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New Somerset Council

All Members Briefings – Session 3

LGR Housing 1 – Housing Landlord Function sub-workstream

09 February 2023

MENDIP DISTRICT COUNCIL
Sedgemoor Creating Opportunity
SOMERSET County Council
Somerset West and Taunton
South Somerset District Council

Agenda:

Finance Focus – Chair Alison Turner

40mins **Introduction to the HRA, Business Plan and Rents**

30mins **New Council Revenue and Capital 2023/24**

20mins **Post Vesting Day Arrangements**

New Somerset Council
‘All Member Briefing’ Finance Focus

Introduction to the HRA - Finances & Business Planning

9 February 2023

Simon Smith
Associate Director

1a Legislative overview: powers to provide housing

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- The Housing Revenue Account (HRA) has been in place to account for income and expenditure relating to the provision of council housing for decades. However, key legislation in the 1980s narrowed the focus of HRA provision and set what remains the prevailing legislative framework for much of the accounting regime for property in the HRA

1. ***Housing Act 1985 – Part (II)***

- Part II gives the basic powers for a local authority to provide housing to people on an affordable (sub-market) basis

2. ***Housing Act 1988***

- This Act set the principal tenancy arrangements for tenancies in the HRA, confirming rights such as the Right to Buy, security of tenure, lifetime tenancies, succession etc; the only substantive additions and amendments since have been the introduction of the ability to offer introductory 12-month tenancies and non-secure tenancies (Housing Act 1996) and flexible (i.e. fixed term) tenancies in the Localism Act 2011

3. ***Local Government and Housing Act 1989***

- This Act ring-fenced the HRA within the General Fund so that income and expenditure relating to HRA property and services must balance

4. ***Local Government Act 2003 and capital***

- The new system which took effect in 2004 introduced the Capital Financing Requirement as the measure of debt for an authority, and confirmed that depreciation should be charged to the HRA and other capital financing measures

5. ***Other factors***

- Flexibility to "trade" assets is limited in the HRA – a framework of consents is in place, essentially requiring Secretary of State approvals for disposal of housing property, although many are now framed as general consents. Movement (appropriation) of assets between General Fund and HRA is subject to an adjustment to the HRA Capital Financing Requirement (under terms of the Local Government Act 2003)
- Since April 2020, social and affordable rents levels in the HRA are set according to the Rent Standard published by the Regulator of Social Housing: social rents are set according to a standard formula linked to affordability and property value, subject to increases set by government; affordable rents are set at up to 80% of market rents

1d Clarity on the ability to deliver and let affordable dwellings outside a ring-fenced HRA

