Report number: *SWT149/22*

Somerset West and Taunton Council

Community Scrutiny – 30 November 2022
Executive – 21 December 2022

2022/23 Housing Revenue Account Financial Monitoring as at Quarter 2 (30 September 2022)

This matter is the responsibility of Executive Councillor Fran Smith, Housing

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1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2022/23 (as at 30 September 2022).

1.2 The headline estimates for **revenue** costs are:

Revenue Budget	£0.330m forecast overspend	Red
General Reserves	£2.712m forecast balance = favourable (though low) compared to £2m minimum requirement	Amber
Earmarked Reserves	£54k opening balance	Green

1.3 It is well reported that the economic situation is challenging with the cost of living crisis, high inflation, and rising interest rates. These factors will hit our communities and businesses, and the Council is also not immune as seen in the latest forecasts.

1.4 The Q1 forecast outturn position reported an overspend of £745k. The Senior Management Team have since undertaken a thorough and in-depth review of all budgets, updated projections based on mid-year information, requested services to manage inflationary pressures within services where possible (e.g. pay award, utilities and material costs) and driven a focus on essential spend only where possible in order to bring the position back to budget. There have also been some contractual delays on delivering capital schemes pushing spend into future years and a need increase reserve balances this year to provide budget flexibility and financial resilience in 2023/24 on the face of significant financial pressures.

1.5 The updated projected outturn position of a £330k overspend is still significant. This is mainly driven by depreciation charges, the recently agreed national pay award, void repairs and tenancy management costs.

1.6 It is important to note that this is mid-year forecast for the year with 6 months remaining until year end. This will be carefully monitored with updates reported to Members on a quarterly basis. The level of General Reserves does provide the ability to cover the current predicted overspend, if required, but does not provide resilience to mitigate the risk of any further significant overspend or additional pressures. Housing Management will continue to take steps to reduce and halt spend especially for discretionary activities, to help mitigate the current position, and to try to maintain a more secure reserves position.

1.7 Members will be aware that budget setting for 2022/23 was significantly challenging, where some budgets required re-basing especially around repairs and maintenance, and consequently the service will be pursuing efficiency targets into next financial year and beyond.

1.8 Whilst best endeavours are used to forecast with as much accuracy as possible we have seen a historical change in forecasts each quarter and to year end. However, it is essential that control over spending continues to reduce the forecast overspend and maintain adequate reserves to support the budget gap in 2023/24.

1.9 The HRA **Capital Programme** has a total approved budget of £109.4m. The profiled budgeted spend for 2022/23 is £36.347m and this is currently forecast to underspend in the year by £9.073m; £8.700m due to slippage of work into 2023/24 and £373k budget to be returned.

2 Recommendations

2.1 This report is to be noted as the HRA's forecast financial performance and projected reserves position for 2022/23 financial year as at 30 September 2022.

2.2 Executive to approve the transfer funds from capital reserves to repay debt and to release the voluntary repayment of debt budget to offset the variance on depreciation charges.

3 Risk Assessment

3.1 Financial forecasts are based on known information and projections based on assumptions. As such any forecast carries an element of risk. The current forecasts included in this report are considered reasonable given the extra element of risk around inflation being experienced in the current economic operating environment and based on experience it is feasible the year end position could change. It is common for underspends to emerge during the year, reflecting an optimism bias within previous forecasting. There may also be matters beyond the Council's control that affect the final outturn position.

3.2 Salient in year budget risks are summarised in section 9 in this report. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk, though these are low for the HRA.

3.3 Despite the risks related to forecasting assumptions, it is essential that measures are implemented promptly to ensure the financial resilience of the Housing Revenue Account and adequate reserves are maintained. The current forecast highlights a continued risk that reserves may fall below acceptable levels by the end of this financial year if the projected overspend outturn position was to increase and further in year financial pressures arise.

4 Background and Full details of the Report

4.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 30 September 2022.

4.2 The regular monitoring of financial information is a key element in the Council's HRA Performance Management Framework. Crucially it enables remedial action to be taken in response to significant budget variances, some of which may be unavoidable. It also provides the opportunity to assess any consequent impact on reserves and the HRA's Medium Term Financial Plan and 30-Year Business Plan.

4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels and where actual costs and income can vary from initial estimates and assumptions. The budget monitoring process involves a detailed review of the more volatile budgets and a proportionate review of low risk/low volatility budget areas. Budget Holders, with support and advice from their finance business partners, update their forecasts monthly based on currently available information and knowledge of service requirements for the remainder of the year. As with any forecast there is always a risk that some unforeseen changes could influence the position at the year-end, and several risks and uncertainties are highlighted within this report. However, the following forecast is reasonable based on current information.

