Executive Decision Report
Forward Plan Reference: FP/23/09/13
Decision Date: 06 September 2023
Key Decision: No

2023/24 Housing Revenue Account (HRA) Revenue and Capital Budget Monitoring as at Quarter 2 (30 September 2023)

Executive Member(s): Deputy Leader of the Council and Lead Member for Resources and Performance(s); Lead Member for Communities, Housing and Culture
Local Member(s) and Division: All
Lead Officer: Jason Vaughan, Executive Director for Resource & Corporate, S151 Officer
Author: Kerry Prisco, Management Accounting & Reporting Lead
Contact Details: kerry.prisco@somerset.gov.uk

1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2023/24 (as at 30th September 2023).

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

Revenue Budget	Forecast overspend of £2.074m	Red
General Reserves	£9.975m forecast balance = favourable compared to £3.722m minimum requirement	Green
Earmarked Reserves	£258k opening balance	Green

1.3 The HRA is a ring-fenced account which must abide by the accounting regulations and ensure that cross subsidy does not occur. Whist self-financing has provided some flexibilities, the HRA is heavily regulated which restricts income growth and increase cost pressures.

1.4 The HRA has set a balance budget for 2023/24 however areas of risk for the year will relate to the **economic operating environment** and the impact this may have on any variation from the forecasts assumed when setting the budget, for example the cost of borrowing for the refinancing of debt, pay awards, cost of materials and utilities, etc.

1.5 In addition, there are risks associated with **regulatory and compliance** requirements. For example, changes are expected during the year in relation to the Regulator of Social Housing's decent home standard where the cost impact is unknown, as well as a new Act which places new emphasis on customer safety, quality of accommodation, engagement, communication and greater evidence of listening to our tenants. New tenant satisfaction measures are now established and reported on.

1.6 From an **operational** perspective, the risk here relates to the levels of demand from our tenants for support and service, for example for debt and benefit advice, repairs and maintenance on their properties, and the number and condition of void properties. This is a very reactive service based on the needs of the tenants.

1.7 The headline estimates for **capital** costs are:

1.8 The Housing Revenue Account (HRA) Capital Programme for 2023/24 onwards is £122.606m. This consists of £32.208m of new schemes approved for 2023/24 plus £90.397m approved budget carry forward.

1.9 The current forecast outturn is an underspend of c.£4.6m for the Major & Improvement Works. The Social Housing Development schemes will be delivered over the next eight years, with the profiled budget for 2023/24 reporting an underspend of c.£491k.

2 Recommendations

2.1 The Executive:

2.2 To note the HRA's forecast financial performance and projected reserves position for 2023/24 financial year as at 30 September 2023, including key risks and future issues and opportunities detailed in the report which will be closely monitored and updated throughout the year.

2.3 To note the forecast outturn position of the Capital Programme.

3 Risk Assessment

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

3.2 Salient in year budget risks are summarised below. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, operating robust financial procedures, and so on. The Council also holds both unearmarked and earmarked reserves which include contingencies to manage budget risk.

3.3 Budgets and forecasts are based on known information and the best estimates of the housing service's future spending and income. Income and expenditure over the 2023/24 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

3.4 The following general risks and uncertainties have been identified:

Regulatory and Compliance

3.5 Over the past few years, the regulatory and compliance requirements have increased. The landlord functions have increasingly stringent standards to ensure customers are kept safe. Recent and imminent legislation in Fire Safety and Damp & Mould has led to greater investment in a range of components and different working practices. The proportionate cost of works associated with compliance has increased significantly over the past three years. The landlords are investing significantly in electrical safety checks, compartmentalisation within blocks and fire doors and Homes in Sedgemoor with the Council has enhanced its practices to manage new Building Safety Act requirements. New national concerns for example Reinforced Autoclaved Aerated Concrete (RAAC) have hit the headlines and the service needs to react to reassure customers and the council.

