Report Number: SWT 12/22

Somerset West and Taunton Council

Full Council – 8 February 2022

Housing Revenue Account (HRA) Revenue and Capital Budget Setting 2022/23 including Dwelling Rent Setting 22/23, MTFP Update 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 2022/23, including the proposed Rent Setting for 2022/23. This report also provides an update on the 5-Year Medium Term Financial Plan (MTFP) and 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 2022/23.

2 Recommendations

2.1.1 To approve the HRA Annual Revenue Budget for 2022/23.

2.1.2 To approve the increase of 4.1% (CPI+1%) to Dwelling Rents for 2022/23.

2.1.3 To approve the HRA Capital Programme for 2022/23.

2.1.4 To note the reviewed and updated assumptions in the 5-Year Medium Term Financial Plan (MTFP).

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

3 Risk Assessment

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

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

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

3.4 It is evident that financial pressures within the Housing service present a significant risk to affordability of existing plans in the short to medium term. Whilst a balanced budget is being presented to Members this strategy relies on one-off financial measures that are not sustainable. Therefore, the leadership team will need to implement a programme of work to build significant savings into the business and baseline budgets over the next three years (2022/23 - 2024/25) and ensure that adequate minimum reserves are maintained.

3.5 The Council regularly monitors its risks via a risk register and below are a number of the ongoing key risks and uncertainty for 2022/23:

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

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

3.8 **Inflation on Staffing Costs:** The budgets have been set based on 1.75% pay award for 2021/22 and then 2% for 2022/23. The annual pay award negotiations are still taking place.

3.9 **COVID-19:** The ongoing impact of the pandemic presents a risk to the Housing Service, particularly in terms of revenue collection as well as the impact on tenant mental health and wellbeing. We have already seen an increase in inflation rates impacting our future income and expenditure. However another significant risk relates to financial hardship for our tenants that could result from the impact of COVID, following the ending of government support such as furlough and the uplift in Universal Credit. If the net result is higher unemployment and much tighter finances for many households, this could impact on their ability to pay rent. Furthermore, there may be an increasing demand and therefore budget implication for 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.

3.10 **Unitary Authority**: The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the One Somerset option put forward by the County Council. This means there will be one new unitary council for Somerset replacing the existing five councils. There is a structured timetable to follow for implementing the change so the new Council can come into effect on 1 April 2023.

3.11 It is currently unknown what the future potential costs will be as a result of this decision, and what the HRA's share 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 £500k of non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. However, this directive ends on the 31 March 2022 and it is unknown if the government will approve an extension, although they have recently signalled this intent. 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.

3.12 It is also currently unknown what the share of potential savings to the HRA might be of the new unitary Somerset Council of shared operating costs, as well as any savings achieved through combining the two local authority housing stock operations together in the longer term. The current MTFP forecast and Business Plan does not incorporate any financial estimates with regards to this aspect and will be modelled as a separate exercise.

3.13 **Right To Buy (RTB) Receipts:** This is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The HRA does not have any control over the number of RTB sales each year and the resulting impact on rental income lost. The capital receipts from the sales retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt, following an amendment to the scheme policy from the 1 April 2021. To date, the Council has successfully spent all of their retained 1-4-1 receipts resulting in no returns being made to the Treasury/DLUHC (previously MHCLG).

3.14 **Welfare Reform and Universal Credit:** The impacts of Welfare Reform and Universal Credit remain a risk, with the number and value of rent arrears still under upward pressure as more tenants switch to universal credit. Mitigations are already in place to help support tenants affected by Welfare Reform and Universal Credit such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes.

3.15 **Decent Homes Standard:** The changes to the Regulator of Social Housing's Decent Home Standard as well as higher thermal efficiency standard requirements, which are unsupported by additional external grant funding, will place an additional burden on HRA resources available for elemental investment in homes. Once the detail is known, we will need to adapt to ensure we continue to maintain stock at the Decent Homes Standard and prepare to meet all the evolving expectations, incorporating the financial impacts into the Business Plan.

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

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

3.18 **Government Rent Policy Change:** It is not inconceivable that we could see a further change in rent policy from central Government as we have seen before, to perhaps reduce rents or limit increases below current policy. Whilst this will support tenants financially it has a significant impact on our business plan. It also has the effect of a significant saving on the benefit bill for government so speculatively this could be a current consideration for the treasury in light of impact of COVID.

3.19 **Retrofit by 2030:** There is a duty for social landlords to improve the energy efficiency of its homes. The national climate change requirements set by government under the Clean Growth Strategy 2017 requires all social landlords to achieve EPC C by 2035. However, the strategy also requires landlords to achieve EPC C by 2030 where tenants are in fuel poverty. Therefore, it is prudent to achieve EPC C by 2030. This will require significant financial investment through the capital programme that will add to the capital financing requirement.

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

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

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

3.23 **Assets as liabilities:** Our assets (e.g. housing stock) can also become a liability and can cause us unforeseen operational and financial pressure to the business. For example, we have now been faced with a situation that requires immediate resolution to decommissioning a block as it has come to the end of its expected useful life.

3.24 **Data Integrity:** We need to improve our data integrity to ensure we have accurate, up to date, complete and consistent data. The Regulator of Social Housing will assess us on this and any failure in this area is seen as indicative of a poor internal controls' assurance framework. We are progressing this through new IT projects however further investment may be required.

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

3.26 **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.

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 capital 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 2022/23 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.

5 HRA 30-Year Business Plan Review

5.1 The HRA 30-Year Business Plan (the Business Plan) is updated on an annual basis alongside the budget setting process. This is to ensure that any changing assumptions do not adversely affect the ongoing concern of the business. This review also ensures that significant programmes of work (e.g. social development schemes) are still viable and affordable and gives the business opportunity to flex the delivery of these schemes if required to improve the financial operating position of the business.

5.2 The Business Plan has been updated to reflect the Budget Estimates for 2022/23 (see section 6 below) as well as updated assumptions surrounding the current challenging economic environment. These updates have been reviewed by an independent financial housing advisor; Altair.

5.3 In summary, the key assumptions and projections are as follows:

- Revenue Budget Estimates for 2022/23
- Capital Programme for the next 10 years
- Dwelling Rent increases assumed of 4.1% for 22/23, 4.5% in 23/24 and 3.25% in 24/25. This then reduces to just Consumer Price Index (CPI) thereafter at an estimated 2%.
- 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
- An estimated allowance for Unitary Council implementation costs
- Efficiency gains of £650k by 2024/25
- New capital receipts of £1.75m over 5 years from 2023/24 by delivery of the service Asset Strategy
- Social housing development programme to include the approved Zero Carbon Pilot, Seaward Way, Oxford Inn and North Taunton Woolaway Project.

5.4 The main changes to the Business Plan key assumptions and projections include increased revenue costs, a temporary reduction in rental income, new capital receipts from asset sales, efficiency savings target, inflationary pressures, increased major works and improvement capital programme and a slightly stretched delivery timeframe for the social housing development schemes.

