Report Number: SWT 10/21

Somerset West and Taunton Council

Special Full Council – 18 February 2021

HRA Revenue and Capital Budget Setting 2021/22 including Dwelling Rent Setting 21/22 and 30-Year Business Plan Review

This matter is the responsibility of Executive Councillor Francesca Smith

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1 Executive Summary

1.1 This report updates Members on the proposed Housing Revenue Account (HRA) Annual Revenue Budget and Capital Programme for 2021/22, the proposed Rent Setting for 2021/22 and an update on the 30-Year Business Plan Review.

1.2 The proposals included in this report would enable the Council to set a balanced budget for the HRA for 2021/22.

2 Recommendations

2.1 Full Council are asked to approve the following recommendations:

2.1.1 To approve the HRA Annual Revenue Budget for 2021/22.

2.1.2 To approve the increase of 1.5% (CPI+1%) to Dwelling Rents for 2021/22.

2.1.3 To approve the HRA Capital Programme for 2021/22.

2.1.4 To note the reviewed and updated assumptions in the 2021 HRA 30-Year Business Plan.

2.1.5 To approve the minimum operational balance on HRA general reserves at £2m.

3 Risk and Issues

3.1 Since 2012 the HRA has operated on a 'self-financing' basis with the Council funding council housing from the income generated from rents and other charges. Although 'self-financing' has provided the Council with more flexibility, it has also brought additional risk. Those risks are primarily concerned with threats to income and expenditure that could compromise the viability of the HRA Business Plan. The Council regularly monitors its risks via a risk register and below are a number of the key risks for 2021/22:

3.2 **Welfare Reform and Universal Credit (UC):** The impacts of Welfare Reform and UC on the HRA Business Plan are significant with the number and value of rent arrears expected to increase considerably. A number of mitigations are already in place to help support tenants affected by Welfare Reform and UC such as debt advice, access to discretionary housing payments and a new arrears management team with redesigned workflow processes. Welfare Reform and UC may require the Council to revise future income projections as our experience with Welfare Reform and UC develops.

3.3 **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 whatever external political and economic market influences occur.

3.4 **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 are unsupported 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.

3.5 **Building Regulation and Fire Safety**: The Grenfell Tower fire and subsequent Review of Building Regulation and Fire Safety bring a number of operational and financial risks. These risk have been mitigated with the increases in revenue and capital budgets proposed for 2021/22 for compliance related work. However the exact costs are currently unclear and will require some degree of re-prioritisation within the 30-Year Business Plan. 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.

3.6 **Housing White Paper:** In November 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.

3.7 **New Housing Supply**: The provision of new affordable housing is a key objective for the HRA Business Plan. Such development carries significant risks that we will need to continue to manage and monitor.

3.8 **Borrowing**: The Treasury announcement in the 2020 Spending Review that local authorities with plans to incur capital expenditure acquiring assets primarily for yield will not be permitted to access new PWLB loans for long term borrowing. In response to this, the authority will continue to manage borrowing requirements as a whole through our ongoing treasury management arrangements and will look to other sources for long-term capital finance. The risk is that it may take longer to arrange long term finance and that the rates will be determined by the market. We will continue to explore alternative sources of debt with advice from Arlingclose, our Treasury Advisors. The outcome of this may require further adjustments within the business plan relating to the assumed rate for new borrowing over the 30-year period.

3.9 **Unitary Authority**: the Secretary of State is due to make a decision before the summer recess in 2021. Whichever decision is made by Secretary of State our local government model will change and the HRA will be impacted by this. The risk for the HRA is the possible share of implementation costs, which are currently unknown, 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 (RTB) receipts to be used as flexible capital receipts to fund transformation costs. However this direction ends on the 31 March 2022 and it is unknown if the government will approve an extension on this directive. If the costs can only be treated as revenue then we may need to review other expenditure to make this affordable and or consider the use of reserves.

3.10 **COVID-19**: The unknown future impact of the pandemic presents a risk to the Housing Service, particularly in terms of revenue collection as well as impact on tenant mental health and wellbeing. We have already seen a drop in inflation rates impacting our future income and expenditure, however another significant risk relates to financial hardship that will result from the impact of COVID, particularly following the ending of government support such as furlough and the current uplift in Universal Credit. The net result is likely to be higher unemployment and much tighter finances for many households which will impact on their ability to pay rent. Furthermore, there may be an increasing need to invest more in support services for tenant households affected by the impact of COVID. This could present across a range of service demands including increased debt and benefits advice; unemployment support, mental health support; anti-social behaviour intervention, safeguarding and domestic abuse support.

3.11 **Exiting the EU**: The reality of exiting the European Union remains in a state of uncertainty about what the impact will be now the government has negotiated a trade deal. This could affect the cost of goods/materials, services, development and funding.

3.12 **Inflation on Staffing Costs:** Staffing costs have not been inflated for 2021/22 following the government's announcement in respect of public sector pay. It is assumed for budget purposes that local government pay negotiations will follow suit. However if a 1% pay award was given this would cost the HRA an additional £65k (or an additional £152k at 2%) in direct staff costs.

3.13 **Government Rent Policy Change:** It is not inconceivable that we could see a further change in rent policy from government as we have seen before, to reduce rents, 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 may be a current consideration for the treasury at the current time in light of impact of COVID.

4 Background and Full details of the Report

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

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

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

4.4 The HRA Business Plan has been reviewed and updated annually since 2012, with a full review undertaken in 2016 and 2020 in response to the changes in national policies and local aspiration. The 30-Year Business Plan has again been reviewed as part of the 2021/22 budget setting cycle and the key changes / updates to the plan are described in section 5 below.

4.5 The HRA continues to face a number of risks and issues, many of which could be significant but the actual financial impact is not yet known. These risks and issues are more significant for us as we proactively drive forward substantial investment in social housing development, with both existing schemes and more schemes planned for the future. These risks and issues are discussed in section 3 above.

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

4.7 The HRA has benefited from these freedoms in particular the ability to develop new homes; with the addition of 183 homes to the housing stock since 2012.

5 The HRA 2021 30-Year Business Plan Review

5.1 Whilst the business plan is updated on a regular basis, a more thorough review was undertaken again this financial year as part of the budget setting process. This was as a direct result of the significant financial and economic impact caused by the COVID pandemic as well as the need to ensure a comprehensive financial investment appraisal was undertaken for the significant social development schemes recently considered.