3.6 **Landlord Compliance:** Both operating models have good and well-established approaches to ensure the Council keep tenants safe. The big six compliance areas (Gas, Electric, Water, Asbestos, Fire Safety and Lifts) have now been joined by Damp and Mould. Housing is increasingly scrutinised and reputational damage as well as harm is significant if the Council fails to manage its compliance responsibilities. The Council is ultimately responsible. Performance management frameworks are in place to measure landlord compliance and new approaches have been developed to help the services respond to damp and mould cases. The Housing Regulator is currently supporting the in-house service's action plan to bring Electrical testing to top quartile performance. Regular audits take place, and we are awaiting a final report on the Fire Safety Audit recently undertaken.

3.7 **Social Housing (Regulation) Act:** The core objectives to facilitate a new, proactive approach to customer regulation regime, refine the existing economic regime and strengthen the regulatory powers to enforce customer and economic regulation. The Bill includes Awaab's Law - placing additional requirements in relation to resolving damp and mould on the landlord and requiring greater professionalisation of the service. Other requirements will follow, for example the need for all Housing Managers to have professional qualifications which, although welcomed, will add further cost pressures to the service. The Council is applying the new Tenant Satisfaction Measures in an identical way through its two operating models and reporting these through Key Performance Indicators. The Bill requires several changes to home safety, tenant satisfaction measures, complaints handling, a new inspection regime for social landlords and a strengthened role for the Regulator of Social Housing. The Act provides us with additional impetus for the two operating models to share best practice and learn from one another. The in-house service is focussing this year on improving communication with tenants, within the service and on Core Service delivery (repairs, compliance, capital programme, voids/lettings, tenancy management and income collection). Homes in Sedgemoor will retain a focus on core services which are performing well such as rent collection and tenant engagement whilst looking to improve in areas such as major voids, leasehold management and lift servicing.

3.8 **Responding to increased stock quality standards:** Changes to the Regulator of Social Housing's decent home standard as well as net zero targets and milestones place an additional financial burden on resources. Both operating models have been successful at attracting grant and aligning some energy works with capital programmes to partially offset costs. For example, the HRA is currently using Social Housing Decarbonisation funding wave 1 & 2 and ECO4 utility obligation to minimise the cost of low carbon retrofit. After a period of transition, the Housing Revenue Account service will be in a good position to influence stock investment for all 10,000 homes and align strategy such as low carbon retrofit.

3.9 **Right To Buy (RTB) Receipts**: This is a government policy that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can now fund up to 40% of new social housing costs and must be used within five years of receipt. To date, with the exception of one instance in Q1 2015/16 where receipt and interest was repaid, the Council has successfully fully spent all of their retained 1-4-1 receipts. In addition, the HRA makes use of other grant funds including Homes England, Hinkley Point C and better care fund to reduce the costs to the HRA of regeneration, development or building hoes to support vulnerable customers.

Economic Operating Environment

3.10 **Inflation:** The current economic operating environment is placing financial risk on the Council in terms of rising inflation increasing the cost of supplies such as utilities, labour and materials. Regardless of the difference in how the repairs are delivered (by a direct labour organisation or contracts) the shortage of labour and materials is increasing costs to the service and often additional supervision is required to ensure quality is maintained.

3.11 **Rising cost of borrowing:** The landlord service has a well developed social housing and regeneration programme; however, these schemes can only obtain a maximum of 40% subsidy from the RTB Scheme (subject to criteria) leaving the Council to borrow to finance the remaining 60% cost of the scheme. With the cost of borrowing rising this is having a significant impact on the MTFP and 30-Year Business when new borrowing is required to either refinance debt falling due or to finance new borrowing requirements. The service has supported the wider aims of the council and benefitted from the Local Authority Housing Fund to purchase homes for displaced persons and hosting the properties in the HRA. This type of approach aligning corporate priorities with the Councils HRA functions is an example that benefits the customer, general fund and HRA.