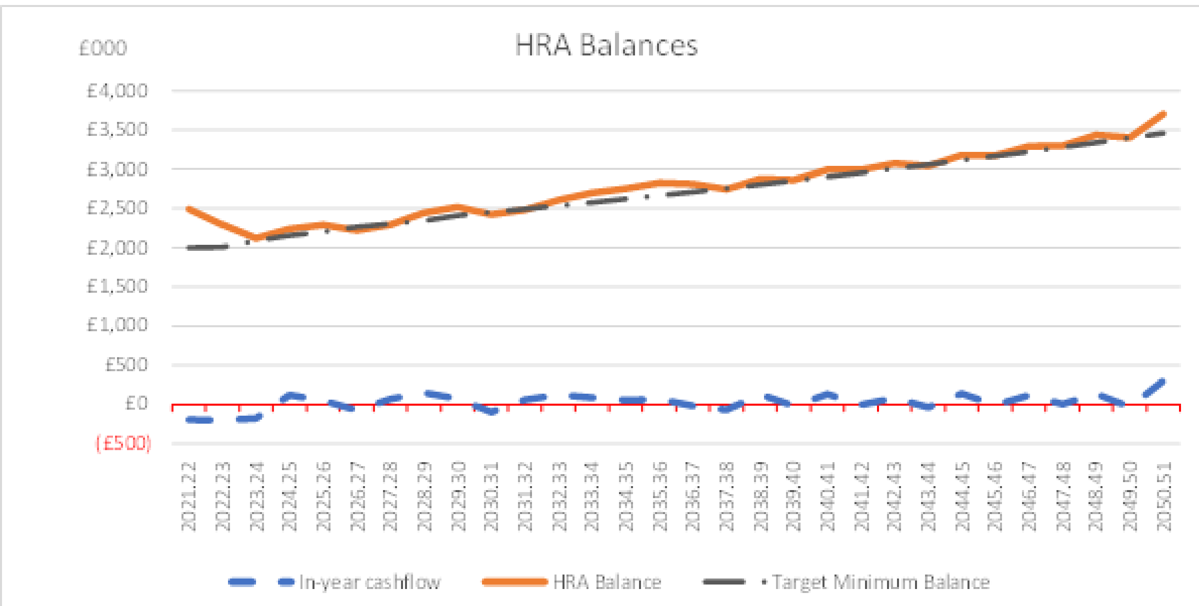
5.5 The initial projections presented an unfavourable financial position with significant financial constraints (e.g. falling below the key performance measure of interest cover and no borrowing headroom) which consequently resulted in the requirement to introduce new revenue streams (e.g. initiate components of the asset management strategy) and adjust the timescales for the delivery of some social development schemes (see paragraph 10.12 for further information).

5.6 This has been successful in improving the financial position of the HRA during the next 5 years, as shown in the performance measures below, but this relies heavily on new capital receipts from asset sales and building savings into the business. It is essential that the HRA builds more financial resilience so that it can react to any further financial pressure placed on the business, as emphasised in the sensitivity analysis below (para. 5.12).

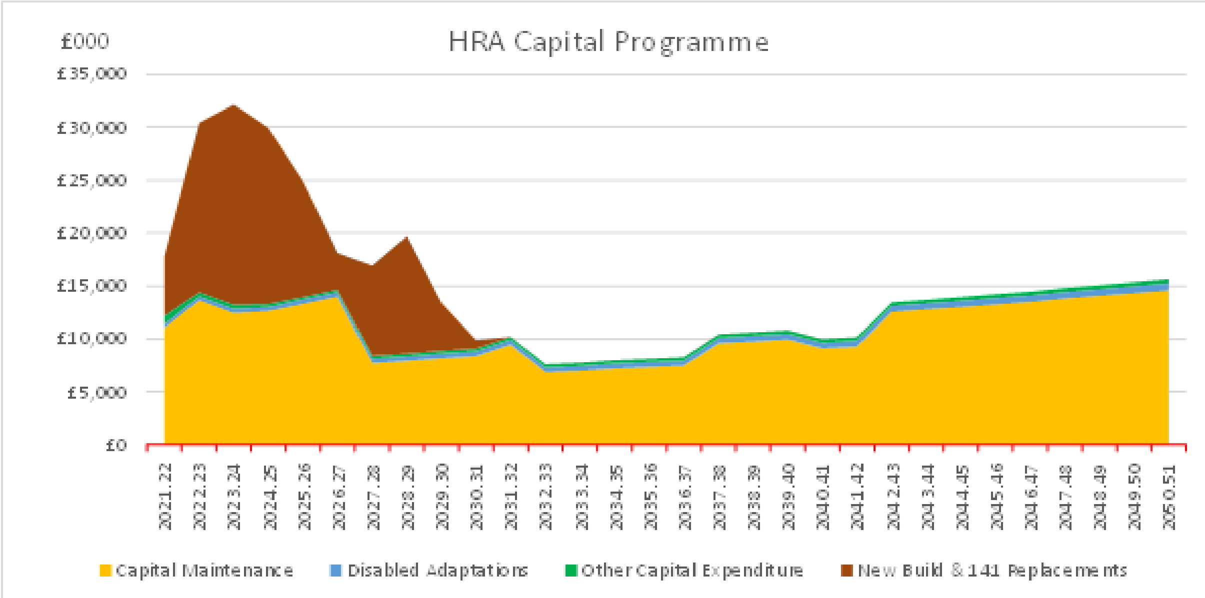
5.7 **Performance Measures**

5.7.1 The following measures have been used by Altair to assess the affordability and financial sustainability of our operational aspirations in light of the updated assumptions and projections within our Business Plan.

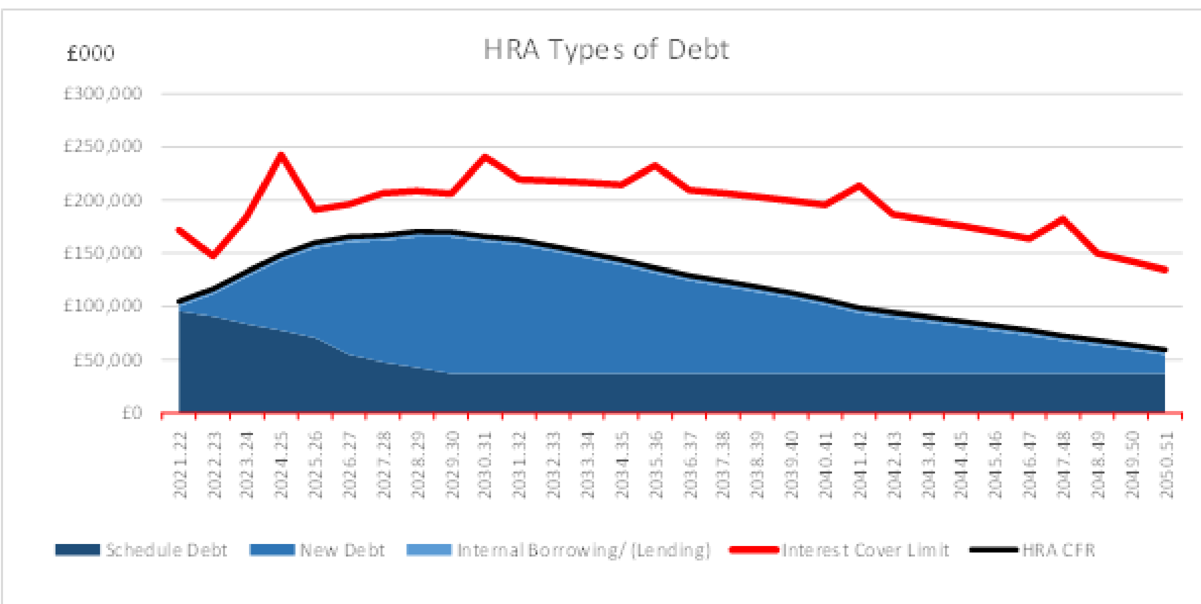
5.7.2 **Minimum General Reserves Balance:** This is maintained at above the recommended minimum balance of £2m throughout the forecast. This is based on a minimum balance of £350 per property or £2m (whichever is higher) and rises with inflation. The business plan assumes that any “excess” rents generated are made available to repay debt.