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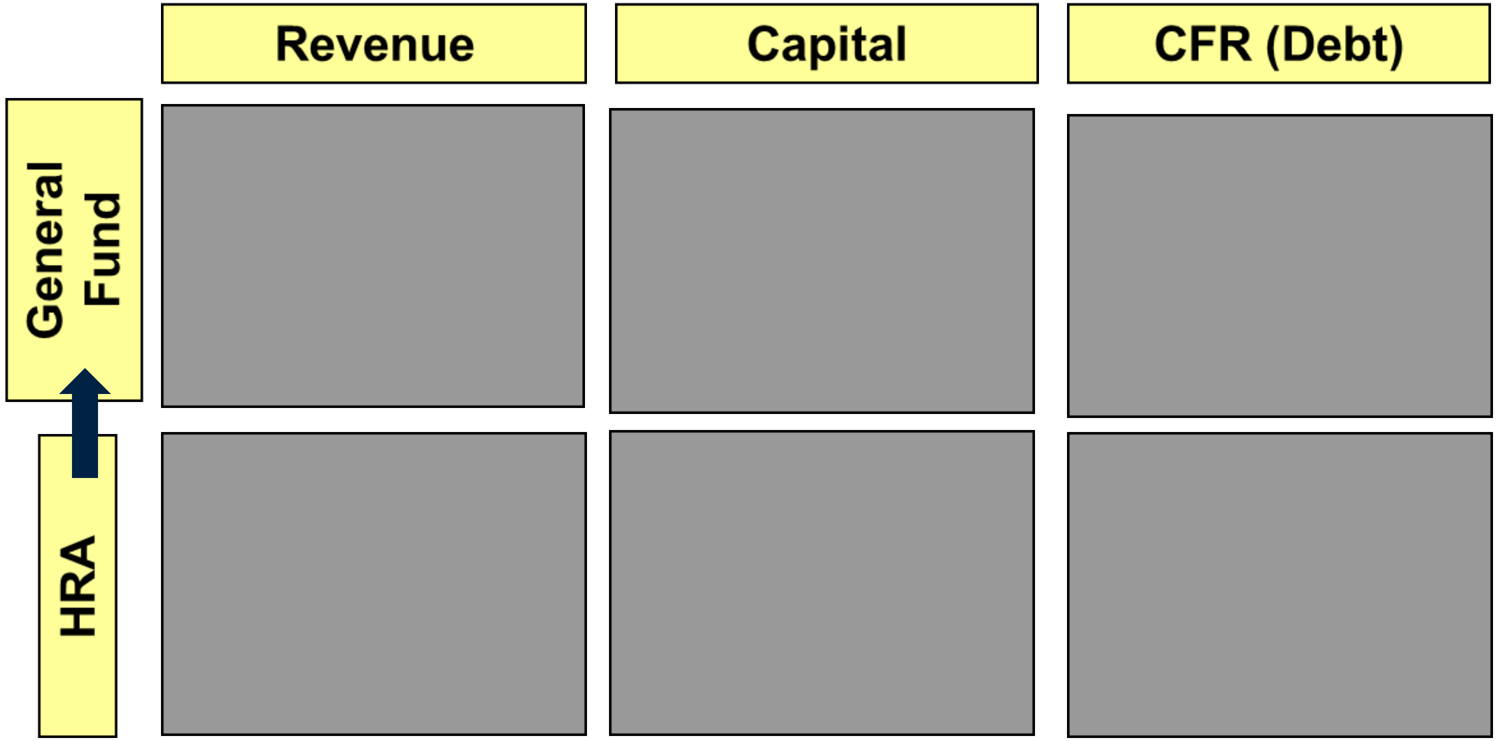
- In addition to the powers to provide housing, the Council has duties towards the provision of housing to certain households, specifically those in housing need, homeless households and temporary accommodation
- The legislative and financial framework is reasonably clear:
  - Temporary accommodation is provided via the General Fund acquiring housing using any of the main powers, but typically s120 of the 1972 Act
  - The landlord function is provided within the HRA drawing upon powers in Part II of the 1985 Act
  - Affordable housing provided within housing companies is generally acquired drawing upon the General Power of Competence
- There is some flexibility around the provision of temporary accommodation, with many authorities allocating some of their mainstream housing stock for temporary accommodation purposes; the net costs of this provision should be charged to the General Fund – this is a growing trend given the growth in homelessness in recent years
- Where housing is acquired under Part II 1985 Act and there are a small number of properties, an authority is able to make this provision in the General Fund without having to open an HRA (subject to waiver from DLUHC)
- Latest DLUHC guidance has set a guideline of 200 homes before an authority will need to reopen its HRA – whilst this has become an accepted principle, the basis for the choice of number is not 100% clear – however any authority with more than 200 affordable homes is likely to need to reopen the HRA (i.e. a waiver will not be available)
- The Council therefore has the ability and powers to provide affordable housing outside the HRA, either as temporary accommodation in the General Fund, as long-term social and affordable housing in the General Fund up to 200 homes, or in a subsidiary housing company
- Properties acquired under 1985 Part II powers are covered by the Rent Standard, and formula or affordable rents must be applied – this applies whether there are fewer than 200 in the General Fund or more than 200 in the HRA
- Rents are able to be set according to local policies for affordable housing is provided in a housing company
- Properties provided in the General Fund as temporary accommodation are covered by specific factors
- A final point to note is that shared ownership properties are able to be provided both in the HRA and in a subsidiary housing company

General Fund / HRA – Capital / Revenue



•Council revenue income from a range of services

•Council capital finance cannot be used for revenue - develops a separate capital programme

HRA is ring-fenced - aim to make income pay for expenditure and debt is also separated