5.2 Independent financial housing advice was sought from Altair to support the business in undertaking this in-depth review; to provide challenge to our existing assumptions and provide assurance in the HRA's ability to deliver the new build aspirations. The outcome of this evaluation can be found in Altair's report found in Appendix A**.**

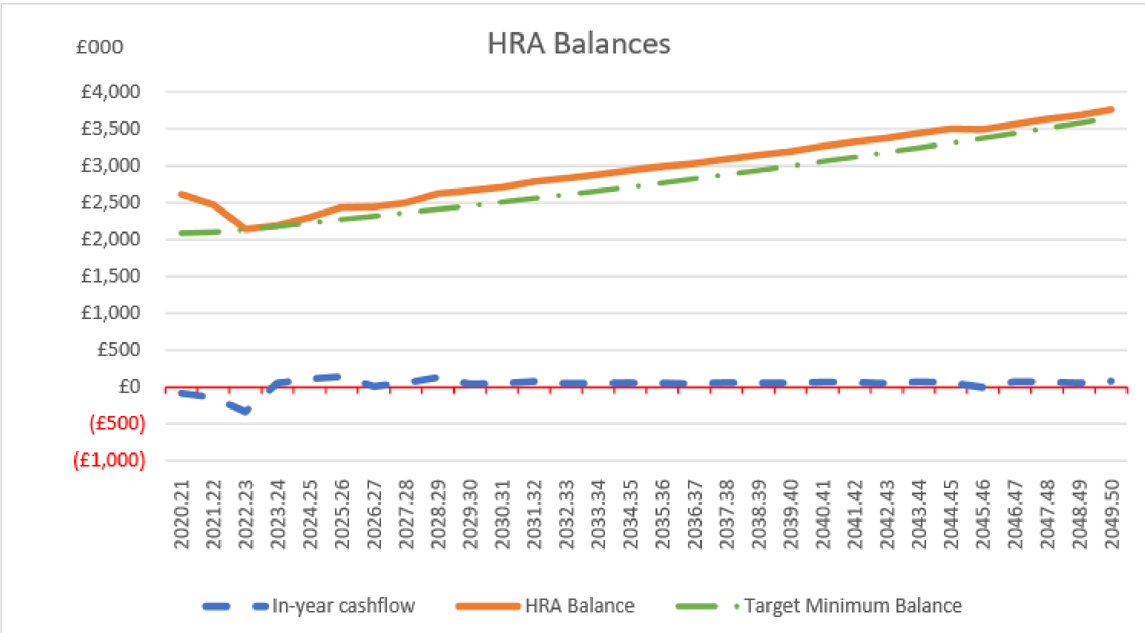
5.3 In summary, a new business appraisal model has been used and updated with the following key assumptions and projections:

- Revenue Budget Estimates for 2021/22
- Capital Programme for the next 10 years
- Dwelling Rent increase of 1.5% until 2024/25, reducing to just Consumer Price Index (CPI) thereafter
- Void loss at 2% of gross rental income
- Inflation projections that reflect the statistics published in October 2020 by the Office of National Statistic (ONS) (September CPI) and HM Land Registry (HMLR) (August House Price Index (HPI))
- Interest on new debt at 2% until 2024/25, rising to 2.5% thereafter
- Minimum reserves position of £2m
- Social housing development programme to include the recently approved Zero

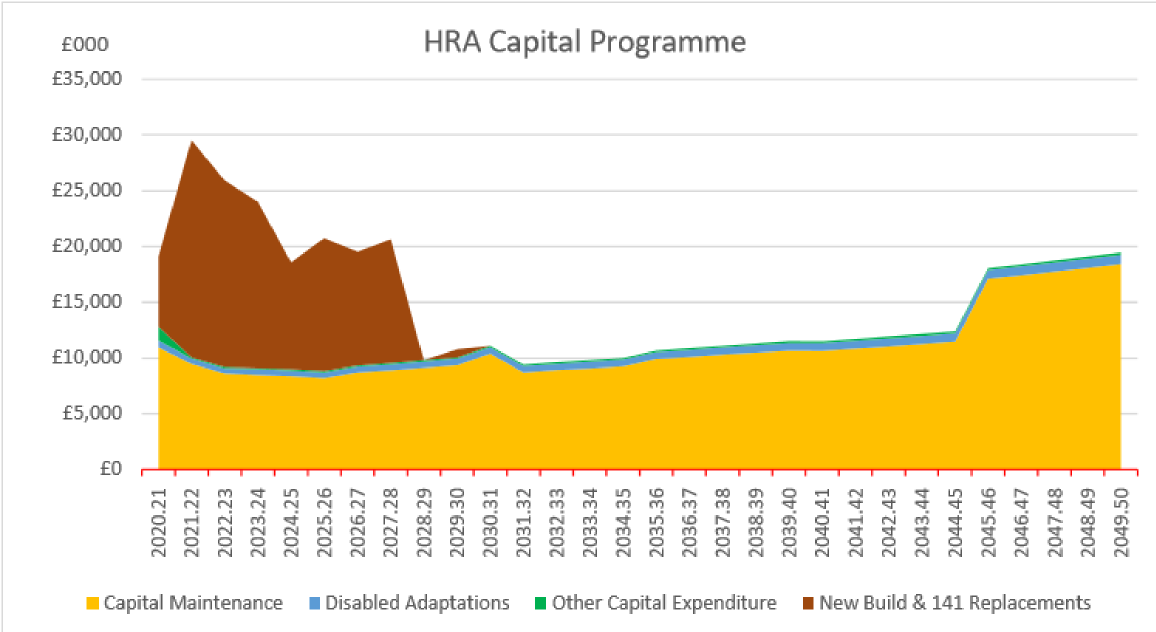
Carbon Pilot, Seaward Way, Oxford Inn and North Taunton Woolaway Project.

5.4 **Performance Measures**: The following measures have been used by Altair to assess affordability and financial sustainability of our operational aspirations, which have been summarised below as per Altair's report (see Appendix A Section 4).

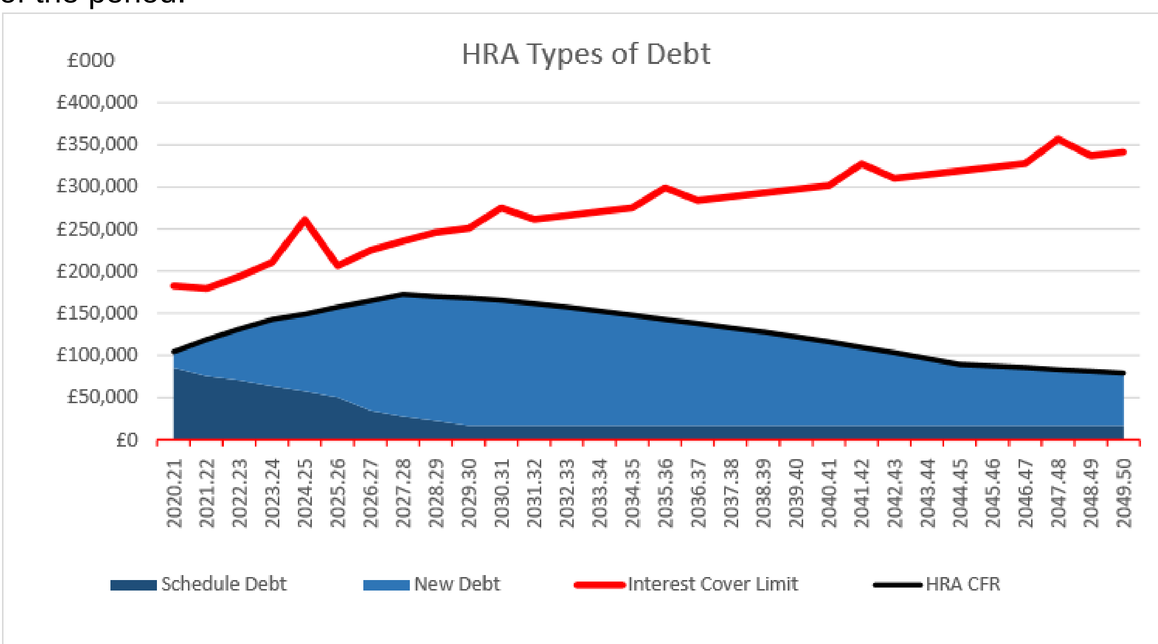
5.4.1 **Minimum General Reserves Balance:** This is maintained at above the minimum proposed limit of £2m throughout the forecast. The business plan assumes that any "excess" rents generated are made available to repay debt.