5 HRA Revenue Budget 2022/23 Forecast Outturn

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

5.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.

5.3 The current year end forecast outturn position for the Housing Revenue Account for 2022/23 is a net overspend of £330k.

Table 1: HRA Revenue Outturn Summary

	Current Budget	Forecast Outturn	Forecast Variance	
	£000	£000	£000	%
Gross Income	-28,404	-28,320	84	0.3%
Service Expenditure	16,937	16,854	-82	-0.3%
Other Expenditure	11,468	11,797	329	1.2%
Total	**0**	**330**	**330**	**1.2%**

5.4 The variances to budget are shown in more detail in Table 2 and further explanations for variances over £50k below.

Table 2: Summary of Forecast Variances for the Year

	Current Budget £000	Outturn £000	Q2 Variance £'000	Q1 Variance £000
Dwelling Rents	-25,581	-25,634	-54	-139
Non-Dwelling Rents	-767	-751	16	49
Charges for Services / Facilities	-1,649	-1,543	106	-2
Other Income	-408	-392	16	14
Sub-Total Gross Income	**-28,404**	**-28,320**	**84**	**-78**
Service Expenditure:				
Development & Regeneration	60	45	-15	-5
Community Resilience	153	153	0	-6
Tenancy Management	3,228	3,477	248	186
Maintenance	5,598	5,918	320	496
Assets	420	396	-24	-1
Capital Investment	563	302	-262	14
Compliance	1,829	1,715	-115	-150
Performance	5,084	4,848	-236	31
Provision: Pay Award Shortfall	-	-	-	269
Sub-Total Service Expenditure	**16,937**	**16,854**	**-82**	**834**
Central Costs / Movement in Reserves:				
Revenue Contribution to Capital	-	-	-	0
Interest Payable	2,883	2,795	-88	-94
Interest Receivable	-83	-72	11	83
Change in Provision for Bad Debt	180	180	-	0
Depreciation	7,666	9,093	1,427	0
Capital Debt Repayment	1,021	-	-1,021	0
Movement In Reserves	-200	-200	-	0

Sub-Total Central Costs / Movement in Reserves:	**11,468**	**11,797**	**329**	**-12**
Net Surplus(-) / Deficit for the Year	**-**	**330**	**330**	**745**

Income

5.5 **Dwelling Rent Income:** The budgeted income for 2022/23 is £25.581m, which reflects an assumption of 2% void losses and applying a 52-week year. The overall current projections suggest that more income will be recovered than predicted when setting the budget and providing an allowance for voids. The current projection for dwelling rent income is an over recovery against budget of £54k which partly relates to timings of predicted stock changes and levels of voids.

5.6 **Charges for Services / Facilities:** The budgeted income of £1.649m for 2022/23 includes (a) £1.406m for the Service Charge Income for Dwellings (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 2% void loss and applying a 52-week year, (b) £233k for Leaseholder Charges for Services, and (c) £10k for Meeting Halls.

5.7 The Leaseholder Charges for Services is forecasting an under recovery of income of £100k. The leaseholds are invoiced a year in arrears. The routine repairs continued to be low again last year due to COVID and lockdown. The major repairs were also lower and capped at £250 again.

Expenditure

5.8 **Tenancy Management:** This area covers lettings, supported housing, rent recovery, leaseholders and other tenancy management support activities. The total current budget is £3.228m and it is forecasting an overspend of £248k. This mainly relates to an overspend on staffing costs due to additional resources required to manage the increasing number of cases raised by tenants following the aftermath of COVID, as well as backfill for maternity and sick leave and the pay award. Part of the overspend relates to a budget saving for 2022/23 by undertaking RTB surveys using our in-house resources, however this resource is now unavailable, and the activity is now being procured externally.

5.9 **Maintenance**: The overspend relates to the ongoing repairs and maintenance of the housing stock through void activity undertaken to ensure our Lettable Standard is met before reletting. Whilst this is a very demand led and reactive service based on the condition of the properties being returned this service is experiencing an increase in cost pressures as inflation drives up the cost of materials (as seen nationally). There is an in-house initiative called the "Leaving Well" scheme which aims to work with and support the tenants to leave their homes in a suitable manner to reduce the time and cost of work then required on void properties before reletting.