Operation on the HRA Ring-Fence - Principles

- “Who benefits” principal – but things link rents, repairs (core services) etc – clear that sits with HRA
- Amenities(shared areas) - This requires a contribution to be made from the General Fund to the HRA reflecting the general community’s share of the amenity.
- Management & Maintenance – Core (or Core Plus): HRA, Non-Core: General Fund
  - Non-Core Examples:
    - Administration of a common housing register (costs split appropriately between GF & HRA)
    - Street Lighting, Dog Wardens, Personal Care Services, Homelessness Administration & Housing Advice
- Core Plus Examples:
  - Contribution to Anti-social behaviour services
  - Tenancy support, Tenants Garden Maintenance
  - Supporting People services (wardens for e.g.)
- Increasing focus on integrity of the HRA ring-fence due to recent high profile examples of unlawful breaches and decisions that are detrimental to HRA tenants. Why is this happening?
  - ▪ Past and continuing financial challenges to the General Fund
  - ▪ Decisions taken in absence of consideration of the HRA and integrity of the ring-fence
  - ▪ Failure to ensure HRA funds entrusted to an ALMO are applied wholly to HRA activities
- DLUHC are fully aware of recent revelations so it is a very current issue
- Protecting “tenant’s monies” whilst also ensuring Council Tax payers are not subsidising the HRA through charges to and from the HRA that are:
  - ▪ Compliant with the law and guidance
  - ▪ Equitable
  - ▪ Justifiable
  - ▪ Transparent
  - ▪ Evidenced
  - ▪ (supported by SLAs, clear basis of calculation)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Government ‘minded’ to intervene at council after HRA cash misspent

NEWS 24.06.22 1:00 PM GMT BY GRAINNE CUFFE

The government has announced that it is “minded” to send commissioners into Nottingham City Council after it was discovered the local authority had unlawfully spent up to £40m ringfenced for its Housing Revenue Account (HRA).

Housing Revenue Account (HRA) Timeline Past 10 Years

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- Much has changed over the past 10 years
    - Localism Act 2011 abolished the HRA subsidy system replacing the externally set annual contributions from a national system in place for self-financing with the vast majority of HRA's debt increased and debt cap set marginally higher or at new debt levels.
    - In 2012 Right to Buy re-invigorated allowing greater discount for tenants to acquire properties with a newly created "1-4-1" reserve to reinvest in replacement housing through new development and acquisition
    - From 2015 Social Housing Rent Standard introduced with policy of CPI plus 1% rent increases introduced and Regulator for Social Housing (RSH) responsible for its implementation (rent convergence to formula abandoned)
    - 2016 oversaw a period of 4 years of rent reduction of 1%
    - 2018 saw the abolition of the HRA debt cap (and other potential policies such as sale of high-value voids)
    - Following Grenfell building safety measures and requirements reviewed
    - EPC C Energy Efficiency Rating
    - From 2024 Tenancy Services Measures monitored by RSH and revisit to Decent Homes Standard
    - Mould & Damp Reporting (Adverse Publicity – Disrepair Claims)

The Tenant Satisfaction Measures (Commence April 2023)

Measured by Landlords Directly		Combined	TP – Measured by doing Tenant Surveys	
Homes that do not meet the decent homes standard	Repairs Completed in timescales	Keeping Properties in good repair	Overall Satisfaction	Satisfaction with repairs
Gas Safety Checks	Fire Safety Checks	Maintaining Building Safety	Satisfaction with time taken to complete most repairs	Satisfaction that the home is well maintained
Asbestos Safety Checks	Water Safety Checks	Respectful and Helpful Engagement	Satisfaction that the landlord listens to tenants view and acts upon them	Satisfaction that the landlord keeps tenants informed about things that matter to them
Lift Safety Checks	Complaints relative to the size of the landlord	Effective handling of complaints	Agreement that the landlord treats tenants fairly and with respect	Satisfaction with the landlords approach to handling complaints
Complaints responded to within Complaint Handling Code timescales	Anti-social behaviour cases relative to the size of the landlord	Responsible neighbourhood management	Satisfaction that the landlord keeps communal areas clean and well maintained	Satisfaction that the landlord makes a positive contribution to neighbourhoods
			Satisfaction with the landlord’s approach to handling anti-social behaviour	