3.12 The PWLB has recently announced a reduction in the margin applied to loans that will be used to fund capital expenditure within the Housing Revenue Account (HRA). Available from the 15 June 2023 (until the 1 June 2024) qualifying loans (submitted within one year) will attract a margin of 0.40% above Gilts which is a discount of 0.60% below the published PWLB rates.

3.13 The Council is benefitting from continually exploring opportunities to subsidise schemes and reduce the HRAs borrowing requirements. For example, the council was the first registered provider to receive funding from the new Homes England Regeneration fund which has reduced the borrowing for the North Taunton Woolaway project by £5m.

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

3.15 The cost pressure created by inflation, the liquidation of a number of contractors, logistics challenges and the general acceleration to get projects to site, is causing previous fixed price contracts to be re-appraised within a matter of months of a successful tender. This could move schemes to the limits of viability. The resulting impact of this cost pressure is resulting in Tier One (larger scale) Contractors often turning down tender opportunities unless an inflation clause (requiring the Client to take the risk of inflation), is included in Contracts, whilst smaller Contractors are withdrawing tenders after submission or operating on such a small margin as to put them at risk of failure. The service has successfully procured a greater number of smaller contractors to deliver Kitchens and Bathrooms and is seeking to procure mid-range contractors for future development schemes. In addition, recent contracts for demolition are showing some market improvements for the service.

3.16 There is no question that the cost of maintenance and construction has significantly increased over the past two years. The forecast tender price inflation market appears to be at a turning point as inflation and demand pressures fall. This may see new opportunities during the tendering of works however the baseline is significantly higher than 2021/2022. The material price index in January 2023 increased by 10.4% (All Words) which was slightly down on previous months. Tender price inflation appears to be dropping to around 3% in 2023 compared to 3.75% in 2022. Although the Housing Revenue Account is sufficiently robust the ability to deliver works will in part relate to the solvency of contractors and their ability to manage the economic environment.

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

3.18 **Cost of living crisis, Welfare Reform and Universal Credit (UC):** The impacts of these are significant with the number and value of rent accounts in arrears expected to increase considerably, albeit we have managed to contain this to date. Several mitigations are already in place to help support tenants affected particularly by the rising cost of living such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes and the introduction of a new VoiceScape system to automatically remind customers of arrears.

Operational Delivery

3.19 **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. flooding, cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g., void refurbishments), consumer demand on minor internal / external repairs (e.g., broken door or fence) and the type of repair work required. Market pricing of materials etc can also be volatile with some unit costs increasing in recent years. As such the levels of demand do not always follow a recognisable trend. We therefore caveat the forecasts in these areas to account for fluctuations.

3.20 **Fluctuation in demand for services:** We operate many demand-led services and the levels of demand do not always follow a recognisable trend, which may lead to fluctuations in costs and income compared with current forecasts. We have certainly seen an increase in demand for tenancy management support for complex cases, often related to poor mental health, which brings additional costs to the service. Regulatory change is increasing the landlords need to improve access to the service and by its nature increase demand. Increase in demand can often be a positive in terms of maintenance as early intervention can limit damage and save costs to the landlord.

3.21 **HRA Service Level Agreements with the new unitary council:** As the Housing Revenue Account comes together as one account there is an opportunity to review and formally agree the service level agreements which helps the landlord functions operate through the purchase of General Fund skills. For example, finance, human resources, business support, governance, etc. The in-house landlord is looking at all its services in order to secure appropriate resources from within its own structure or through other Council directorates. It is envisaging the new Service Level Agreements will allow the landlord and HRA strategic business team to better meet the challenges as a highly regulated social landlord.