5.4.2 **Capital Programme**: The proposed capital programme enables the HRA to maintain its existing stock (amber area) and allows for the new build / purchase of an additional 374 units by 2027/28 (brown area). The investment requirement for the existing stock steps up significantly in the last five years of the forecast as a result of component replacements that are expected to become due. This is affordable within the current baseline position.

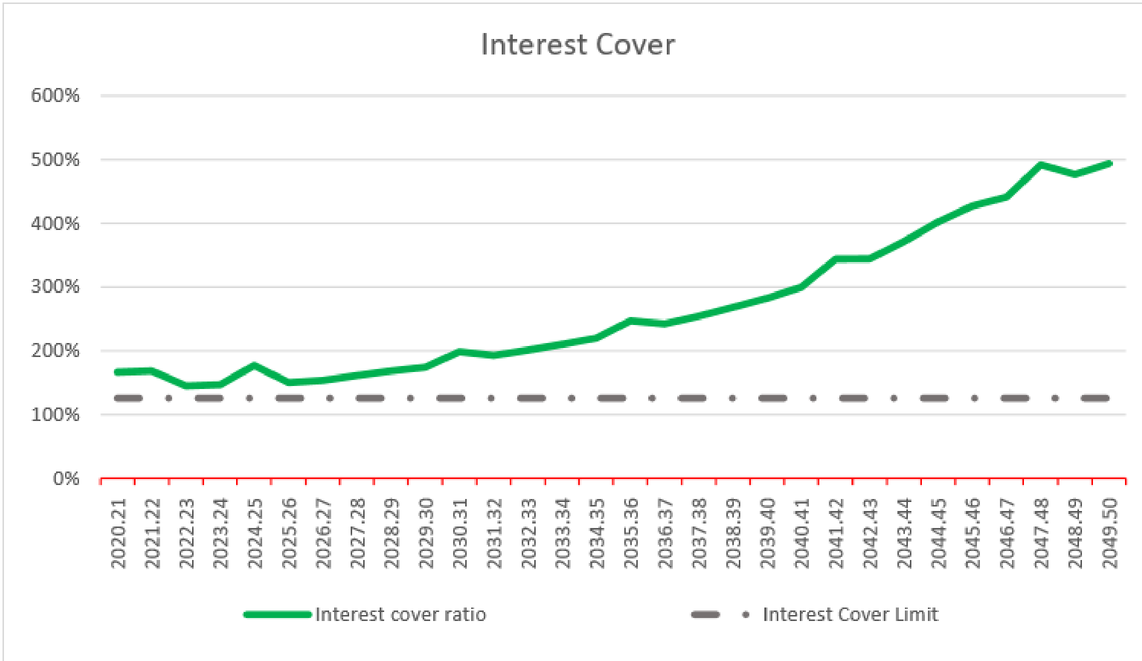


5.4.3 **Capital Financing Requirement**: There will be a need to take out additional (new) debt to pay for the capital programme and to refinance existing loans falling due. Therefore the borrowing requirement increases initially reaching a peak debt of £173m in 2027/28. The HRA is then able to reduce debt to a forecast residual balance of £79m at the end of the period.

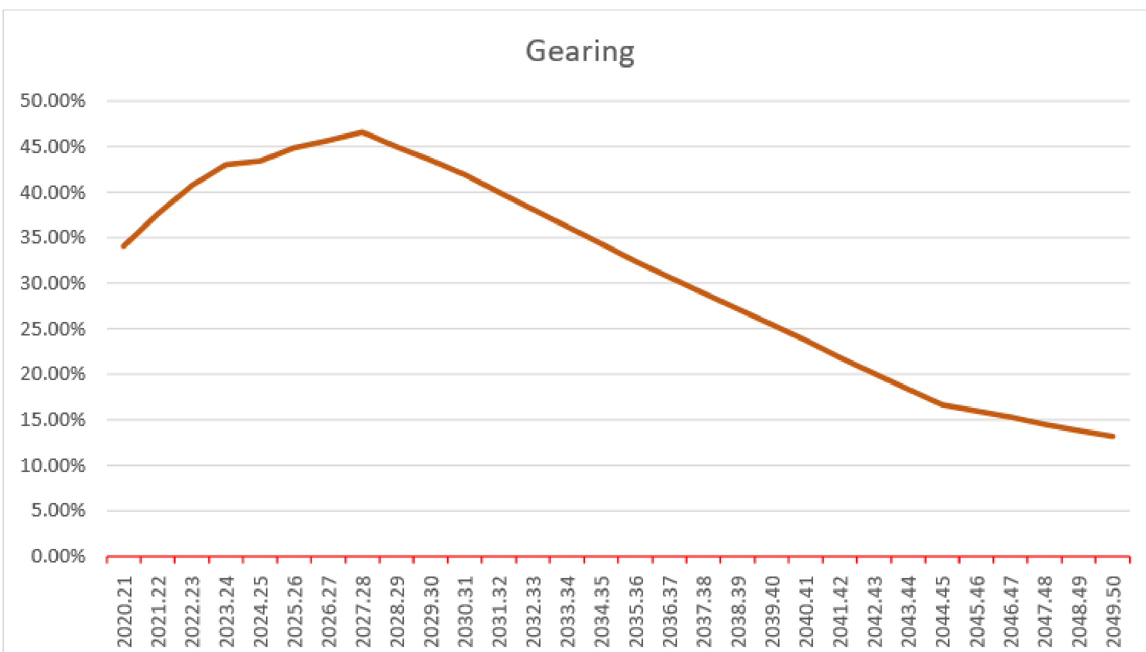


5.4.4 **Interest Cover**: This metric measures the ability of the HRA to be able to finance the interest payable on debt by 1.25 times or more. This measure is widely used by housing associations, and indicates the ability to pay for debt-related costs. The forecast shows that we meet and improve upon this minimum interest cover requirement during the 30-