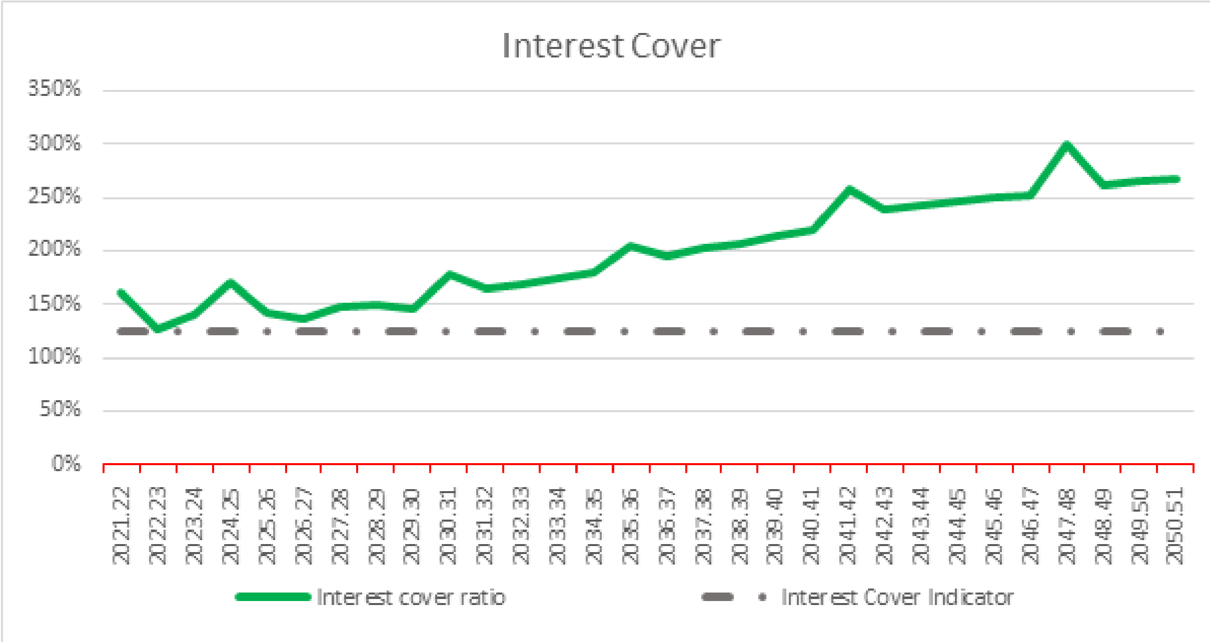
5.7.3 **Capital Programme**: The proposed capital programme enables the HRA to maintain its existing stock (amber area) and allows for the new build / purchase of an additional 347 units by 2029/30 (brown area). This is affordable within the current baseline position. Note that this excludes any additional investment required to meet decarbonisation targets.



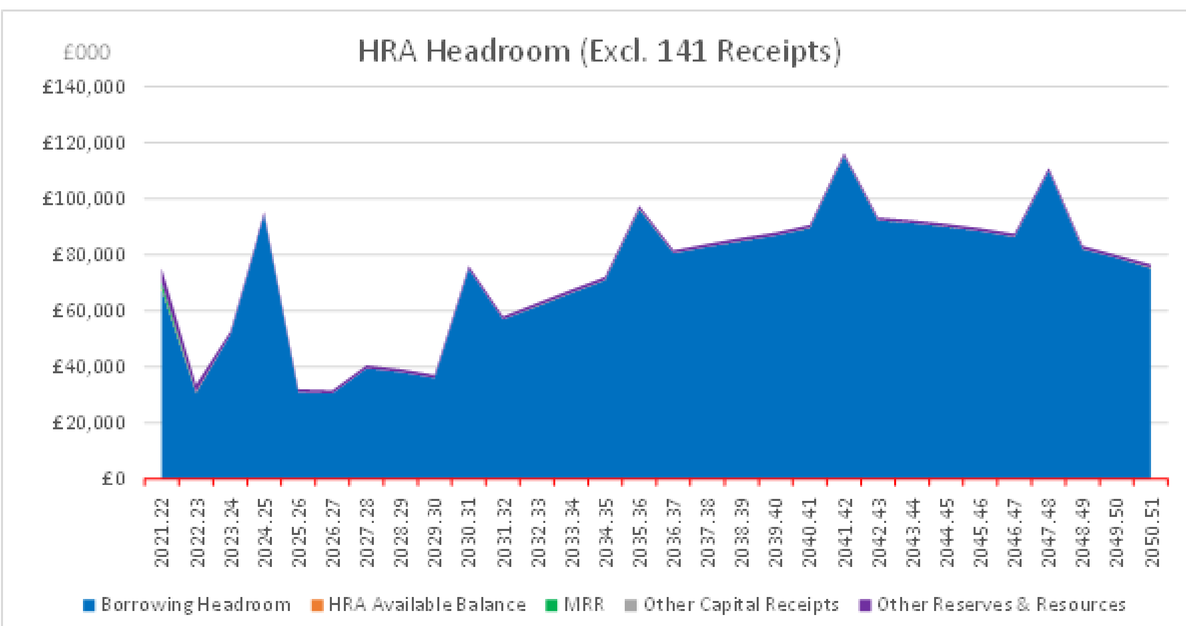
5.7.4 **Capital Financing Requirement**: There will be a need to take out additional (new) debt to pay for the capital programme and to refinance existing loans falling due. The borrowing requirement increases initially reaching a peak debt of £171m in 2028/29. Revenues streams are strong enough to repay most of this debt over the next 30 years. The HRA is able to reduce debt to a forecast residual balance of £59m at the end of the period.