Technical Accounting Risks

3.22 **Bad Debt Provision:** The budgeted bad debt provision of £147k provides financial capacity for any increase in arrears and / or aging debt from one year to the next as well as any in-year write offs. This is a year-end technical accounting adjustment. The key challenges facing the arrears position are the pressures to maximise rental income in an environment of reduced government support and greater need to utilise internal resources; the ‘cost of living crisis’ marked by reductions in real income accompanied by increases in utility, fuel costs and food prices; welfare reforms which have made extensive use of sanctions and reductions in eligibility; and the impact of the COVID pandemic. Homes in Sedgemoor have excelled at managing income and are currently in the top ten social housing landlord nationally. The in-house service does not compare as well but is still performing within the top quartile industry standard. Income generation and managing debt is being elevated in importance for the service and new software is being introduced to support this critical work.

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

3.24 **Unitary Council:** The landlord functions have transitioned well into the new authority. The challenges since April have been working with new financial systems, learning other corporate software such as risk management software and working to procedures such as those in relation to recruitment and governance. It is currently unknown what the potential HRA costs will be and whether revenue costs including costs associated with staff movements due to uncertainty/feeling of insecurity, additional reliance on agency staff to fill vacancies in the short term, rebranding vehicle, offices and PPE have been impacted. From a capital perspective the business plan does provide some headroom to allow non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. Revenue costs of implementation are not currently budgeted and will place additional pressures on the HRA budget and reserves, thus we will need to review planned expenditure and reserves during the business planning process in 2023/24.

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

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

4 Partnership Implications

4.1 A range of HRA services are provided through partnership arrangements such as MIND, citizen's advice, etc. The cost of these services is reflected in the Council's financial outturn position for the year. The Housing Revenue Account is increasingly having to question the funding of services outside its core service.

5 Scrutiny Comments / Recommendations

5.1 This report will be considered by Corporate and Resources Scrutiny on 5 December 2023. A summary of the comments and recommendations discussed will be provided here (or a verbal update) for the Executive to consider on 6 December 2023.

6 Background and Full details of the Report

6.1 The Housing Revenue Account (HRA) is a ring-fenced, self-financing, account used to manage the Council's housing stock, with the Council acting as the Landlord. This has been the case since April 2012 where, under the Localism Act 2011, the government abolished the national subsidy system (which required an annual payment from the HRA to Central Government) and introduced 'self-financing'. This new system enabled Councils to retain all rental income to fund 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, Councils had to buy themselves out of the subsidy system by making a one-off payment to the Government. The debt taken in 2012 was a total of £133m; £85.198m for the Taunton Deane Borough Council legacy authority and £47.321m for the Sedgemoor District Council legacy authority.

6.2 Self-financing does bring financial benefits and more flexibility, especially since the borrowing cap was removed in October 2018, however the HRA is still heavily regulated. For example, rent increases are restricted by the Regulator of Social Housing's Rent Standard, there are specific regulations which govern eligible income and expenditure to prevent cross subsidy with the General Fund, as well as the decent homes standards that stipulate the conditions of properties.

6.3 The new unitary Somerset Council has inherited two landlord operating models which now sit under one Housing Revenue Account. The two landlord operating models are an in-house service in the West, formerly Somerset West and Taunton (SWT), and Homes in Sedgemoor which is an Arm's Length Management Organisation (ALMO) operating in the North, formerly Sedgemoor District Council (SDC). The combined total dwelling stock as at 1 April 2023 is 9,665 (5,653 from SWT and 4,012 from SDC). In addition to this we have 599 leasehold properties (489 from SWT and 110 from SDC).

6.4 The Council's two operating models which deliver the landlord functions will continue to operate as they did previously however there are various transitional projects taking place which will enable the Council to compare the two models like for like. These transitional projects will also allow the Council's in-house service and Homes in Sedgemoor to learn from one another. The transitional programme will also recognise the opportunity to enhance the Council's strategic Housing Revenue Account responsibilities. This will allow the council to be a better client to the arm's length service and its own in-house service. The transition will see appropriate resources at landlord function level and at the strategic level allowing the in-house and Homes in Sedgemoor landlord service to be ambitious in delivering great and improving services to customers and allow the Council to make strategic decisions in relation to stock investment, growth, rent setting, zero carbon homes and administering its statutory and regulatory responsibilities. Following a period of transition, the Council will be able to turn toward an option appraisal of its stock and operating models.