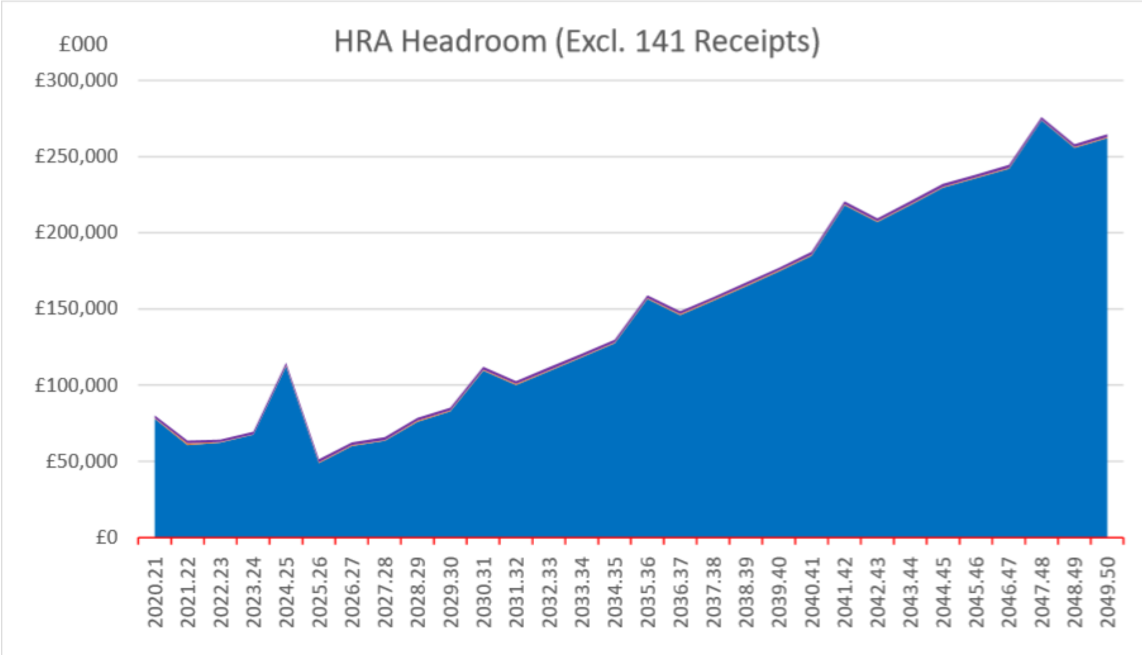
year period.



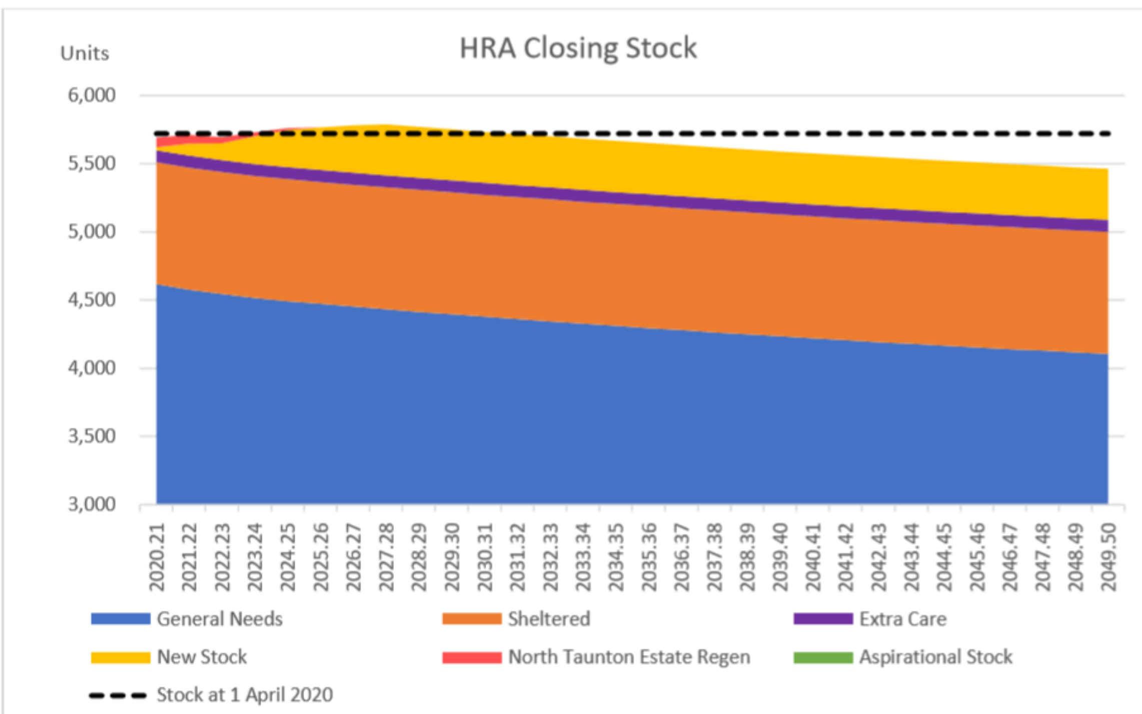
5.4.5 **Gearing**: This looks at the value of HRA assets and compares this to the level of debt. The baseline shows gearing peaking at 46.62% in 2027/28 and then reducing to 13.20% by the end of the forecast. To put this in context this is broadly equivalent to an owner occupier having a mortgage that comes to 46.62% of the value of their home.



5.4.6 **Headroom**: This represents the additional borrowing capacity available to the HRA without exceeding the interest cover limit. The headroom drops to its lowest of £48m in 2025/26, but overall this represents a reasonable level of headroom over the 30-year period. It is important that the HRA always maintains sufficient headroom to be able to react to emerging and / or unforeseen circumstances.



5.4.7 **Stock Levels**: There is an initial growth in stock numbers (374 units) from the new build social development schemes that are already approved reaching a peak of 5,834 units at the end of 2027/28. Thereafter assumed RTB Sales reduce stock levels to 5,515 units at the end of the period.



5.5 In summary, Altair have stated that the HRA's baseline presents a strong starting position. The HRA is able to deliver a substantial medium term development programme, while maintaining its existing stock and being able to repay the additional debt required to finance the capital programme by the end of the forecast period.

5.6 Therefore the current approved programme of works is affordable and financially sustainable based on current projections and the current economic climate. Throughout the Baseline forecast the HRA is able to operate well within its means, with further headroom available should it need to respond to unexpected changes in circumstances.

5.7 **Sensitivity Tests:** In essence this is still a high level business plan based upon on a number of assumptions which can easily change as seen with inflation and interest rates during the last year. Altair has undertaken a number of sensitivity tests (see Appendix A Section 7) on our baseline position to consider the impact this has on peak debt, debt at the end of the period and borrowing headroom. This will enable the business to manage those risks alongside the short and medium term activities of the business.