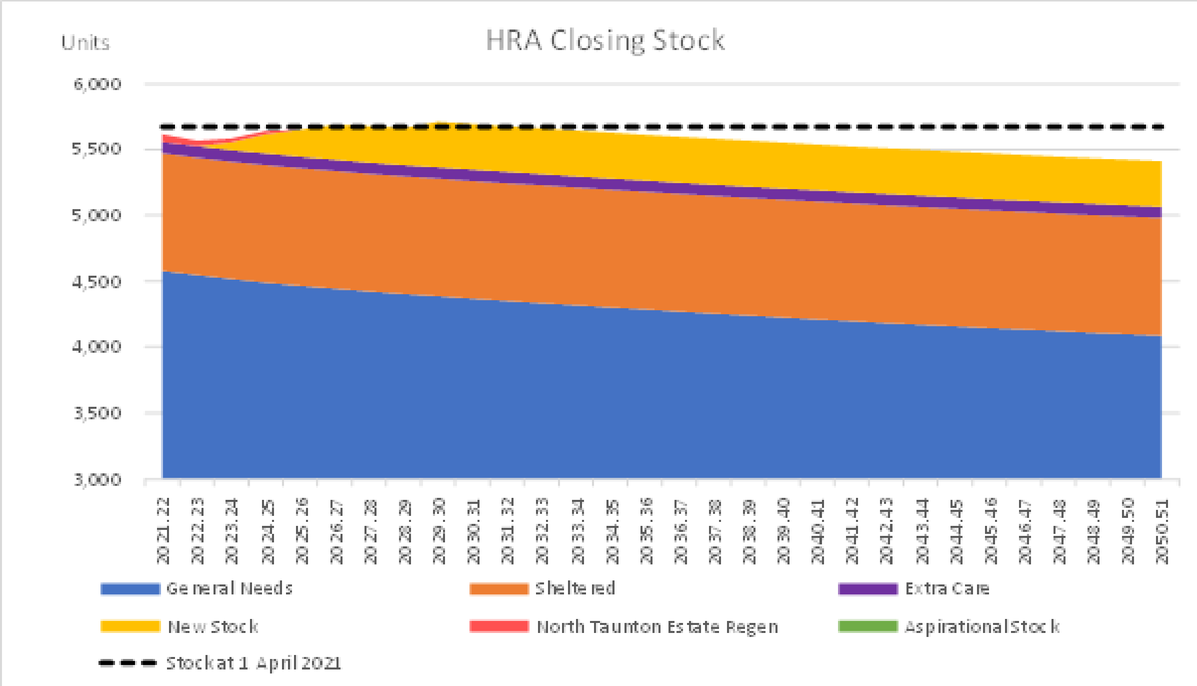
5.7.5 **Interest Cover**: This metric measures the ability of the HRA to be able to finance the interest payable on debt by 1.25 times or more. This measure is widely used by housing associations and indicates the ability to pay for debt-related costs. The forecast shows that we meet and improve upon this minimum interest cover requirement during the 30-year period. This is reliant upon the assumption that the HRA will implement measures to improve efficiency and reduce operating costs, while maximising income.



5.7.6 **Headroom**: This represents the additional borrowing capacity available to the HRA without exceeding the interest cover limit. The headroom drops to its lowest of £30.574m in 2026/27, 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. It is a measure of affordability, not a target of total for borrowing to be incurred, and as with any long term projection should be regarded with some caution as a guide only.



5.7.7 **Stock Levels**: There is an initial growth in stock numbers (347 units) from the new build social development schemes that are already approved reaching a peak of 5,693 units at the end of 2026/27. Thereafter assumed RTB Sales reduce stock levels to 5,415 units at the end of the period.



5.8 In summary, Altair have stated that the HRA's baseline presents a reasonable 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.

5.9 Altair continue to note that the projections exclude the effects of potentially substantial spending pressures, such as the requirement to decarbonise the authority's housing stock.

5.10 Altair also suggests that there may be scope for the authority to improve on this position further by ensuring it adopts an active approach to managing its costs, while optimising its potential for generating income.

5.11 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 within its means, but with minimal headroom available should it need to respond to unexpected changes in circumstances.

5.12 **Sensitivity Tests**

5.12.1 The following sensitivity tests have been performed on the Business Plan to see what the financial impact would be for a stepped change in any one of our assumptions. These areas of the business have been chosen as they are at risk from regulatory enforcement or are heavily relied upon to deliver either the core business or capital programme. Considering the significant financial challenge faced by the HRA these sensitivity tests are even more paramount this year.

5.12.2 The three sensitivity tests are explained in more detail below. In summary, all sensitivities show (a) a substantial increase in debt at the end of the 30-year period, (b) a substantial reduction in borrowing headroom (with one scenario dropping to zero), (c) a drop below its interest cover key performance metric (the most severe reaction seen from a rent freeze), and (d) require the HRA to borrow more than the baseline position to deliver its projected programme of development and stock investment.

5.12.3 The outcome of the sensitivity tests emphasise the importance of the HRA maintaining strict cost control over its operating costs and embedding efficiency savings whilst maximising income.

5.12.4 **One Year Rent Freeze:** The assumption that rents were frozen in 2022/23 and remained at the same levels of 2021/22 was modelled. 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 £5.378m and debt at the end of the forecast increases by £22.282m. 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. Implementing a rent freeze has the most severe impact on the interest cover metric, with the authority failing to maintain the required level of interest cover reliably until 2027/28.

5.12.5 **Cost of Borrowing Increases:** The assumption is that the cost of new borrowing would increase by 1% from 2023/24 (noting that the baseline assumption is 2% until 2024/25, rising to 2.5% thereafter). This requires the HRA to use more rental income to pay for the debt interest payments instead of repaying the debt itself and means that the HRA has to borrow more for longer. The impact within the 30-year business plan is that peak debt goes up by £3.296m and debt at the end of the forecast increases by £19.859m.

5.12.6 **Increases in Cost:** The assumption is that there will be a 0.5% increase in inflationary costs for five years to deliver services, investment and new homes was modelled, without a corresponding increase in rents. This means that there is less income available to finance and / or repay debt and means that the HRA has to borrow more for longer. The impact within the 30-year business plan is that peak debt goes up by £4.299m and debt at the end of the forecast increases by £23.092m.

5.13 **Zero Carbon Retrofit**: The current Business Plan does not have the capacity to deliver a zero carbon retrofit programme (either within 10 years or 30 years) fully funded by the HRA. The ability of the HRA to manage its statutory duties and local climate change ambitions will depend significantly upon access to a high proportion of subsidy, such as the Social Housing Decarbonisation Fund, and integration with its own component replacement programme through its annual capital programme. As such the HRA is developing a delivery plan to deliver low carbon retrofit along this route.

6 Budget Estimates for 2022/23

6.1 The draft HRA Revenue Budget for 2022/23 is summarised in Appendix A and a HRA Budget Book (where the budgets are presented per cost centre and per category of spend or income) is provided in Appendix D.

6.2 Table 1 below provides a summary of the main proposed changes to the annual revenue budget estimates from 2021/22 to 2022/23.

Table 1: HRA Budget Setting 2021/22 to 2022/23 Changes

	Reference Paragraph	£000	£000
Original Budget 2021/22 - balanced budget			**0**
Growth in 2022/23:			
Net Staffing Changes and Inflation	6.4	162.5	

Net Interest Payable	6.5	131.4	
Grounds Maintenance	6.6	33.3	
Insurance Premiums	6.7	24.6	
Sewerage Treatment Maintenance	6.8	44.0	
Third Party Compliance Audit	6.9	37.9	
Radon Surveys	6.10	88.1	
Repairs	6.11	1,092.5	
Fleet and Fuel	6.12	78.9	
Waste Disposal	6.13	10.0	
Health & Safety	6.14	59.0	
Street Lighting Surveys	6.15	16.5	
Business Rates	6.16	17.3	
Deane Helpline	6.17	15.1	
Tenancy Profile Survey	6.18	10.0	
Service Charge Review	6.19	15.0	
Low Carbon Retrofit	6.20	60.0	
Other	6.21	23.2	
Total Growth			**1,919.3**
Savings / Increase in Income in 2022/23:			
Income	6.22	(736.6)	
One Team Expenditure	6.25	(15.0)	
Community and Voluntary Sector Grants	6.26	(51.0)	
Tenancy Empowerment	6.27	(10.0)	
Housing Partnership	6.28	(10.4)	
RTB Valuations	6.29	(20.0)	
Corporate Savings	6.30	(73.6)	
Other		(2.7)	
Total Savings / Increase in Income			**(919.3)**
Budget Gap			**1,000.0**
One-Off Adjustment to Revenue Budget for Debt Repayment	6.31		(800.0)
One-Off Funding from General Reserves	6.32		(200.0)
Proposed Original Net Budget for 2022/23			**0**

6.3 The main changes include:

6.4 **Staffing Changes and Inflation:** the majority of this growth relates to an assumed inflation cost of c£305k for pay of 1.75% for 21/22 and 2% for 2022/23 as well as 1.25% on National Insurance. This also consists of net changes to the establishment including the restructure of the capital investment team, job evaluation of the electrical team as well as additional capacity with a supervisor and an extra electrician, an additional compliance case manager and an increase in capitalisation for the development and regeneration team.

