserve balances. The 2023/24 Budget includes an estimate of £254k (SDC £254k and SWT £0m) for interest income.

20. Growth 2023/24

20.1. The HRA business plan presented in December included agreed housing development plans and also key capital programme works. In the plan for the SDC area reference was made to three additional areas for investment in the stock as advised by HiS however the figures were not included in the capital programme figures because of uncertainty about rent set values. The growth bids/additional funding requirements are now requested for approval and are shown in the tables below.

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Table 14 HRA capital additional funding requirement – one off

HRA Capital One-off Additional Funding Requirements		
Proposed resource bid 2023/24	**Amount £**	**Reason**
Radon Remediation	359,850	Recent surveys on Radon presence has identified a need for priority remediation works
La Ciotat House general improvements	247,320	General improvements at LaCiotat House to both internal and external spaces is rquired
Total	**607,170**	

Table 15 HRA capital additional funding requirement – two years

HRA Capital Two Year Additional Funding Requirements		
Proposed resource bid 2023/24 & 24/25	**Amount £**	**Reason**
Social Housing Decarbonisation Fund Match Funding 23/24	688,170	This sum is required for two years: 2023/24 and 2024/25 so a total of £1.336m. This is to match against a grant bid to the Social Housing Decarbonisaiton Fund. If the grant is awarded the combined resource will be double the bid value and will enable 118 homes to be retrofitted to a net zero standard
Social Housing Decarbonisation Fund Match Funding 2024/25	688,170	As above text
Total over two years	**1,376,340**	

21. Challenges and Next Steps

21.1. The Housing Revenue Account has immediate financial challenges to meet the aspirations of the Council and tenants. These include:

- Rental income - Government introduced 7% Rent Cap in 2023/24 – Figures assume 6.5% increase in 2024/25 and CPI at 2% thereafter, future rental increases have not been finalised by government to date.
- Rising costs – regulatory and inflationary pressures plus increasing customer expectations are driving cost increases
- Capital financing and treasury management – significant and increasing need for external borrowing, with average interest costs for new loans estimated at 4.5%

- Shortage of social housing – development projects being developed but costs increasing impacting on viability
- Right to Buy – tenant purchases continue reducing stock numbers
- Decarbonisation agenda
- Housing Standards – requirement to keep stock at decent home standard including health and safety regulations
- Limited growth in the plan
- Potential requirement to identify match funding for Local Area Housing Fund (LAHF) for refugees.

21.2. As illustrated in this report, the 30-year business plans for SWT and SDC have been consolidated into a single plan which is the legal requirement for the New Council. The plans show that the use of balances need to be reduced but also the plans are not financially sustainable in the medium term, and they do not include a lot of the projects such as decarbonisation, more New Build projects, therefore the next steps are to look into the detail and differences of each plan to maximise funding and delivery.

21.3. Next Steps include:

- Review differences in decent homes delivery plans and align where possible.
- Consider depooling service charges in current SWT area.
- Consider introducing rent flexibility in current Sedgemoor area.
- Setting a Treasury Management policy including the HRA
- considering whether a voluntary provision for repayment of debt is required and most cost-effective routes to raising capital finance
- Review of differences in modelling depreciation
- Comparison of operating costs to identify efficiencies
- Review and alignment where appropriate of New Build aspirations and plans
- Decarbonisation agenda funding and delivery
- Review of the operating delivery models
- Consider match funding options for LAHF initiative.

22. Risks

22.1. Since 2012 the HRA has operated on a 'self-financing' basis, where the income generated from rents and other charges funds the delivery of the social landlord function and maintaining stock. Although 'self-financing' has provided the Council with more flexibility, the HRA is still governed by regulations that restrict full control over income (e.g., increases in rent are capped) and costs (e.g. meeting decent homes standards), and this has brought additional risk. Those risks are primarily concerned with threats to income and expenditure that could compromise the viability of the HRA Business Plan.

22.2. The Housing Sector as a whole is currently experiencing the most challenging period in a generation as multiple risks crystalise and competing demands place pressure on the service. From a regulatory perspective the service is facing pressure to respond to changing building safety and energy efficiency standards and maintaining the quality of our existing housing stock.

22.3. This has then been compounded by national and global factors (e.g., the impact of Brexit, the COVID Pandemic and the conflict in Ukraine) causing the economic operating environment to become significantly challenging and thus placing considerable financial pressure on the Council's HRA. This is causing significant ongoing disruption to supply chains and the labour market resulting in high-cost inflation and ongoing shortages to deliver remedial works, catch up repairs and energy efficiency improvements.

22.4. It is evident that financial pressures within the Housing service present a significant risk to affordability of existing plans in the short to medium term. *Whilst a balanced budget is being presented to Members in the single HRA plan until year 8 balances are being used to fund ongoing expenditure and the plans may not fully meet the aspirations of the Council and tenants.* Therefore, the New Council will need to review the business plans and the housing Strategy for the whole of Somerset. A number of these issues are detailed in Section 21 of this report and is the next stage after bringing the HRA business plans together in a single format. The next step reviews how they can work together sharing best practice, resources and delivery.

22.5. Government Rent Policy Change: Section 14 and 15 Rents and Service Charges detail the Government's decision to cap rents at 7% for 2023/24. It is not inconceivable that we could see a further change in rent policy from central Government as we have seen before, to perhaps reduce rents or limit increases below current policy. Whilst this will support tenants financially it has a significant impact on our business plan. It also has the effect of a significant saving on the benefit bill for government so speculatively this could be a current consideration for the treasury in light of impact of COVID.