5.7.1 **One Year Rent Freeze:** The assumption that rents were frozen in 2021/22 and remained at the same levels of 2020/21 was modelled. This would reduce income generated in 2021/22 by £363k and this would also reduce income by £5.6m over the 30-year period. This is partially offset through the estimated turnover of tenants, with new tenants signing up on rent flexibility levels. By generating less income the HRA has less money available to repay debt and has to borrow more for a longer period. The impact within the 30-year business plan is that peak debt goes up by £1.797m and debt at the end of the forecast increases by £8.121m. In addition to this, if the HRA generates less income it has less money available to cover its interest payments on borrowings and therefore reduces the amount of money the HRA can borrow. The impact within the 30-year business plan is that the borrowing headroom reduces by £10.141m.

5.7.2 **Cost of Borrowing Increases:** Of the three sensitivity tests this had the greatest impact. A 1% increase in the cost of borrowing requires the HRA to use more rental income to pay for the debt interest payments instead of repaying the debt itself. Therefore the HRA has to borrow more for longer, resulting in peak debt rising by £2.8m a year later in 2028/29. The residual debt is also much higher increasing by £45m (to £115m).

5.7.3 **Increases in Cost:** A 0.5% increase in inflationary costs for five years to deliver services, investment and new homes (assuming the same level of income) was modelled. This means that there is less income available to finance and / or repay debt. Therefore the HRA has to borrow more for longer, resulting in peak debt rising by £2.3m 2027/28 and residual debt is £25m higher (to £95m).

5.8 **Target of 1,000 New Homes**: Altair have also extended the baseline position to model the affordability and financially sustainability of delivering further aspirational new build to meet the 1,000 new homes as per the 2020 Business Plan. The majority of the key measures look positive, however the overall debt position rises at the end of the 30-year period, which means that projected income from rents (and other sources) is unable to sustain the level of investment required to deliver these additional aspiration units without cost savings being delivered.

5.9 **Zero Carbon Retrofit**: The capacity to deliver a zero carbon retrofit (either within 10 years or 30 years) was also modelled but both placed significant pressure on the business plan with debt continuing to rise at the end of the period and leaving no headroom for unforeseen circumstances, which is not recommended. The business plan is currently unable to deliver both a development programme and a zero carbon retrofit programme. Unless there is significant government funding we will face future choices between our later years development plans versus retrofit as delivering both is not currently affordable, but this is a decision for a later time as the market and approach to retrofit matures.

6 HRA Budget Estimates for 2021/22

6.1 The draft HRA Revenue Budget for 2020/21 and 5-year Medium Term Financial Plan (MTFP), as a result of planned changes within the HRA 2021 Business Plan review and other changes, is included in Appendix B.

6.2 Table 1 below provides a summary of the main proposed changes to the annual revenue budget estimates from 2020/21 to 2021/22.

Table 1: HRA Budget Setting 2020/21 to 2021/22 Changes

	Reference Paragraph	**£'000**
Original Budget 2020/21 - balanced budget		
Income	6.4	(895)
Service Expenditure		
Growth:		
Growth for Salaries: Apprentices	6.7	100
Growth for Salaries: Systems Case Manager	6.8	48
Growth for Pension Deficit	6.9	43
Growth for Compliance Costs	6.10	455
Growth for Voids	6.11	94
Growth for New Mechanic Contract	6.12	20
Growth for Housing Partnership	6.13	23
Growth for Compliance Software	6.10	41
Inflation for Grounds Maintenance Contract	6.14	15
Removal of Efficiency Savings	6.15	100
Removal of Funding From Earmarked Reserve 20/21	6.16	183
Savings:		
Reduction in Shared Staff Costs	6.17	(457)
Reduction in Case Manager Post	6.18	(36)
Reduction in Staffing Costs	6.18	(58)
Capitalisation of Development and Construction Staff Costs	6.19	(200)
One-Off Saving on CCTV Contract	6.20	(15)
Other Adjustments	6.21	(47)
Central Costs / Movement in Reserves		
Inflation on Depreciation	6.21	662
Reduction in Interest Payments	6.23	(76)
Proposed Original Net Budget for 2021/22		**0**

6.3 The main changes include:

6.4 **Income**: as per section 7 and 8 below, we are proposing to increase rents and services charges (where applicable) by CPI+1%. We have also assumed a 2% void loss on dwelling rents which is an increase of 0.75% in light of the current climate (from 1.25% in 2020/21). For dwelling rents the increase in void rate has reduced income by £186k and the inflation generates £363k more income.

6.5 For temporary accommodation we have increased the void rate to 20% (from 10% in 2020/21) on standard stock reducing income by £15k. However this has been offset in part by the one-off addition of temporary accommodation in the North Taunton area adding a further £138k income in 2021/22.

6.6 Other changes include an increase in estimate RTB sales and service charges increased by inflation. The total changes in income equates to an additional £895k of income for next year.

6.7 **Apprentices**: an additional £100k has been included for 2021/22 to provide capacity to fund a number of apprentice positions to support the delivery of an excellent, customer focussed responsive and void repairs service. There is a shortage of skilled trade workers in the construction sector, both nationally and locally, and this has led to difficulty in our recruiting and retaining in this area. We would seek to 'grow our own' future skilled and dedicated trades persons, support their education and develop them through our existing trade services. We are looking for budget funding to enable four apprentice positions, over a range of trade areas, and give our existing team a real opportunity to demonstrate and pass on their skills to a future group of crafts people.

6.8 **Systems Case Manager**: this new post is being added to the staffing structure at an ongoing annual cost of £48k. This role will be fundamental to the Housing Directorate in providing a more cohesive housing systems application maintenance and support, and delivering efficiency improvements in the use of all housing system applications.

6.9 **Pension Deficit**: the contribution towards the pension deficit will increase in 2021/22 as determined by the Pension Fund actuary. This increase of £43k is the HRA's share of this cost inflation.

6.10 **Compliance**: the increase of £455k relates to the property safety compliance works required to ensure we meet relevant legislative standards, regulatory requirements and keep our customers safe are key activities for the Housing team. These works include ongoing inspections, safety checks and servicing in relation to fire safety, water safety management, electrical testing, passenger lifts and stair-lifts, and Air Source Heat Pump servicing. We have undertaken validation surveys throughout our property stock to ascertain the necessary checks needed, and also carried out Risk Assessments where required. This work has established a need for an ongoing programme of enhanced checks, delivered by both in-house and external resources, and the required funding to deliver this critical area of activity.

6.11 **Voids**: the increase of £94k relates to anticipated cost pressures from additional void repairs being required due to properties being returned with a higher level of outstanding repairs (either due to the previous tenant not requesting these be undertaken following anxiety about the work being done during the COVID pandemic, or due to a backlog of outstanding repairs generally), and also as a result of more properties becoming void as projects to deal with property under-occupation progress (generating more work required due to both the size of the void properties coming through, and proportionately more properties having higher levels of repairs required due to older tenants either refusing upgrade works in the past and / or not reporting responsive repairs).

6.12 **Mechanic Contract**: Our operational services are moving to a contracted Mechanic service provided by a third party rather than employing mechanics in our staff in order to provide a more flexible service, this budget provision of £20k is the HRA contribution to this service.