- Additional: Electrical safety checks / percentage of communal areas meeting the required standard (white paper)

Rents & Service Charges

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- **Social 'Formula or target' Rent**
  - Calculated by a mix of:
    - January 1999 value of the property, Local Earning Index, Bedroom Weighting
    - Inflation from 2000 (RPI+0.5%, CPI+1%, 1% Reduction, CPI+1%)
    - Re-let at Formula rent (Rent convergence abandoned)
    - Service Charges in addition

- **Affordable Rent**
  - Based on up to 80% of Market Rent
  - Includes Service Charges
  - Re-evaluated at re-let
  - Limited by Local Housing Allowance

- **Service Charges**
  - Recovery of cost – charged initially on budget or historic charges (includes leaseholders)

- *Existing Tenant Rent Increases*
  - Controlled by the Social Housing Rent Policy and Enforced by the Regulator for Social Housing

- **Shared Ownership**
  - At outset charged at up to 2.75% of the open market value of share owned by the LA
  - RPI+ increases – depending on lease

Developing the HRA Business Plan

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- A 30 Year financial cashflow model based on:
  - Current and Forecast (either next year or Medium Term) Budgets as a base
  - Inflation Factors
  - Variability in respect of stock losses – primarily through right to buy
  - Capital Investment in existing stock and other initiatives (initially based on current capital programme with shortfalls accounted for in future years)
  - New build programmes (with associated costs, subsidies, rents and operating costs)
  - Financing of new debt (interest charges – but also capacity to do so)
  - Ability to repay debt – assumption that existing debt repayment levels met

- Projections demonstrate:
  - The revenue balances over a 30-year period
  - The capital expenditure forecasts (including new build) and how financed over 30 years
  - The level of borrowing and how it compares to provisional prudential rules (for the both the HRA and the Council as a whole)

- Focus on:
  - The HRA having a positive balance (illegal to set a HRA budget that results in deficit reserves for that year)
  - A fully funded capital programme whilst ensuring debt is within prudential or ‘golden-rules’