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

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

7 HRA Revenue Budget 2023/24 Forecast Outturn

7.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 30 September 2023.

7.2 The current year end forecast outturn position for the HRA for 2023/24 is an overspend against budget of £2.074m. The table below summarises the approved revenue budget for the combined HRA for 2023/24, with more detail found in **Appendix A**. Variances over £50k are explained below.

Table 1: HRA Revenue Outturn Summary

	Current Budget	**Forecast Outturn**	**Forecast Variance**	
	£000	**£000**	**£000**	**%**
Gross Income	-51,115	-50,949	166	1.1%
Service Expenditure	29,578	31,487	1,909	6.5%
Other Expenditure	21,537	21,537	0	0.0%
Total	**0**	**2,074**	**2,074**	**7.6%**

Income

7.3 **Dwelling Rent Income:** The combined budgeted income for 2023/24 is £45.2m, which reflects an assumption of an average 2% void loss and applying a 52-week year. The outturn position for dwelling rent income is an under recovery against budget of c.£114k which is in part due to timings of RTB sales and stock changes for social housing development schemes, as well as higher levels of voids especially in temporary accommodation stock. A Void Improvement Plan was presented to the Housing Senior Management Team in November which focuses on bringing average void times down. Discussions are ongoing with Adults Social Care to improve the number and quality of referrals for Extra Care Housing which should also reduce voids, and work is taking place with the Homeless Service to bring more capacity onto proactively tackling temporary accommodation voids. The forecast includes £108,102 of write offs during the year (£25,256 on current tenancies and £82,846 on former tenancies).

7.4 **Non-Dwelling Rents:** The combined budgeted income for 2023/24 is £1.3m and includes garages, shops and land access. The outturn position is an under recovery of £41k primarily due to lower garage rent income. This is due to an increase in vacancies of around 30 this year due to tenants and private garage renters handing back their garages, to reduce costs and as space is no longer required. A further 13 garages have been emptied to allow development at Wordsworth Drive. We know that there is a surplus of garages within our stock compared to demand and we will look for further development opportunities.

7.5 **Charges for Services / Facilities:** The combined budgeted income of £3.4m for 2023/24 includes (a) £1.700m for the Service Charge Income for Dwellings (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 2% void loss and applying a 52-week year, (b) £150k for Leaseholder Charges for Services, and (c) £3k for Meeting Halls.

7.6 The Leaseholder Charges for Services is forecasting an under recovery of income of £78k. The leaseholders are invoiced a year in arrears. The number of routine repairs undertaken were lower last year than anticipated. In addition, the delivery of major repairs has been delayed due to surveys at the blocks not yet been completed and / or works not been completed at blocks where leaseholders' own properties, as well as leaseholders being capped at £250 due to section 20 notices not served in time. Looking forwards, Section 20 consultations are being held with all leaseholders for the major works planned for the next 3-5 years to ensure full cost recovery.

Expenditure

7.7 **Maintenance**: This overspend relates to the responsive repairs service and void repairs service which is undertaken to ensure our Lettable Standard is met before reletting. These are very demand led and reactive areas, particularly with void costs influenced by the condition of the properties being returned for reletting. Both of these service areas are experiencing an increase in cost pressures as inflation drives up the cost of construction materials (as seen nationally), and additional volumes of work (approximately 22% increase YTD for this financial year compared to the same period last year for voids, and approximately 31% for responsive repairs).

7.8 There are a number of activities being undertaken to seek to mitigate additional spend, including an in-house initiative called the "Leaving Well" scheme which aims to work with and support the tenants to leave their homes in a suitable manner to reduce the time and cost of work then required on void properties before reletting, a procurement exercise to test the market for external contractor support for void repairs, and a comprehensive review of budget cost allocation to ensure all works that can be appropriately capitalised are assigned to a capital budget. Whilst there is currently a predicted year-end overspend of c.£1.8m, it is anticipated that once the focussed activity being undertaken as detailed above is completed this will significantly reduce this figure.