6.13 **Private Sector Housing Partnership (Somerset Independence Plus)**: SWT contract services from Sedgemoor District Council to deliver disabled facilities and adaptations to housing property and other services to tenants, alongside the work of this service to support private sector residents. In order to realign the budgets there is a one-off ongoing growth of £23k required for the HRA share of this contract.

6.14 **Inflation on Grounds Maintenance Contract**: as a direct result of increasing the grounds maintenance service charge by CPI+1% this provides extra budget availability to support this area of service delivery.

6.15 **Efficiency Savings**: the original target of £100k has been removed to rebase the budget for 2021/22. In light of the COVID pandemic the aspiration to find these efficiency savings during the year has not been fulfilled. The service will continue to strive to achieve and maintain efficiency savings wherever possible. We are currently re-establishing our Lean reviews of the three main housing processes of repairs, voids and income, with the income review already containing and reducing the level of arrears and the number of tenants in debt.

6.16 **Funding from Earmarked Reserves**: the one-off funding of £183k from earmarked reserves has been removed to rebase the budget for 2021/22.

6.17 **Reduction in Shared Staff Costs**: As part of the budget setting process for 2020/21, the HRA needed to take on a share of transition and service resilience cost pressures as well as a share of the temporary staff delivering the corporate change programme. This saving of £457k is the removal of these one-off cost pressures.

6.18 **Reduction In Staffing Costs**: this relates to the removal of a vacant post that is no longer required along with other full time equivalent (fte), scale point and off-scale adjustments.

6.19 **Capitalisation of Development and Construction Staff Costs**: as part of the Right To Buy (RTB) scheme eligible staffing costs are able to be capitalised and part funded using RTB Receipts. In light of the recently approved social housing development schemes a number of positions will be fundamental in the successful delivery of these schemes and therefore an approximate £200k of staffing costs will be able to be capitalised.

6.20 **CCTV Contract**: one-off savings of £15k have been identified from the under-utilisation of the camera maintenance sinking fund held by Sedgemoor as part of this contractual arrangement.

6.21 **Other Adjustments**: various budgets have been reviewed with many minor budget savings being offered up to an amount of £47k. This includes a reduction in the recruitment budget now that the majority of positions have been filled and a reduction in the training budget that has historically been underutilised. These adjustments can be made without impacting service delivery.

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

6.23 Depreciation is a year-end accounting adjustment that cannot be forecast with certainty prior to closing the final accounts. The estimated depreciation for 2021/22 is based on those calculations made for 2019/20 plus an allowance for sales and purchases during the year. This increase of £662k is in part a one-off catch up on inflation budgetary requirements as well as estimate for inflationary increases for next year's depreciation charges.

6.24 **Interest Payable**: The majority of existing external borrowing is based on fixed interest rates for the term of the loan, with only two loans based on variable rates of interest. Therefore we are able to predict the interest payment for these elements with a high degree of certainty. The HRA has since taken out a new loan of £10m reducing the amount of internal borrowing from the General Fund, which is charged at the average borrowing rate across the authority. The estimated budget for 2021/22 is £2,668,800 which is a decrease of £76k.

6.25 **Minimum general reserve balance**: under the Council's wider Financial Strategy the current minimum Operational Target is £2.4m and the Financial Resilience Target is £1.8m, for the HRA general reserve balance. We are now considering consolidating the two minimum reserve levels into one new one at a level of £2m; the amount is a balance between the risk of holding too much cash and therefore borrowing more than we need to and the ability to respond to unforeseen issues. Whilst also noting that we also have borrowing headroom in the business plan to allow us to increase borrowing should we need to.

7 Dwelling Rental Income

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

7.1.2 On 26 February 2019 the Ministry of Housing, Communities and Local Government confirmed that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020. The September 2020 CPI figure is 0.5% as published by the Office for National Statistics on the 21 October 2020.

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

7.1.4 A separate Rent Setting Policy, covering the content and those elements proposed to be adopted by the Council from within the Regulator of Social Housing's Rent Standard

2020, was approved by Full Council in February 2020.

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

7.1.6 Therefore in accordance with the Regulator of Social Housing's new Rent Standard from April 2020, Dwelling Rents for 2021/22 will increase by CPI+1%. Table 2 below shows the average weekly rent for existing and new tenants.

Table 2: Average Weekly Rents

Tenancy Type		Average Weekly Rent 2020/21 (£)	Average Weekly Rent 2021/22 (£)	Average Change Per Week (£)
General Needs	**Existing Tenants**	84.28	85.54	1.26
	New Tenants	88.49	89.82	1.33
Sheltered/ Supported Housing	**Existing Tenants**	77.40	78.56	1.16
	New Tenants	85.14	86.42	1.28
Extra Care	**Existing Tenants**	77.49	78.65	1.16
	New Tenants	85.24	86.52	1.28

7.1.7 For comparison, table 3 shows the average weekly general needs social rent for SWT in comparison with other housing (association) providers in the Taunton Deane area. Please note that this data has been sourced from the Magna website[1] and we have inflated the data based on that applied to SWT rents since 31 March 2018 for comparison purposes. The data suggests that SWT is providing the lowest average weekly general needs social rents in the Taunton Deane area.

Table 3: Average Weekly Social Rents in the Taunton Deane Area

Taunton Deane	Average Weekly Rent (£) - 2020/21	Average Weekly Rent (£) - 2021/22
Aster Communities	107.72	109.34
Yarlington Housing Group	107.61	109.22
Curo Places Limited	106.62	108.22
Sanctuary Housing Association	95.40	96.83
Stonewater (3) Limited	95.10	96.53
Stonewater (5) Limited	94.56	95.97
Liverty Limited	93.57	94.97
Magna Housing Limited	92.61	94.00

[1] https://www.magna.org.uk/your-home/rent/how-our-rents-compare

Stonewater Limited	92.43	93.82
Places for People Living+ Limited	84.80	86.07
SWT	84.28	85.54

7.1.8 The increase in rental income generated year on year is vital to enable the HRA to deliver its aspirations and maintain business continuity over the long term. The HRA has an ambitious new build social development programme to add zero carbon homes to its housing stock. This will require significant investment and the need to use rental income to fund interest payments on borrowing and the repayment of debt. Income is also required to finance the continued investment in maintaining our existing homes, other assets and neighbourhoods to a high standard with a comprehensive planned programme of expenditure, adaptions and routine repairs in place. The rental income will also enable the HRA to continue providing and improve upon the strong community support offered to tenants providing them with additional support to sustain individual tenancies as well as investing in a range of community based projects and groups.

7.1.9 The decision to inflate rents each year is difficult, even more so this year as our communities continue to respond to the challenges placed upon them as our economy moves back into a recession due to the impacts of COVID and Brexit. With 62% of our tenants having their rents funded through benefits, it is the 38% of self-funders we need to consider and the long term impact on the HRA business plan.