6.5 **Net Interest Payable**: All external borrowing continuing into 2022/23 is based on fixed interest rates for the term of the loan. Therefore, we are able to predict the interest payment for these elements with a high degree of certainty and will cost £2.681m. An assumption has been made that the HRA will refinance £10m at 2% at the end of 2021/22 adding a further cost of £200k. The remainder of this budget is subject to the year-end capital financing requirement position and the assumption has been made that the HRA will end the year with investment income of £82k.

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

6.7 **Insurance Premiums:** This assumes a 5% inflation increase on insurance premiums.

6.8 **Sewerage Treatment Maintenance:** The budget is being uplifted to reflect more realistic maintenance costs of septic tanks.

6.9 **Third Party Compliance Audit:** Third-party audit checks by specialist consultants are required for heating and electrical works.

6.10 **Radon Surveys:** This is to deliver a one-off survey and monitoring of properties that fall within a Radon Affected Area as shown on a Radon UK map this is the main indicator of radon being a potential hazard.

6.11 **Repairs:** This substantial increase in budget relates in part to (a) a significant increase in inflation nationally driven through concern for materials shortages this year, which has been reflected in longer lead times, higher prices and price volatility, and (b) a rebase of the budget based on levels of activity seen in recent years.

6.12 **Fleet and Fuel:** The Council has entered a new corporate contract for the supply of vehicles from 1st October 2021. The anticipated costs to the HRA are expected to increase based on the current budgeted costs and the need to replace vehicles that are nearing the end of their lifetime. This also includes an element of inflation for fuel costs.

6.13 **Waste Disposal:** This provides an inflationary increase for the cost of waste disposal from, for example repairs and void works.

6.14 **Health & Safety:** This is a one-off cost to support a share of the corporate health and safety work due to be undertaken during the year.

6.15 **Street Lighting Surveys:** This is a one-off pressure to undertake a condition survey of HRA street lighting. This may result in repair and / or replacement works.

6.16 **Business Rates:** These are updated projections / realignment of the budgets required for 2022/23.

6.17 **Deane Helpline:** This relates directly to inflationary increases in cost for this service.

6.18 **Tenancy Profile Survey:** This is a tenancy census mailing which is designed to give tenants an opportunity to update their tenancy details for example, contact details, or more detailed information such as, who is living in the house and what disabilities they may have.

6.19 **Service Charge Review:** This is a one-off budget provision to support the cost of undertaking a service charge review to ensure that the charges made still accurately reflect the costs incurred to provide the service.

6.20 **Low Carbon Retrofit:** These funds are required to support the Social Housing Development Fund bids and production of the Retrofit Strategy. The bid, if successful, will provide significant subsidy to support the delivery of the zero carbon retrofit programme.

6.21 **Other Adjustments**: Various budgets have been reviewed with many minor budget savings being offered up to an amount of £23.2k. These adjustments can be made without impacting service delivery.

6.22 **Income**: As per section 8 and 9 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 and service charges.

6.23 For temporary accommodation we have reduced the void rate to 10% (from 20% in 2021/22) and applied a newly proposed daily rate (eliminating the service charge). The forecast still incorporates 30 units of standard stock as well as 26 units of temporary stock in the North Taunton area.

6.24 For garages there has been a conscious drive to reduce voids from 17% down to an average void rate of 10% for 2022/23 in order to increase income in this area. This will be achieved through better and easier advertising and application process, promotion of sites, etc.

6.25 **One Team Expenditure:** The three One Teams have historically had a nominal budget to spend on discretionary activities such as projects in the locality (family activity days, sports days, skateboard activities) plus smaller amounts to assist households (furniture, moving costs, arrears, garden clearances etc). We will require the One Team Leads to work collaboratively to support wider funding bids into the community to manage with a reduced HRA fund, in light of the overall financial pressures faced by the HRA. We are therefore reducing this budget provision to £15k across the three areas.

6.26 **Community and Voluntary Sector Grants:** The three-year 'Inspire to Achieve' contract for employment support for our tenants ends this year and we will take the contract value as savings (£41kpa) and refer tenants into the various employment hubs developed by the Economic Development team across our District. A large number of volunteers are being recruited for these hubs and they will be in place by April 2022 and provide a similar service to Inspire to Achieve for those seeking support for CV writing, volunteering, apprenticeships and readiness for work. We also plan to make a financial saving of £10k from the HRA contribution to the Taunton CAB, which reflects the additional investment we have made in providing a second Debt and Benefit Support Officer in the past couple of years. These changes will still leave an ongoing contribution of £120k to Community and Voluntary sector organisations to provide services to directly benefit tenants.

6.27 **Tenancy Empowerment-Tenant Action Group:** The Tenant Action Group have access to distribute funding as follows £20k for Children and Young People Grants, £10k for Estate Improvement Grants and £14,300 for training and other costs. Each year the budget has underspent by around £10k therefore the £10k has been offered as a saving on the basis of a remaining extensive budget provision.

6.28 **Housing Partnership:** The 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. This is an adjustment to realign the budget based on estimated costs for this service in 2022/23.

6.29 **RTB Valuations:** The right to buy scheme allows tenants the opportunity to “buy back” their home if they meet certain criteria. One of the costs of administrating this scheme is to undertake a valuation of the house. This has been procured externally but is being proposed to deliver this service in-house using existing resources and thus producing a cost saving.

6.30 **Corporate Savings:** The general fund has agreed a number of additional savings in order to close the budget Gap. Of these the HRA will be able to take its share of the reduced cost.

6.31 **One-Off Adjustment to Voluntary Revenue Provision (VRP)**: This is a one-off adjustment to fund £800k of the current budget of £1.821m from existing non-RTB capital receipts in 2022/23. This ensures the continued contribution by the HRA to make a voluntary repayment of debt whilst temporarily releasing funds to meet revenue pressures.

6.32 **One-Off Funding from General Reserves**: The one-off funding of £200k from general reserves has been included subject to 2021/22 year end balances remaining above at least £2.2m. If this is not feasible then we will need to manage this through the budget monitoring process in 2022/23.

7 Medium Term Financial Strategy

7.1 The draft HRA Medium Term Financial Plan (MTFP) is included in Appendix A.

7.2 Local Government Reorganisation in Somerset

7.2.1 The County Council and four district councils in Somerset have agreed to form the Local Government Reorganisation Joint Committee (LGRJC) (see SWTC Executive Committee 20 October 2021). The LGRJC will consider the principles and basis for cost sharing and make requests of the five Councils pending the statutory provisions that are due to guide the process.