8 Capital Programme

8.1 The Housing Revenue Account (HRA) Capital Programme for 2023/24 onwards is £122.606m as summarised in the table below and further detail provided in **Appendix B**. This consists of £32.208m of new schemes approved for 2023/24 by Full Council on 22 February 2023 plus £90.397m of previously approved schemes in prior years that have been approved to be carried forward by Full Council on 27 September 2023.

Table 2: Summary of HRA Capital Programme Approved Budget for 2023/24

	2022.23 Slippage Budget	2023.24 Approved Budget	2023.24 Total Budget
	£000	**£000**	**£000**
Majors & Improvements	5,507	22,206	27,712
Social Housing Development	84,891	10,003	94,893
Total	**90,397**	**32,208**	**122,606**

8.2 Approval for a supplementary capital budget of £3,313,829 (in addition to the current budget of £150,000 plus carry forward of £373,671) for the in-house HRA to spend on essential fire safety works following Fire Risk Assessments (FRAs) to general needs, sheltered and extra-care schemes is pending approval by Full Council on 20 December 2023. This is not currently shown in the figures above.

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

8.4 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next eight years. The current planned profiled spend is summarised in **Appendix D**. The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £45.851m profiled to be spent in 2023/24 with the balance of £76.755m projected forward into future years.

8.5 Information on what the HRA capital programme plans to deliver during 2023/24 can be found below and its financial performance to date against this financial year can be found in **Appendix D.** The current forecast outturn is £40.759m. The programme will underspend against profiled budget for 2023/24 by £5.091m; £4.391m slipping into subsequent years and a budget of £700k being returned.

8.6 The net slippage of £4.391m relates to the in-house service major works and improvement programme caused by an underspend of £5.436m on Major Works due to on-site contractor programme delays in delivery, and contractor capacity to enable prompt commencement of programmes following mobilisation meetings. This has been partially offset by an overspend of £976k on essential fire safety works.

8.7 The budget return of £700k relates to strategic contingent budget of which £500k was for the purchase of properties (ALMO) and £200k for transformation costs (in-house); both are no longer required.

Major Works and Improvement:

8.8 The two operating models both aim to maintain homes to the decent home's standard enhance the thermal comfort of tenants by moving towards 2030 and 2050 standards.

8.9 The 2023/24 capital programme includes major programmes such as kitchens, bathrooms, heating improvements, insulation and ventilation, door entry systems, external doors, fasciae and soffits, roofing and windows.

8.10 The two operating models have previously placed slightly different emphasis on different aspects of major works however under one Housing Revenue Account decent homes, low carbon living, stock sustainability and block investment can be approached more consistently. Both organisations have been successful at being awarded grant for low carbon works and combined bids and programmes will be encouraged.

Social Housing Development Programme:

8.11 The Homes in Sedgemoor and in-house functions both have a social housing development programme of works, which increases stock through a combination of acquisitions from the open market and / or building new homes.

8.12 The Right To Buy (RTB) scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. During 2022/23 the Council sold 50 properties (SWT 28 and SDC 22). The Council estimates that on average 55 properties will be sold each year through the Right to Buy Scheme. Therefore, growth in our housing stock is vital to replace stock and attempt to ensure Somerset has more affordable homes to meet the increasing demand.

8.13 The business planning process shortly to conclude will align what were diverse development approaches of the two organisations into one pipeline compatible with the strategic needs of the Council and within HRA business plan affordability assumptions. The period 2023/2024 to 2025/2026 are set to see over 300 new HRA affordable homes. The HRA has started aligning its growth ambitions with opportunities to deliver homes on behalf of the Council especially for vulnerable customers. The landlords are purchasing for displaced persons and building and purchasing properties to support the General Fund homelessness challenges. The HRA 30-Year Business Plan considers the cost of growth alongside the many other service needs. In practice compliance and regulation always remain the first priority and the HRA must work hard to retain development programmes.