Example of HRA Business Plan Outputs

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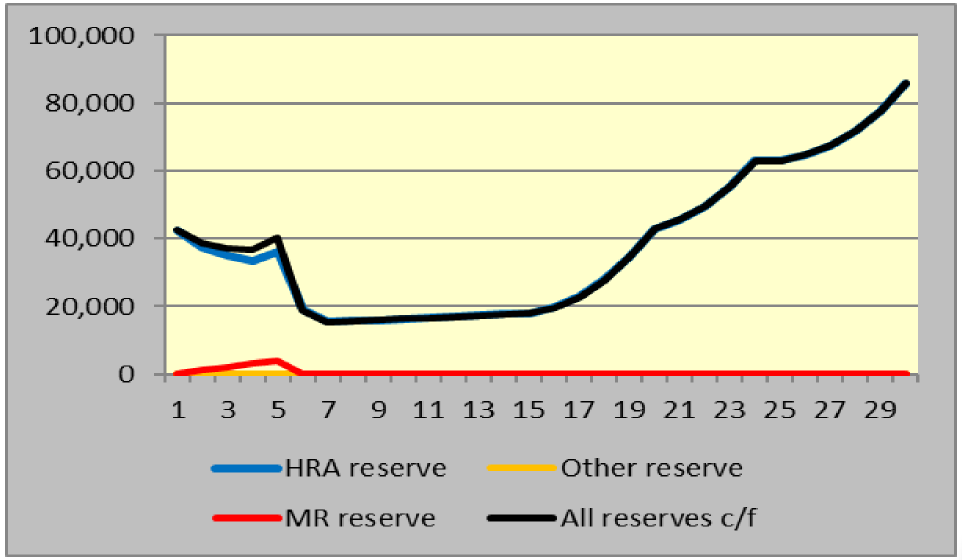
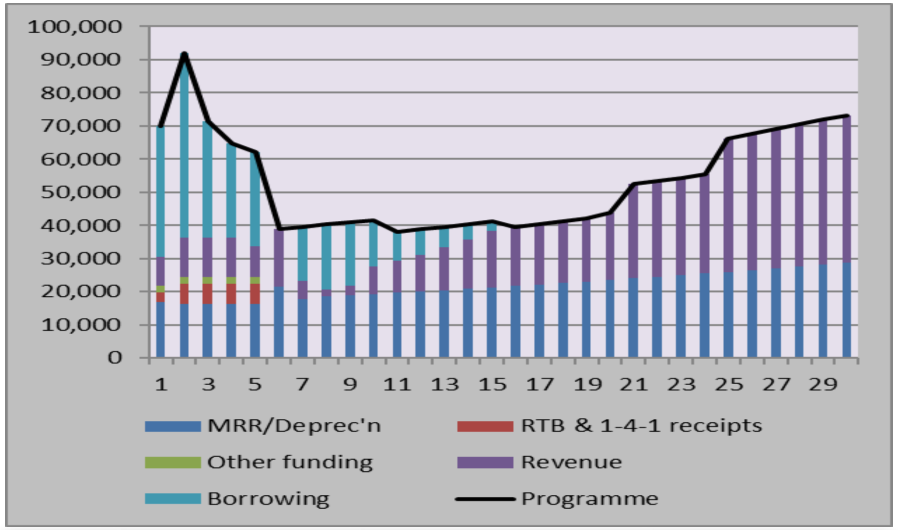
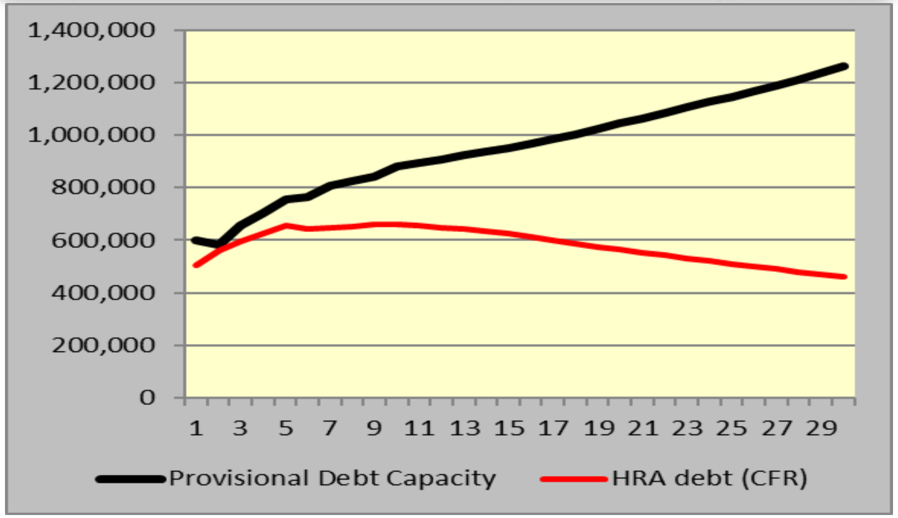
HRA Reserve Balances



HRA Capital Expenditure & Financing



HRA Debt (HRA CFR)



- Revenue Balances must remain above minimum balance (illegal to be in deficit)
- Capital Expenditure is fully funded – via a variety of sources
- Debt is measured by the HRACFR – prudential borrowing rules in place
- No requirement to repay debt – can be via loans maturing and not re-financed

Business Plan Considerations

- The Housing Sector is facing the "Perfect Storm" - Reasons for this include:
  - High inflation for repair costs
  - High inflation for management cost
    - Utility costs, pay awards and contracts
  - Higher borrowing costs
  - Increased investment in the stock due to:
    - Compliance
    - Energy efficiency works
    - Inflation

- Mitigating Factors:
  - Potential for negative inflation
  - Potential for reduction in interest rates
  - Potential for new Social Rent Policy
    - Above CPI rent increases beyond April 2024
    - Re-introduction of rent convergence with formula rents

- Recommendations:
  - Preparation for the new TSM
  - Review of Capital Investment Requirements
  - Options for financing the HRA and Prudential Limits

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Housing Revenue Account (HRA) – Single Business Plan for New Council