22.6. Inflation: The current economic operating environment is placing financial risk on the Council in terms of rising inflation increasing the cost of supplies such as utilities and materials, as well as staffing costs. Inflation is significantly higher currently than the rent cap at 7%.

22.7. Decent Homes Standard: The changes to the Regulator of Social Housing's Decent Home Standard as well as higher thermal efficiency standard requirements, which are unsupported by additional external grant funding, will place an additional burden on HRA resources available for elemental investment in homes. Once the detail is known, we will need to adapt to ensure we continue to maintain stock at the Decent

Homes Standard and prepare to meet all the evolving expectations, incorporating the financial impacts into the Business Plan.

22.8. **Building Regulation and Fire Safety:** The Grenfell Tower tragedy and subsequent Review of Building Regulation and Fire Safety bring a number of operational and financial risks. These risks have been mitigated with the increases in revenue and capital budgets proposed for 2022/23 for compliance related work. However, the exact costs are currently unclear. There are likely to be other impacts as a result, such as impacts on the repairs budget due to additional work to communal areas, more intensive management of flat blocks and further resilience within teams to respond to the volume and breath of enquiries. We will need ensure continued compliance with these statutory requirements.

22.9. **Housing White Paper:** In November 2020 the Government published the Housing White Paper which sets out the changes to how social landlords will operate. It will require a number of changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords and a strengthened role for the Regulator of Social Housing. Many of the new changes in the white paper have already been mitigated in Housing by strengthening our compliance activities, setting up the new Housing Performance Team to be responsible for communications, performance data and engagement but this will need to be kept under review and self-assessment has begun.

22.10. **Retrofit by 2030:** There is a duty for social landlords to improve the energy efficiency of its homes. The national climate change requirements set by government under the Clean Growth Strategy 2017 requires all social landlords to achieve EPC C by 2035. However, the strategy also requires landlords to achieve EPC C by 2030 where tenants are in fuel poverty. Therefore, it is prudent to achieve EPC C by 2030. This will require significant financial investment through the capital programme that will add to the capital financing requirement. If this standard is not achieved, then those properties would not be available to let and would result in lost income.

22.11. **New Build Homes and Phosphates:** The provision of new affordable housing is a key objective for the HRA Business Plan and the HRA has a significant pipeline of new homes to be delivered over the next 8 years. This will require significant financial investment through the capital programme that will add to the capital financing requirement and cost to the revenue account to finance this debt if funded by borrowing.

22.12. These social development schemes inherently carry significant risks. In order to mitigate elements of risk, the Council generally uses design and build contracts which provides clarity of costs when the contract is signed and through this mechanism the Council can ensure it progresses with schemes within budget. In addition to this a bond equivalent of 10% of the contract price has been included within the contracts and each phase will require its own individual contract to cover this aspect of risk.

22.13. Of these new build schemes, some of these homes will require phosphates mitigation strategies to gain planning approval. There remains uncertainty on the ability of the Council to mitigate for phosphates. This may result in less affordable housing development and less capital spend.

22.14. Right To Buy (RTB) Receipts: This is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The HRA does not have any control over the number of RTB sales each year and the resulting impact on rental income lost. The capital receipts from the sales retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt, following an amendment to the scheme policy from the 1 April 2021.

22.15. Repairs & Maintenance: Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g., cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g., void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required. As such the levels of demand do not always follow a recognisable trend. We therefore caveat the forecasts in these areas to account for fluctuations. The economic operating environment has also been compounded, creating contractor uncertainty and labour market shortages in some key trade areas, and inflating costs of materials and labour.

22.16. Trade Salaries: We are experiencing a significant increase in construction related salary costs in the sector, with shortages of some key trades, for example electricians. This can mean that some of our salaries are no longer competitive in the market. We have conducted a review of some of our salaries and will be making some changes here, and the cost of this change is incorporated into our MTFP. However, as this review process progresses across all trade areas it may create further revenue pressures that need to be addressed that have not been incorporated into the 2022/23 budget.

22.17. Movement in Business Plan Assumptions: The HRA Business Plan incorporates many assumptions that contribute to the financial assessment of strategic and operational aspirations over the 30-year period. These include rates in inflation on income and expenditure, rates for new borrowing, minimum reserves levels, projected revenue and capital spend, etc. The direct influence officers have on some of these that could have a big impact is minimal (e.g., rates of inflation and borrowing) and we are at risk of having to react to external political and economic market influences as they occur.

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Report Sign-Off

		Date completed
Legal Implications	Tom Woodhams	30/01/23
Governance	Scott Wooldridge	01/02/23
Corporate Finance	Jason Vaughan	26/01/23
Human Resources	Chris Squire	01/02/23
Property	Paula Hewitt / Oliver Woodhams	26/01/23
Procurement	Claire Griffiths	01/02/23
Senior Manager	Jason Vaughan	26/01/23
Commissioning Development	Sunita Mills / Ryszard Rusinek	26/01/23
Executive Member	Cllr Federica Smith-Roberts - Lead Member for Communities	27/01/23

Sign-off Key Decision / Consulted on Non-Key Decision

Local Member		N/A
Opposition Spokesperson	Opposition Spokesperson - Communities - Cllr Faye Purbrick	30/01/23
Scrutiny Chair	Click here to select the relevant Scrutiny Chair	30/01/23