5.10 Since the Q1 report further work has been undertaken to identify opportunities for the capitalisation of material costs. For example, where the activity is of a capital nature and has an impact on the major works replacement programme. So far c£250k of costs have been identified and is reflected in the change in variance from Q1 to Q2.

5.11 **Capital Investment:** The Capital Investment Team are responsible for driving the delivery of the Majors and Improvement capital programme. Since the Q1 report and in light of the predicted overspend the opportunities for capitalisation have been revisited and these salary costs of £254k are now being capitalised.

5.12 **Compliance:** The service is forecasting an underspend of £115k. Following a validation of apparatus / installations on site, the service has identified that the previous data estimations were greater than those required in year. Therefore, the budget requirement for compliance activity for 2022/23 have been revised and reduced by £149k.

5.13 **Performance:** Of the total budget of £5.084m, £3.920m relates to shared costs such as support services, pension deficit, and governance, leaving £1.164m on operating costs such as staffing, insurance, training, travel, stationery, printing and bank charges, as well as the Tenants Empowerment and Tenants Action Group.

5.14 The forecast underspend of £236k mainly relates to a £320k favourable adjustment following the completion of a thorough review of the non-staff related cost apportionments between the General Fund and Housing Revenue Account (HRA), to ensure this reflects the up-to-date position and reasonable assumptions around the relative use of resources. This if offset by staffing pressures related to the pay award, job evaluation and performance team restructure.

5.15 **Pay Award 2022:** The 2022/23 approved budget assumed a 2% pay award. The Pay Award has now been agreed at £1925 per scale point which gives an average 5.6% increase for SWT. This assumption has been included within the forecast outturn position provided by services (reported above).

5.16 **Interest Payable:** The budget estimate for 2022/23 was £2.883m. This was based on assumptions for the refinancing of £10m of debt repaid in March 2022 which differ to the actual cost of borrowing and the term of the loan resulting in an underspend of £88k.

5.17 **Interest Receivable:** The budget estimate for 2022/23 was £82k. The outturn position is dependent on the final capital financing requirement for the year, as well as levels of borrowing and reserves. Since Q1 the capital outturn forecast has been refined and is now reporting an underspend of £5m. The current projections of capital spend, and level of reserves suggest that there will be £71k of interest income for the year, though it is highly likely that this will change by the end of the year.

5.18 **Depreciation:** The depreciation charge for the HRA is calculated at the end of the financial year and then transferred to the Major Repairs Reserve (MRR) to be reinvested in the housing stock through financing of the capital programme and/or repay capital debt.

5.19 In prior years, elements of the depreciation calculation saw some components of the assets having a useful life over 100 years. For 2021/22 there was a recommended technical accounting update requiring components to have a maximum useful life of 70 years. This was applied to the calculation for 2021/22 resulting in an increase in the dwelling depreciation charge. This financial impact was managed strategically in 2021/22 by reducing the voluntary repayment of debt through the revenue account and replacing this with existing capital receipts to eliminate the financial impact on repaying debt as well as the impact on the revenue account.

5.20 Due to timings of the annual budget preparation, this technical accounting update was not applied to the budget estimates for depreciation for 2022/23. As such an early provisional calculation has been undertaken to estimate the depreciation charge for the year. This has resulted in an adverse variance against budget of c£1.4m. This variance results from a combination of the reduction in useful life that may reasonably be applied, in line with accounting standards, as well as the increase in year-end "existing use" valuations, which are driven by the effects of economic conditions impacting upon house price inflation.

5.21 This financial impact will again be managed strategically by offsetting this pressure in part against the voluntary repayment of debt through the revenue account and replacing this with existing capital receipts to eliminate the financial impact on repaying debt as well as the impact on the revenue account. This currently leaves a £406k pressure which is expected to change once final year end calculations are undertaken.

5.22 **Capital Debt Repayment:** As per the Budget Setting Report for 2022/23 (Full Council Feb 2022) the HRA financial strategy presented a one-off reduction in budget (from £1.821m) of £800k to provide revenue capacity in 2022/23 replacing this with £800k of non-RTB capital receipts. The budget of £1.021m is being used to offset the adverse variance on the depreciation charge as described above.

6 Capital Programme

6.1 The HRA current approved Capital Programme is £109.4m. This consists of £14.4m of new schemes approved for 2022/23 plus £95m of previously approved schemes in prior years (see **Appendix A**).

6.2 The Council plans to finance this investment through the Major Repairs Reserve, Capital Receipts, Capital Grants, Revenue Funding and Borrowing (see **Appendix B**).