7.2.2 It is currently unknown if the HRA is expected to make a contribution towards the estimated £16.5m implementation costs as identified in the One Somerset Business Case or to financially support the additional capacity required within Somerset West and Taunton Council to mitigate the impact of transition on ‘business as usual’ service delivery.

7.2.3 The current draft MTFP assumes an estimated £500k allowance over the next 3 years for transitional costs related to implementing the new unitary council for Somerset to be funded from existing flexible capital receipts.

7.2.4 It is anticipated that 2022/23 will be the final budget year for Somerset West and Taunton as a district Council with its assets, liabilities, and functions due to transfer to the new

Somerset unitary council once it is created.

7.3 **Medium Term Financial Plan**

7.3.1 This MTFP has been based on the continued operation of the HRA within Somerset West and Taunton.

7.3.2 The 2023/24 position is reliant upon the full year delivery of £288k efficiency savings, a net reduction of one-off budgets of £56k seen in 22/23, rents inflating at 4.5%, cost inflation not rising further, new capital receipts of £350k and in year cost control to avoid any further pressure on general reserves. However, the current projection still requires a further £181k of one-off savings to be found.

7.3.3 The 2024/25 position is reliant on the embedding of the prior year savings of £288k and the delivery of a further full year savings of £362k, rents inflating by a further 3.25%, new capital receipts of £350k and continued in year cost control to avoid any further pressure on general reserves. The projected surplus is mainly as a result of a 53rd rental week occurring within the year plus an increase in properties through the social development schemes generating more rental income.

7.4 **Efficiency Savings**

7.4.1 The initial budget Gap and one-off strategy to close this Gap with temporary measures has required the leadership team to build in an efficiency savings target in order to obtain a more sustainable MTFP. The leadership team have already identified a number of efficiency saving options that will now be explored further to determine the timeframe for delivery and the amount of savings that can be delivered. The target will be to embed savings of £650k within the next three years.

7.4.2 Areas that will be investigated include: our supply chains for example stores and contracts; other service contracts; our development pipeline; a review of service charges and our central support charges; and delivery of our asset strategy as set out below. Along with maximising our income streams for example from garage lettings and grant funding opportunities.

7.5 **New Capital Receipts - Active Asset Management**

7.5.1 The HRA Asset Strategy sets out those activities to improve or replace properties that have a poor social, economic or environmental performance, because of low demand or high costs, and either improving them or replacing them with properties which are fit for purpose. This approach is standard practice within the sector to replace poorly performing stock with new stock that makes a positive contribution to the business plan.

7.5.2 The MTFP is now reliant upon the HRA actively obtaining new capital receipts of £350k per year for five years from 2023/24. This will enable £350k to be released from the revenue voluntary repayment of provision (debt) to provide further revenue capacity for on-going in-year operational costs. This concept is part of the approved Asset Management Strategy where the business will dispose of poorly performing properties to gain a capital receipt but also reduce excessive costs to bring the property up to decent homes and energy efficiency standards on relet. This approach will result in the disposal of a small number of dwellings, but the HRA also have other land and assets that may be suitable for disposal to generate receipts such as vacant land that could create a single building plot on the market.

7.6 Asset Transfer

7.6.1 Duke Street car park is owned by the Council and currently held by the Housing Revenue Account, but is effectively operated as any other car park held by the General Fund. The Council is proposing to transfer the car park from the Housing Revenue Account to the General Fund. The appropriation of the car park will be undertaken in line with the latest technical guidance. Duke Street car park was independently valued for the 2019/20 accounts at £358k. The proposal is to delegate authority to the Housing Portfolio Holder and Section 151 Officer to approve the final land transfer value.

8 Dwelling Rental Income

8.1.1 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.

8.1.2 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 2021 CPI figure is 3.1% as published by the Office for National Statistics on the 20 October 2021.

8.1.3 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.

8.1.4 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.

8.1.5 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.

8.1.6 Therefore, in accordance with the Regulator of Social Housing's new Rent Standard from April 2020 and our own adopted Rent Policy, it is proposed Dwelling Rents for 2022/23 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 2021/22 (£)	Average Weekly Rent 2022/23 (£)	Average Change Per Week (£)
General Needs	Existing Tenants	85.77	89.29	3.52
	New Tenants	90.06	93.75	3.69
Sheltered / Supported Housing	Existing Tenants	78.61	81.83	3.22
	New Tenants	86.47	90.02	3.55

Extra Care	Existing Tenants	78.65	81.88	3.22
	New Tenants	86.52	90.07	3.55

8.1.7 For comparison, table 3 shows the average weekly general needs social rent for SWT in comparison with other housing (association) providers in the Somerset West and Taunton 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 2020 for comparison purposes. The data suggests that SWT is providing one of the lowest average weekly general needs social rents in the Somerset West and Taunton area.

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

Somerset West & Taunton	**Average Weekly Rent (£) - 2021/22**	**Average Weekly Rent (£) - 2022/23**
Aster Communities	106.20	110.55
Synergy Housing Limited	106.20	110.55
Yarlington Housing Group	105.84	110.17
Magna Housing Limited	98.42	102.46
Hastoe Housing Association Limited	95.83	99.76
LiveWest Homes Limited	95.69	99.62
Stonewater (3) Limited	95.57	99.49
Stonewater (5) Limited	95.00	98.90
Sanctuary Housing Association	94.88	98.77
Stonewater Limited	92.88	96.69
SWT	85.73	89.25
Places for People Living+ Limited	85.05	88.54

8.1.8 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.

8.1.9 It is also worth noting that although the September CPI rate used for this calculation was 3.1%, the rate of inflation was actually higher in the preceding month (3.2%) and following month (4.2%). The real term costs of materials for the HRA has been far higher and this increase is needed to help offset these cost pressures. Fundamentally our costs are inflating at a higher rate than our income.

8.1.10 The consequences of freezing rents will impact both the income generated in that

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

financial year but also income generated in future years. As mentioned above in para. 5.12, a sensitivity test was undertaken to assume that rents were frozen in 2022/23 and remained at the same levels of 2021/22. 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. This would also create a further budget Gap for 2022/23 that would need to be funded.

8.1.11 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 COVID and the economic environment. With 65% of our tenants having their rents funded through benefits, it is the 35% of self-funding tenants we need to particularly consider against the long term impact on the HRA business plan. We have seen a 3% uplift in the number of tenants receiving help with their housing costs over the last 11/12 months.

8.1.12 In terms of supporting our tenants who find themselves in hardship we have a range of options to help 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 tenants to ensure early intervention if the tenants are experiencing financial difficulties. In addition to this the HRA make grant payments to external agencies such as Citizens Advice and also community support organisations.

8.1.13 From April 2022 we will be referring tenants who request support on employment advice / readiness into the new employment hubs that the Economic Development team have facilitated. These employment support services will support tenants in our communities to improve their employment opportunities with advice on job readiness, CVs, links to training and apprenticeships and links to various employers. Further information can be found in the Equality Impact Assessment form in Appendix C.

8.1.14 We know approximately 65% (as at December 2021) of our tenants receive benefits that would cover the cost of their rent and service charge. Whilst we know that market rents locally have continued to increase, the Government have recently announced a freeze on the Local Housing Allowance (LHA) rates (the maximum amount that benefits can be paid up to in the private sector). However, none of our accommodation is above the LHA so if our tenants are in receipt of benefits this will be worked out on the full rent and service charge.