7.1.10 In terms of supporting our self-funders we have a range of options to help these tenants including debt and benefit advisers to enable tenants to manage their finances and to maximise the income available to them e.g. access to welfare benefits. We also have a dedicated team of officers who monitor arrears and engage frequently with this group of tenants to ensure early intervention if the tenants is experiencing financial difficulties. In addition to this the HRA make grant payments to external agencies such as Citizens Advice Bureau and also Inspire to Achieve who help tenants in our communities improve their employment opportunities. Further information can be found in the Equality Impact Assessment form in Appendix D.

7.1.11 The consequences of freezing rents will impact both the income generated in that financial year but also income generated in future years. As mentioned above in section 5.7, a sensitivity test was undertaken to assume that rents were frozen in 2021/22 and remained at the same levels of 2020/21. This increased peak debt as well as increasing debt at the end of the period. It also reduced the amount of money the HRA could borrow.

8 Non-Dwelling Rental Income and Service Charges Income

8.1 This incorporates income from non-dwelling rents (mainly garages but also shops, land access and meeting halls), charges for services and facilities, and contributions to HRA costs from leaseholders and council tenants. This accounts for approximately 8% (c£2.3m) of total HRA income.

8.2 These fees and charges can be approved by the S151 Officer under delegated powers set out in the Constitution. The exception is the setting of Dwelling Rents which will still be submitted for Full Council for approval as per section 7 above.

8.3 The HRA fees and charges have been approved by the Section 151 Officer for 2021/22.

This has generated £97k of additional service charge income for 2021/22.

9 Housing Revenue Account Capital Programme for 2021/22

9.1 The draft HRA Capital Programme for 2021/22, that will deliver the capital investment proposed within the Business Plan, is £13.8m and is shown in table 4 below. This does not include social housing development schemes that have been previously approved.

9.2 The draft 10-Year HRA Capital Programme from 2021/22 to 2031/32, that will deliver the capital investment proposed within the Business Plan, is shown in Appendix C.

Table 4: HRA Capital Programme for 2021/22

Capital Investment	**Total Cost £000**
Major Works	8,884
Fire Safety	202
Related Assets	100
Exceptional & Extensive	294
Vehicles	121
Aids & Adaptations & DFGs	370
Social Housing Development	3,830
Total Proposed HRA Capital Programme 2021/22	**13,800**

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

9.4 It is proposed that the HRA Capital Programme for 2021/22 shown above in table 4 will be funded from an appropriate combination of Major Repairs Reserves (from depreciation), revenue contributions, capital receipts, capital grants and borrowing.

9.5 A summary of the estimated funding profile for the 2021/22 capital programme is shown in the table 5 below. The final funding profile will be agreed by the Section 151 Officer as per the financial procedure rules.

Table 5: Capital Investment Funding Estimates

Capital Investment	**Total Funding £000**
Major Repairs Reserve	7,538
Revenue (RCCO)	-
Capital (RTB) Receipts	1,149
Capital (Non-RTB) Receipts	1,356
Capital Grants Receipts	244
Borrowing	3,514
Total Funding	**13,800**

9.6 Major Works

9.6.1 These schemes will be focusing on ensuring that a decent homes standard is maintained and that the housing stock major components are replaced periodically as per our capital works programme for 2021/22. 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.

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

Table 6: Major Works

Capital Scheme	**Total Cost £000**
Kitchens	2,095
Bathrooms	1,020
Roofing	432
Windows	640
Heating (Open Vented)	878
Doors	100
Fasciae and Soffits	309
Ventilation	40
Door Entry Systems	400
Voids Kitchens and Bathrooms	329
Sewerage and Drainage	100
Water	169
Scaffolding	50
Heating for Warmer Homes	1,037
Environmental Improvements	100
Unadopted Areas	50
Electrical Works	466
Insulation	495
Other	175
Total	**8,884**

9.7 Fire Safety

9.7.1 The Fire Safety capital programme will be focusing on ongoing fire safety works and ensuring all housing stock continues to adhere to the fire safety regulations. The proposed capital investment will be £202k.

9.8 Related Assets

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

9.9 **Exceptional Extensive Works**

9.9.1 The proposed capital investment of £294k will be used for asbestos removal.

9.10 **Disabled Facilities and Aids and Adaptations**

9.10.1 This is an annual recurring budget for small and large scale home aids and adaptations in tenants' homes where there are mobility issues. This budget is demand led by requests from tenants or through recommendations by occupational therapists or other healthcare professionals. Applications are made through the Somerset West Private Sector Housing Partnership. The capital investment for 2021/22 will be £370k.

9.11 **Vehicles**

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

9.12 **Social Housing Development**

9.12.1 The HRA has four pre-approved social housing development schemes (Zero Carbon Pilot, Seaward Way, Oxford Inn and North Taunton Regeneration Project) which should meet our total spend requirements for 2021/22 under the RTB "1-4-1 Agreement" (explained in section 9 below).

9.12.2 However a proposed budget of £3.83m has been included within the capital programme to represent the 2021/22 RTB spend requirement. This will provide the service flexibility to ensure this is achieved through alternative means in case the delivery of any of the schemes are delayed through any unforeseen circumstances. This would be funded 30% from retained RTB capital receipts and the remainder from borrowing.

10 HRA Borrowing

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

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

10.3 The total capital borrowing requirement (debt balance) owed by the HRA at the start of 2020/21 was £108m. This was financed by £79m of existing external loans, with the balance funded through internal borrowing. During the year the HRA has taken out a new external loan of £10m for 50 years secured at 1.64%.

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

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

10.6 As mentioned in section 3, the issue that the HRA is currently facing, following the announcement in the 2020 Spending Review 2020, is that the HRA is unable to access borrowing from PWLB during periods when the Council is also undertaking capital investment in assets primarily for yield.

10.7 The Section 151 Officer is working with Arlingclose, the Council's Treasury advisors, to explore alternative sources of borrowing and ensure that the HRA is able to refinance the existing loans as they fall due over the next 10 years and take out new borrowing to fund approved social housing development schemes in a way that minimises debt costs and risk. The risk is that this may take longer to arrange long term finance and that the rates will be uncertain as they will be determined by the market.

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

11 Right to Buy (RTB) Receipts

11.1 The RTB scheme is a Government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The scheme saw the maximum discount increase significantly in 2012 to up to £75,000 followed by a steady increase year on year to up to £84,200 in April 2020.

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

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

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

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

11.6 **RTB Receipts Year to Date**: Table 7 below shows the number of RTB sales, the total (capital) receipts received under the new RTB discount scheme, the Council retained 1-

4-1 receipts to be used for new social housing, and the total amount that would need to be spent by the Council in order to fully retain them.