6.3 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next nine years. The current planned profiled spend is summarised in **Appendix C.** The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £36m profiled to be spent in 2022/23 with the balance of £73m projected forward into future years.

6.4 Further information on the three distinct areas of the HRA capital programme and its financial performance to date against this financial year can be found below and in **Appendix D.** The current forecast outturn is £27.373m. The programme will underspend against profiled budget for 2022/23 by £8.973m; £8.700m slipping into subsequent years and £273k being returned.

6.5 **Major Works**: The approved budget of £14.9m is funded by the Major Repairs Reserve and Borrowing and relates to spend on major works to existing dwellings. New schemes approved for 2022/23 total £11m with slippage from the prior year of £3.9m.

6.6 The 2022/23 capital programme includes major programmes such as:

- Kitchens
- Bathrooms
- Heating improvements
- Insulation and ventilation
- Door entry systems
- External doors
- Fasciae and soffits
- Roofing
- Windows

6.7 The current forecast projected spend is £9.9m resulting in an underspend against budget of £5.0m which will fall into subsequent years. Progress on a number of capital work programmes continues on-site; including kitchen and bathroom replacements, roofing, replacement gutters and fasciae, and door entry systems. It should be noted, however, that available contractor resource remains a challenge and accordingly some programmes may not be completed by the end of this financial year.

6.8 **Improvements**: The approved budget of £5.2m is funded by the Major Repairs Reserve and relates to spend on improvements to existing dwellings and related assets. New schemes approved for 2022/23 total £3.3m with slippage from the prior year of £1.9m.

6.9 The current forecast projected spend is £4.6m resulting in an underspend against budget of £538k of which £200k will fall into subsequent years and £338k proposed to be returned. Progress on fire safety works (replacement fire doors, fire safety flooring and emergency lighting) is progressing well on site, although again it should be noted that available contractor resource remains an ongoing challenge. The budget return relates to the implementation of a new accounting standard (IFRS16 - Leases) being deferred, meaning the finance lease costs for the fleet contract will be accounted for in revenue. The budget return also relates to a forecast underspend on related assets.

6.10 **Social Housing Development Programme:** The current approved budget of £89.3m is for the provision of new housing through schemes such as Phases A-E for North Taunton Regeneration (NTWP), Seaward Way, Oxford Inn and Zero Carbon Affordable Homes to increase the Council’s housing stock. This will be funded through by RTB Capital Receipts, Capital Grants and Borrowing.

6.11 The current Social Housing capital programme for 2022/23 is progressing well with contractors on site at phase A of NTWP and Seaward Way, together developing 101 new homes. Although the contract remains in negotiation for phases B&Ci and Di the service expects to start and complete demolition of NTWP within the financial year and then commence the building of 51 homes. The Oxford Inn development is due to be considered at Novembers planning committee. The refurbishment of properties at Oake and NTWP phase E has been delayed due to an unsuccessful procurement exercise. A second procurement exercise is underway.

6.12 Members should note that the economic environment is very challenging in relation to the building of homes. SWTs keys risks include inflation, especially in relation to the NTWP which spans several phases and is delivered over many years, contractors risk appetite, availability of staff and sub-contractors, insurance premiums and materials shortages are also challenges. In addition, statutory and voluntary requirements in terms of energy efficiency and climate change, highway infrastructure, phosphates and fire prevention are also increasing the time and cost pressures relating to the development of new homes. The Council is delivering affordable housing for rent and therefore does not have the ability to benefit from house price inflation to offset some of the additional costs. The HRA's Medium Term Financial Plan (MTFP) and 30-Year Business Plan is being reviewed to ensure the capital programme expenditure remains affordable.

7 HRA Earmarked Reserves

7.1 The HRA Earmarked Reserves at the beginning of 2022/23 totalled £54k (see **Table 3** below). The remaining funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	Opening Balance 01/04/2022 £000	Transfers £000	Projected Balance 31/3/2023 £000
HRA One Teams	6	0	6
HRA Hinkley	48	0	48
HRA Total	**54**	**0**	**54**

8 HRA General Reserves

8.1 The opening HRA general reserves balance as at 1 April 2022 is £3.413m, representing unearmarked reserves held to provide ongoing financial resilience and mitigation for unbudgeted financial risks. This is £1.413m above the minimum recommended reserve level of £2m.

8.2 As part of the budget setting proposals to Full Council on 8 February 2022 £200k of current reserves will be used to support the base budget in 2022/23. Further approved (or proposed) allocations to / from general reserves are shown in the table below.