- A Single HRA is the legal requirement for the New Council from 1st April 2023
- Financial model based upon latest SDC & SWT budgets
- Rent increases of 7% in 2023/24, 6.5% in 2024/25 and 2.0% thereafter
- Consolidated plan aggregates operating income and expenditure and capital programmes
- Consolidated plan uses all available resources and prioritises use of the MRR, Capital Receipts and Borrowing only where there is a shortfall in capital resources
- Consolidated plan does not include a voluntary provision for debt repayment
- Minimum balances level based on 7.7% after research with other authorities
- The plans have a number of differences and these need to be reviewed as Stage 2 after the Rent Set

(HRA) – Single Business Plan Balances with Rent Cap 7%

Main Assumptions

- Rent Cap – Rent Cap at 7% 2023/24; Sept CPI plus 1% (6.5%) 2024/25, thereafter increase by CPI (2%)
- Inflation – CPI estimated at 13% in 2023/24; thereafter CPI 5.5% 2024/25 and onwards at 2%.
- HRA Min balances – 7.7% of Turnover

Year 8 Min Balances £4.740m

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

HRA – Revenue Budget 2023/24

	SDC (£000)	SWT (£000)	Combined (£000)
Income			
Dwelling Rents	18,038	27,146	**45,184**
Non Dwelling Rents	556	739	**1,295**
Charges for Services/Facilities	1,513	1,853	**3,366**
Other income/contributions	1,084	185	**1,269**
Total Income	**21,191**	**29,923**	**51,114**
Expenditure			
Repairs and Maintenance	4,380	8,740	**13,120**
Supervision and Mgmt & special services	6,498	5,685	**12,183**
Other Charges	887	3388	**4275**
Total Expenditure	**11,765**	**17,813**	**29,578**
Net Cost of HRA Services	**(9,426)**	**(12,110)**	**(21,536)**
Total Central Costs and Movement in Reserves	**10,696**	**12,490**	**23,186**
(Surplus) / Deficit	**1,270**	**380**	**1,650**
HRA balance brought forward	(10,267)	(3,134)	**(13,401)**
HRA balance carried forward	**(8,997)**	**(2,754)**	**(11,751)**

Housing Revenue Account (HRA) – Capital Programme

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

New Council HRA - Next Steps (Phase 2)

Differences in decent homes delivery plans need to be reviewed and realigned
SWT consider depooling Service Charges. SDC consider introducing Rent Flex
Comparison of Operating costs to identify efficiencies
Review and alignment where appropriate of New build
Decarbonisation agenda funding and delivery
Review of the Operating delivery models
Need to address underlying HRA deficit and balances issue at year 8.
Consider Match funding options for Local Authority Housing Fund (LAHF) initiative

Post Vesting Day Arrangements

- **Tenants**
  - As of 1st April, tenants of SDC and SWT will become tenants of Somerset Council
  - Tenants will experience very little change and their rights will remain unchanged

- **Housing Stock**
  - Housing stock in Sedgemoor will continue to be managed by Homes in Sedgemoor Arm's Length Management Organisation, under the same name
  - Housing stock formerly managed by Somerset West & Taunton will be managed by the new Somerset Council
  - Rebranding of trades vehicles etc will follow in due course

- **Staff and Comms**
  - The same staff who managed the housing stock in SDC (Homes in Sedgemoor) and SWT will remain in place after Vesting Day
  - A joint customer communications group is in place within the LGR project and this group of customers from HiS and SWT are reviewing LGR comms relating to the Housing Landlord Function

Post Vesting Day Arrangements

PH/JB/TH

Two Delivery Models

Somerset Council could continue to run with two delivery models for the housing stock in Sedgemoor (SDC) and Somerset West and Taunton (SWT) areas indefinitely.

Single Delivery Model

Alternatively, the new council could explore alternatives such as a single delivery model. This is typically called an 'Options Appraisal exercise'.

Options Appraisal

As part of LGR Housing Landlord sub-workstream, colleagues from SDC, HiS and SWT are scoping the key stages of an Options Appraisal, if and when it is required. Due to the size and scope of such a project and the requirement to consult with tenants, any process is likely to take 24+ months from inception to mobilisation of a new delivery model.

Questions and Next Steps