8.1.15 In November 2021 the Government announced that benefits including state pensions will increase by 3.1% from April 2022, which will help offset the cost of our rent increase and the general pressure on the cost of living. However, there is no increase in the "benefit cap"; for couples and families of £20k and for single people of £13.4k.

8.1.16 The £20 COVID uplift of Universal Credit (UC) has now been removed, however there have been changes to the UC taper recently announced that will go some way to mitigate the impact of this. The taper at which earned income reduces UC payments will decrease from 63% to 55%. This means working households claiming UC will get to keep an additional 8p for every £1 of net income they earn over their work allowance. This change doesn't help workers currently on the old legacy benefits such as Working Tax Credit or Housing Benefit. This change will also mean more low income working households may be eligible to claim UC. In addition, work allowances for those with children or have a disability (with limited capacity for work) will increase by £500 per year. For example, a lone parent would be able to earn £335 net pcm before losing any UC.

9 Non-Dwelling Rental Income and Service Charges Income

9.1 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 10% (c£2.8m) of total HRA income.

9.2 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 8 above.

9.3 The HRA fees and charges have been approved by the Section 151 Officer for 2022/23. This has generated £107k of additional service charge income for 2022/23.

10 Capital Programme

10.1 The draft 10-Year HRA Capital Programme from 2022/23 to 2032/33, that will deliver the capital investment proposed within the Business Plan, is shown in Appendix B.

10.2 The proposed budgeted spend in 2022/23 is £30.4m. Of this the social development scheme budgets have already been approved. Therefore, the additional capital budget being requested for 2022/23 is £14.378m as shown in table 4 below.

Table 4: HRA Capital Programme for 2022/23

Capital Investment	**Total Cost £000**
Major Works	11,051
Fire Safety	2,133
Related Assets	120
Exceptional & Extensive	350
Vehicles	155
Transformation	200
Aids & Adaptations & DFGs	370
Total Proposed HRA Capital Programme 2021/22	**14,378**

10.3 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 & Communities Director and the Housing Portfolio Holder and reported through the quarterly budget monitoring reports.

10.4 It is proposed that the HRA Capital Programme for 2022/23 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.

10.5 A summary of the estimated funding profile for the 2022/23 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	9,952
Revenue (RCCO)	0
Capital (RTB) Receipts	0
Capital (Non-RTB) Receipts	0
Capital Grants Receipts	0
Borrowing	4,426
Total Funding	**14,378**

10.6 **Major Works**

10.6.1 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 2022/23. 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.

10.6.2 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	1,922
Bathrooms	507
Roofing	2,500
Windows	1,211
Doors	703
Fasciae and Soffits	192
Ventilation	276
Door Entry Systems	57
Voids Kitchens and Bathrooms	190
Sewerage and Drainage	200
Water	215
Scaffolding	30
Heating for Warmer Homes	1,348
Environmental Improvements	420
Unadopted Areas	150
Electrical Works	670
Insulation	300
Community Alarms	10
Other	150
Total	**11,051**

10.7 **Fire Safety**

10.7.1 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 £2.133m.

10.8 **Related Assets**

10.8.1 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 £120k will ensure that these assets are maintained as required.

10.9 **Exceptional Extensive Works**

10.9.1 The proposed capital investment of £350k will be used for asbestos removal.

10.10 **Disabled Facilities and Aids and Adaptations**

10.10.1 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 2022/23 will be £370k.

10.11 **Vehicles**

10.11.1 From October 2021 SWT has entered a new corporate fleet contract for the provision of new / replacement vehicles. From the 1 April 2022, under IFRS 16, the lease costs can be capitalised whilst the maintenance remains a revenue cost. The budget requirement of £155k reflects the estimated lease costs for the vehicles used by the HRA under the new contract for 22/23.

10.12 **Social Housing Development**

10.12.1 The HRA has four pre-approved social housing development schemes (North Taunton Regeneration Project, Seaward Way, Oxford Inn and Zero Carbon Pilot) which will meet our total spend requirements for 2022/23 under the RTB "1-4-1 Agreement" (explained in section 13 below). The current approved budget is £100m to be spent over the next 10 years (see Appendix B).

10.12.2 Under the programme 347 new low carbon affordable homes will be delivered between 2023 and 2031. This will be in addition to the 66 affordable homes acquired or built by the council since 2019.

10.12.3 The market is currently challenging for developers with multiple challenges including the requirement for phosphate mitigation strategies for development in the East of the District, skills shortages, inflation affecting materials and risk aversion strategies being pursue by contracts. However, two contracts are in place able to deliver 281 affordable homes.

10.12.4 Of the 347 affordable homes in the development pipeline 115 homes will be zero carbon in occupation on the first letting and all other homes will be zero carbon if customers use green tariffs or when the grid decarbonises. All homes will provide significantly lower fuel bills to customers than other similar sized Council homes.

10.12.5 **North Taunton Woolaway Project** is being delivered in four new build phases and one retrofit phase. The building of 47 homes on phase A is taking place and the first home will be let in 2022. Customers are being relocated from Phase B and Ci with demolition commencing in late Spring. Phase E is a refurbishment phase and has been included in the Council's Social Housing Decarbonisation Fund bid which will be announced in December 2021. A planning application has been submitted for Phase E refurbishment and works are anticipated to commence in Spring 2022. Properties are to a low carbon standard which will be zero carbon if green tariffs are used or as the grid decarbonises. The ambition of the council is to decant all existing customers into new homes by April 2026.

10.12.6 **Seaward Way, Minehead** is a zero carbon affordable housing scheme is due to start on site in January 2022. The council has a contractor appointed who is currently working under a pre contract services agreement (PCSA). The PCSA will allow the council and contractor to agree a price for the scheme and move into start on site. The scheme and tenants will benefit from a high standard of insulation, photovoltaic panels, air source heat pumps and battery storage. The homes will be zero carbon on first let. The scheme is featured in the Good Homes Alliance case studies and has been presented at a number of national and regional events.

10.12.7 **Oxford Inn, Taunton** is a zero carbon scheme and will see a pair of semi detached houses and six apartments built on the site of the Oxford Inn. The scheme currently has a planning application under consideration which includes a phosphate mitigation strategy based on investing in existing septic tanks owned and managed by the HRA in other locations.

10.12.8 **Zero Carbon Affordable Housing Pilot, Taunton** is a zero carbon scheme and will see up to 50 houses and apartments built on existing HRA land including some underused garage sites. Five schemes currently have planning applications under consideration which include phosphate mitigation strategies based on investing in existing septic tanks owned and managed by the HRA in other locations. The start date of the pilots has been rescheduled in the business plan for 2024/25 to smooth the delivery pipeline.

10.12.9 **Wordsworth Drive Flats and Coleridge Crescent Flats Regeneration** comprises of a shop, fifteen HRA apartments and one leasehold property. The service is decommissioning the block as it has come to the end of its expected life. Surveys have shown that the buildings are uneconomic to bring up to a decent and thermally efficient standard. Should the Council support the decanting of the blocks the tenants will be provided with Homefinder Gold Band status and supported to move over a two year period. Officers will come forward with proposals for the future use of the site.