Table 4: HRA Unearmarked Reserves Balance

	Approval	£'000
Balance Brought Forward 1 April 2022		**3,413**
Budgeted Contribution to support base budget 2022/23	FC - 08/02/22	-200
Current Balance		**3,213**
Forecast: Housing Policy Review		-30

Forecast: Procurement Support		-140
Forecast: 2022/23 Projected Overspend		-330
Projected Balance 31 March 2023		**2,712**
Recommended Minimum Balance		2,000
Projected Balance above Minimum Reserve Balance		712

8.3 The current outturn position is forecast to be a net overspend of £330k. If the forecast outturn position does not improve the deficit will reduce reserve balances to £2.712m, which is only £712k above the recommended minimum balance of £2m. It is essential that control on spending for the remainder of the year continues to reduce the forecast overspend and maintain adequate reserves. Financial risks are increasing with rising household costs for tenants and rising operating and capital financing costs for the Council. Management must take the necessary steps to control costs and manage risk to ensure financial resilience is maintained. The minimum balance is currently at risk.

8.4 If reserves do fall below adequate minimum levels it will be vital that sustainable plans are implemented rapidly during 2023/24 to restore balances to an acceptable level. The emerging financial pressures this year demonstrate the potential scale of financial risks, which will almost certainly be exacerbated during the transition to the unitary authority and in an increasingly volatile operating environment. It is vital that costs are managed within annual income totals to ensure ongoing affordability of services.

9 Risk and Uncertainty

9.1 Budgets and forecasts are based on known information and the best estimates of the housing service's future spending and income. Income and expenditure over the 2022/23 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

9.2 The following general risks and uncertainties have been identified:

9.3 **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. The Council is seeing price increases on our corporate contracts of c60% on electricity, c80% on gas and c45% on fuel. However further variances may come to light during the year based on levels of usage in these areas. There is also uncertain inflationary pressures on other revenue and capital contracts. Budget Holders have undertaken an impact assessment of the inflationary pressure placed on their services and included best estimates as part of their quarterly review.

9.4 **Insurance Premiums:** The Council's insurance policies are due for renewal on 1 August 2022. Premiums are affected by inflation as well as risk, thus high inflation which may lead to an adverse variance to budget. The renewal falls just eight months ahead of the Unitary Vesting Day, with the risk that an additional premium may be payable for a shorter policy period. Whilst the invoices have now been received these were received too late to be updated within the Q2 forecasts therefore an update will be provided in the Q3 report.

9.5 **Bad Debt Provision:** The budgeted bad debt provision of £180k provides financial capacity for any increase in arrears and / or aging debt from one year to the next as well as any in-year write offs. This is a year-end technical accounting adjustment. The key challenges facing the arrears position are the pressures on SWT to maximise rental income in an environment of reduced government support and greater need to utilise internal resources; the ‘cost of living crisis’ marked by reductions in real income accompanied by increases in fuel costs and food prices; welfare reforms which have made extensive use of sanctions and reductions in eligibility; and the impact of the COVID pandemic. On average 25% of SWT HRA tenants are in arrears at any one time.

9.6 The approaches incorporated at SWT to aid the HRA’s enforcement of debt and support to tenants include providing direct welfare benefit advice and support; facilitating access to employment and training, support and advice; facilitating access to debt prevention support; and opportunities for flexible rent payment.

9.7 **Recruitment:** There are a number of vacancies across the Council and assumptions have been made as to when these vacancies will be filled. The Council is experiencing recruitment issues (as seen country-wide) therefore assumptions and forecasts may change, in addition to higher agency costs to cover roles where permanent recruitment is not successful.

9.8 **Capital Programme Forecasts:** Engaging with Contractors at all tiers continues to be very challenging, therefore the risk to the capital programme and forecast costs should be considered. The labour and materials market is still in short supply, with Contractors unable to resource both tenders being issued and projects on site. As such, competition in the market is more limited than it has been for some time.

9.9 The cost pressure created by inflation, the liquidation of a number of contractors, logistics challenges and the general acceleration to get projects to site post-lockdown, is causing previous fixed price contracts to be re-appraised within a matter of months of a successful tender. This could move schemes to the limits of viability. The resulting impact of this cost pressure is resulting in Tier One (larger scale) Contractors often turning down tender opportunities unless an inflation clause (requiring the Client to take the risk of inflation), is included in Contracts, whilst smaller Contractors are withdrawing tenders after submission or operating on such a small margin as to put them at risk of failure.