Table 7: Right to Buy Receipts

	Total 2012/13	Total 2013/14	Total 2014/15	Total 2015/16	Total 2016/17	Total 2017/18	Total 2018/19	Total 2019/20
Sales	37	47	35	38	44	53	34	45
Total Receipts (£k)	2,330	2,705	2,317	2,666	3,568	3,971	2,576	4,286
1-4-1 Receipts (£k)	1,234	1,230	1,005	1,193	1,864	2,069	1,149	2,547
1-4-1 Receipts Spend - Per Year (£k)				1,234	1,230	1,005	1,193	1,864
Match Funding Spend - Per Year (£k)				2,879	2,871	2,345	2,783	4,349
Total Spend Required - Per Year (£k)	**-**	**-**	**-**	**4,112**	**4,102**	**3,350**	**3,976**	**6,213**
Total Spend Required - Cumulative (£k)	-	-	-	4,112	8,214	11,563	15,539	21,752

	Total 2019/20	Total 2020/21	Total 2021/22	Total 2022/23
Sales	45	40	40	32
Total Receipts (£k)	4,286	2,918	2,918	2,300
1-4-1 Receipts (£k)	2,547	1,458	1,458	1,200
1-4-1 Receipts Spend - Per Year (£k)	1,864	2,069	1,149	2,547
Match Funding Spend - Per Year (£k)	4,349	4,829	2,681	5,943
Total Spend Required - Per Year (£k)	**6,213**	**6,898**	**3,830**	**8,490**
Total Spend Required - Cumulative (£k)	21,752	28,650	32,480	40,970

[Note that the grey data is estimated.]

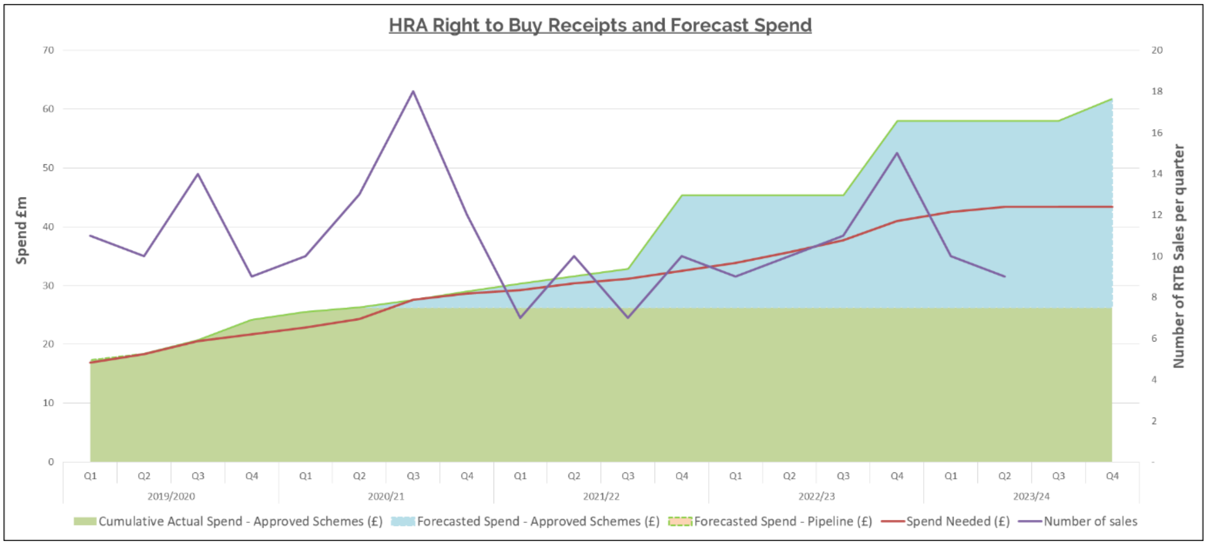
11.7 **Forecast Spend of RTB Receipts**: The spend year to date and the current forecast spend can be shown in graph 1 below. The COVID-19 pandemic has significantly impacted the ability to meet our 1-4-1 spend requirement this year, especially in the latter two quarters. The government has provided a temporary extension to retention agreement allowing us to the 31 March 2021 to spend our annual spend requirement. The estimated spend on approved schemes and additional open market buybacks, will just be sufficient to meet the RTB match funding requirements to quarter 4 of 2020/21.

11.8 Looking forwards over the next three years, there are a sufficient approved new build schemes that, if delivered on time, will see our RTB match funding requirements achieved for the next three years.

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

11.10 However this will require significant borrowing, which is now possible since the removal of the debt cap, and will have to be managed carefully within the overall 2021 Business Plan to ensure that the revenue account can fund the interest payments and principal loan repayment.

Graph 1: Right to Buy Receipts and Forecast Spend



12 Links to Corporate Strategy

12.1 The budget proposals for 2021/22 have been prepared in line with the HRA 2021 Business Plan and Corporate Strategy[2].

13 Finance / Resource Implications

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

14 Legal Implications

14.1 The HRA is governed by the following legislations:

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

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

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

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[2] https://www.somersetwestandtaunton.gov.uk/your-council/corporate-strategy/

15 Climate and Sustainability Implications

15.1 As part of the HRA 2020 Business Plan review a “Strategic Asset Investment Proposal For Housing In Relation to Achieving Affordable Warmth & Carbon Neutrality (Retrofit Strategy)” report was commissioned. This report was produced to inform the Council on how they could achieve carbon neutrality within the housing stock by 2030 as recommended within the “SWT Carbon Neutrality and Climate Resilience Plan”.

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

16 Safeguarding and/or Community Safety Implications

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

17 Equality and Diversity Implications

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

18 Social Value Implications

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

19 Partnership Implications

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

20 Health and Wellbeing Implications

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

21 Asset Management Implications (if any)

21.1 This report includes a section relating to the capital programme for 2021/22 and therefore no further comments are required.

22 Data Protection Implications

22.1 None for the purposes of this report.

23 Consultation Implications (if any)

23.1 Consultation will be undertaken with tenants through the Tenants Strategic Group.

24 Tenants Strategic Group / Scrutiny / Executive Comments / Recommendation(s) (if any)

24.1 The Tenants Strategic Group have requested that the proposed budget saving of £10k from the Tenants Forum is reinstated. This will be funded from salary savings that have come to light since the salary budgets were finalised by staff requesting a change in their working hours. This is supported by the Executive at their meeting on the 9th February.

24.2 The Scrutiny Committee debated the report and a number of questions were presented. The topics included (but not limited to) the significant number of challenges faced by the HRA, the government's ability to impose changes to dwelling rents, the impact COVID and Brexit has had on the economy, rent arrears and the bad debt provision in the business plan, the impact of the latest Building Safety Review, debt cap removal, use of general reserves, sources of new borrowing, HRA part funding of the CCTV contract, fire risk assessments, disability statistics contained within the Equality Impact Assessment Form as well as the novation of the HRA into the new SWT boundaries and the ability to undertake social housing developments the old West Somerset Council area.

Democratic Path:

Committee / Board	Yes / No	Date
Tenants Strategic Group	Yes	25 Jan 2021
Scrutiny	Yes	27 Jan 2021
Executive	Yes	9 Feb 2021
Full Council	Yes	18 Feb 2021

Reporting Frequency: Annually

List of Appendices (delete if not applicable)

Appendix A	HRA Forecast Update Report by Altair
Appendix B	HRA Revenue Budget and Medium Term Financial Plan
Appendix C	HRA 10-Year Capital Programme From 2021/22
Appendix D	HRA Equality Impact Assessment Form

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