10.12.10 **Oake Woolaway Project** is a programme of substantial refurbishment of Woolaway properties. The works will follow the same low carbon specification as NTWP Phase E and the scheme has also been included in the councils Social Housing Decarbonisation Fund wave one bid. The works are anticipated to commence in late Summer 2022.

10.12.11 **Homes First** is an approach used to support high support need single homeless households. The HRA has received RSAP grant to purchase six units of accommodation and refurbish six existing HRA homes to provide a Homes First offer.

10.12.12 It is being proposed to repurpose existing surplus budget of £6m to be spent on the two schemes: Wordsworth £1.117m and Oake £1.5m. This will leave £3.313m to be returned. No further budget is required.

11 Borrowing

11.1 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).

11.2 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 maintain a prudent debt cap for the HRA.

11.3 Following the announcement in the 2020 Spending Review the HRA is unable to access new borrowing from PWLB during periods when the Council is also undertaking capital investment in assets primarily for yield, other than for treasury management and debt re-financing purposes. The HRA is still able to refinance debt falling due with PWLB.

11.4 The Section 151 Officer is working with Arlingclose, the Council's Treasury advisors, to explore alternative sources of borrowing to ensure that the HRA is able to take out new borrowing to fund the capital programme as and when required 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.

11.5 The total capital borrowing requirement (debt balance) owed by the HRA at the start of 2021/22 was £109.7m. This is financed by £105.5m of existing external loans, with the balance funded through existing reserves and / or internal borrowing. During the year the HRA has taken out a new external loan of £20m for 50 years secured at 1.89%.

11.6 The 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.

11.7 The budgeted annual provision of £1.821m for the repayment of debt has been used for many years to repay existing debt, finance any new external borrowings as required or to reduce the year-on-year capital financing requirement.

11.8 Due to the financial challenges facing the HRA, the strategy to balance the budget Gap in 2022/23 is to temporarily release £800k to finance revenue pressures until new efficiency savings can be found. In terms of maintaining repayment of debt within the business plan, this £800k of revenue funding will be replaced with £800k from existing non-right to buy capital receipts. From 2023/24, for five years, the strategy to balance the predicted budget Gap will be reduce this to only £350k and replace this funding with new capital receipts.

11.9 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.

11.10 The funding and cash flow implications of the 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.

12 Right to Buy (RTB) Receipts

12.1 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 £84,600 in April 2021.

12.2 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.

12.3 The Government introduced new rules in relation to the "1-4-1 Agreement" and RTB receipts in April 2021. The new guidance allows the Council to spend RTB receipts over a 5-year period instead of the previous 3-year period and has increased the RTB subsidy towards new affordable homes from 30% to 40%.

12.4 As the Council has embarked on a significant build programme the RTB will be utilised to subsidise new homes rather than acquisitions. The 1-4-1 agreement requires a capital spend of circa £18m by April 2026 and then circa £5.6m pa thereafter. The development programme up to April 2026 is circa £40m providing confidence that the subsidy will be maximised on Council owned new affordable homes.

12.5 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.

13 Links to Corporate Strategy

13.1 The budget proposals for 2022/23 have been prepared in line with the HRA 2021 Business Plan and Corporate Strategy[2].

14 Finance / Resource Implications

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

15 Legal Implications

15.1 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

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

15.2 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.

15.3 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.

16 Climate and Sustainability Implications

16.1 Through the capital programme, the HRA is improving the thermally efficiency of some homes in advance of the 2023 low carbon retrofit strategy and delivery plan. These are on a small scale and will increase in number after March 2023. The service is moving towards a whole house assessment prior to investment and has a number of live grant funded schemes plus is seeking to participate in Social Housing Decarbonisation Fund wave 1 and wave 2.

17 Safeguarding and/or Community Safety Implications

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

18 Equality and Diversity Implications

18.1 The Housing Specialist has assessed the proposals presented within this report as driven by the Rent Policy and updated Business Plan. An equality impact assessment form can be found in Appendix C. Consultation on the assessment is being undertaken with relevant partner organisations. Any further feedback from them will be reported verbally at the meeting due to the publication date of this report.

19 Social Value Implications

19.1 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 Procurement Strategy and other relevant corporate requirements where appropriate.

20 Partnership Implications

20.1 The Council’s HRA budget includes expenditure on services provided by other key partners such as MIND, citizen’s advice, Taunton East Development Trust, North Taunton and Wiveliscombe Area partnership.

21 Health and Wellbeing Implications

21.1 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.

22 Asset Management Implications (if any)

22.1 The revenue and capital budgets for the HRA include provision for maintaining our housing stock in accordance with relevant standards.

22.2 The Housing Asset Management strategy also encourages proactive treatment of poorly performing stock from both a financial and social perspective which will be important considerations for the future efficient operation of the service.

22.3 This report includes a section relating to the capital programme for 2022/23.

23 **Data Protection Implications**

23.1 None for the purposes of this report.

24 Consultation Implications

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

25 Tenants Strategic Group Comments

25.1 This report was considered by the Tenants Strategic Group on 14 December 2021. There was an overall appreciation of the challenging operating environment currently being experienced by the service. Questions were asked about the capital works projections in particular roofing replacement requirements, one team and other tenancy support budgets, repairs and maintenance operating efficiency, the impact of voids on rental income and void turnover efficiency and social vs affordable rental income. Overall there was support for the proposals contained in the report.

26 Community Scrutiny Comments / Recommendations

26.1 This report was considered, and the recommendations supported by the Community Scrutiny Committee on 7 January 2022.

26.2 The main comments and questions related to:

26.3 The lack of response from partner organisations with regards to the consultation on the equality impact assessment. This is not unusual and officers will follow this up.

26.4 A substantial discussion was had regarding the 4.1% increase in rents. Comments included good value for money compared to other housing associations; concern of affordability to our self-funding tenants in light of other economic cost pressures and that officers will monitor this closely; information regarding the current arrears position in light of COVID and that so far arrears were only showing a slight impact; clarification provided that benefits are paid directly to the tenant however the tenant can request for this to be paid directly to the Council; and reference to the new Household Support Grant that Somerset County Council will be receiving as further options for financial support for our tenants to access.

26.5 The significant pressures and challenges faced by the HRA in the report were noted and that they were clearly explained.

26.6 The approach to close the budget Gap in 2022/23 was deemed sensible.

26.7 The cost reduction in paragraph 6.26 was referred to and further information provided by the Assistant Director of Housing and Communities in light of the contribution made to CAB by the authority as whole.

26.8 The financial impact of LGR was challenged in that the HRA should not have to contribute towards this. It is still uncertain on what share the HRA will have to contribute towards this.

26.9 The proposed implementation of the asset management strategy was discussed and the reasons behind disposing of poorly performing properties as part of the overall business plan.

26.10 Further information was sought on the zero carbon new homes and a response will be sent to Community Scrutiny shortly.

Democratic Path:

- **Community Scrutiny – Yes (6 January 2022)**
- **Executive – Yes (19 January 2022)**
- **Full Council – Yes (8 February 2022)**

Reporting Frequency: Annually

List of Appendices

Appendix A	HRA Revenue Budget and Medium Term Financial Plan
Appendix B	HRA 10-Year Capital Programme
Appendix C	HRA Equality Impact Assessment Form
Appendix D	HRA Budget Book

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