9.10 The forecast tender price inflation for 2022 is 8–10% (although some materials are seeing 30-40% increases) and there is limited prediction from the marketplace of the rate of inflation easing until Quarter 3 2024. Whilst due diligence is undertaken on tenderers during the process, both in flight and imminent projects will continue to be at risk whilst resource and materials are scarce and/or increasing in cost at current trajectories.

9.11 **Fleet Contract / IFRS16 Leases:** CIPFA has delayed the implementation of IFRS16 however we could have chosen to adopt this early but due to the implementation of the Unitary Council all Somerset Councils have made the decision to delay adoption. Therefore, where SWT had budgeted for the lease as a capital cost these now fall to revenue. The services hope to absorb this cost through in-year underspends and delays in receiving new vehicles.

9.12 **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. Market pricing of materials etc can also be volatile with some unit costs increasing in recent months. 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.

9.13 **Landlord Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility has largely been undertaken. The compliance works required following this review are currently being procured and delivered. Whilst additional budget provision has been added previously, new regulatory requirements and assurance process are still emerging, the full extent of the full financial pressure of these remains uncertain.

9.14 **Cost of living crisis, Welfare Reform and Universal Credit (UC):** The impacts of these are significant with the number and value of rent accounts in arrears expected to increase considerably. Several mitigations are already in place to help support tenants affected particularly by the rising cost of living such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes. These issues may require the Council to revise future income projections.

9.15 **Responding to increased stock quality standards:** Changes to the Regulator of Social Housing's decent home standard as well as higher thermal efficiency standards which may not be fully supported by additional external grant funding would 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.

9.16 **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 several 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.

9.17 **Right To Buy (RTB) Receipts**: This is a government policy that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt. To date, the Council has successfully fully spent all of their retained 1-4-1 receipts within the require timescales resulting in no returns being made to the Treasury/DLUHC.

9.18 Whilst projected spend on new build developments is currently adequate to meet 1-4-1 spend requirements this is dependent on the successful delivery of these social development schemes. Therefore, there is still a risk that the current delivery plan on new build schemes could be delayed and may result in funds being return to DLUHC/Treasury.

9.19 **Unitary Council:** The transition to the new Unitary places a significant demand on management and staff. It is currently unknown what the future potential HRA costs will be and whether these costs will need to be funded using revenue or capital budgets. From a capital perspective the business plan does provide some headroom to allow non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. Revenue costs of implementation are not currently budgeted and will place additional pressures on the HRA budget and reserves, thus we will need to review planned expenditure and reserves to make this affordable.

9.20 **Forecasting Assumptions:** It is conceivable that, whilst budget holders are optimistic that they will spend all their budget, experience shows an increase in underspends often reported in the last quarter of the financial year. The pace of spending may also reduce as capacity and delivery of priorities is affected by local government structural change.

9.21 **Fluctuation in demand for services:** We operate many demand-led services and the levels of demand do not always follow a recognisable trend, which may lead to fluctuations in costs and income compared with current forecasts.

9.22 **Year-end Adjustments:** There are certain items that are not determined or finalised until the financial year-end. For example, the final assessment of provisions required for bad debts and final allocations of support service recharges. These can result in potentially significant differences to current forecasts.

10 Links to Corporate Strategy

10.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

11 Unitary Council Financial Implications and S24 Direction Implications

11.1 The main considerations within scope of this report is the impact of in-year financial performance on year end reserve balances that will transfer to the new unitary council on 1 April, and potential impact of variances on future budget estimates. Reserves are currently projected to remain above the minimum requirement. Finance officers and budget managers will feed in ongoing and future risks and implications through the budget setting process for 2023/24.

12 Partnership Implications

12.1 A range of HRA services are provided through partnership arrangements such as MIND, citizen's advice, Taunton East Development Trust, North Taunton and Wiveliscombe Area Partnership. The cost of these services is reflected in the Council's financial outturn position for the year.

13 Scrutiny Comments / Recommendations

13.1 The report will be considered by Community Scrutiny on 30 November 2022. A summary of the comments and recommendations discussed will be provided here for the Executive to consider.

Democratic Path:

- **Community Scrutiny – 30 November 2022**
- **Executive – 21 December 2022**
- **Full Council - No**

Reporting Frequency: **Quarterly**

List of Appendices

Appendix A	Approved Capital Budget
Appendix B	Capital Financing of Total Approved Budget
Appendix C	Annual Profiling of Approved Capital Budget
Appendix D	Profiled Capital Budget for 2022/23 Vs Forecast Capital Outturn for 2022/23

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