9 <u>HRA Earmarked Reserves</u>

9.1 The Housing Revenue Account (HRA) Earmarked Reserves at the beginning of 2023/24 totalled £258k (see **Table 3** below). These have been carried forwards from Somerset West and Taunton. There were none held by Sedgemoor District Council.

9.2 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. These funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	**Opening Balance 01/04/2023 £000**	**Transfers £000**	**Projected Balance 31/3/2024 £000**
Hinkley – Community Grants	130	0	130
Climate Change Grant - Electric Vehicles	77	0	77
Hinkley – Home Moves Plus Grant	34	0	34
Tenant Satisfaction Grant	17	0	17
Total	**258**	**0**	**258**

10 HRA Unearmarked Reserves

10.1 The Housing Revenue Account (HRA) Unearmarked Reserves opening balance of £13.699m stands above the recommended minimum balance of £3.722m and provides ongoing financial resilience and mitigation for unbudgeted financial risks.

10.2 The recommended minimum balance for the combined HRA is £3,722,400 and is equates to approximately 7.3% of gross income and £385 per property.

10.3 As part of the budget setting proposals to Full Council on 22 February 2023, £1.650m of current reserves will be used to support the base budget in 2023/24. Further approved (or proposed) allocations to / from Unearmarked Reserves are shown in the table below.

Table 4: HRA Unearmarked Reserves Balance

	Approval	**£000**
Balance Brought Forward 1 April 2023		
From Sedgemoor District Council		10,713
From Somerset West and Taunton		2,986

Total Balance Brought Forward 1 April 2023		**13,699**
Budgeted Contribution to support base budget 2023/24	FC – Feb23	-1,650
Current Balance		**12,049**
Forecast: 2023/24 Projected Overspend		-2,074
Projected Balance 31 March 2024		**9,975**
Recommended Minimum Balance		3,722
Projected Balance above Minimum Reserve Balance		6,253

10.4 The current outturn position is forecast to be a net overspend of £2.074m. If the forecast outturn position does not improve, the deficit will reduce reserve balances to £9.975m, which is £6.253m above the recommended minimum balance of £3.722m.

10.5 It is essential that control on spending for the remainder of the year continues to reduce the forecast overspend and maintain adequate reserves. It is vital that costs are managed within annual income totals to ensure ongoing affordability of services. Management must take the necessary steps to control costs and manage risk to ensure financial resilience is maintained.

Background Papers

HRA Budget Setting Report – Full Council 22 February 2023
HRA Outturn Report – 27 September 2023

List of Appendices

Appendix A	Housing Revenue Account (HRA) Approved Budget for 2023/24
Appendix B	Approved Capital Budget
Appendix C	Capital Financing of Total Approved Budget
Appendix D	Annual Profiling of Approved Capital Budget
Appendix E	Profiled Capital Budget for 2023/24 Vs Forecast Capital Outturn for 2023/24

Appendix A: Housing Revenue Account (HRA) Approved Budget for 2023/24

	In-House	ALMO	Combined							
	Approved Budget	Approved Budget	Original Budget	Current Budget	Full Year Projection	Month 6 Variance		Month 3 Variance		A/(F)
	£m	£m	£m	£m	£m	£m	%	£m	%	
Income										
Dwelling Rents	(27.1)	(18.0)	(45.2)	(45.2)	(45.07)	0.114	0.3%	0.0	0.0%	A
Non Dwelling Rents	(0.7)	(0.6)	(1.3)	(1.3)	(1.31)	(0.015)	-1.1%	0.0	0.0%	F
Charges for Services / Facilities	(1.9)	(1.5)	(3.4)	(3.4)	(3.30)	0.067	2.0%	0.0	0.0%	A
Contributions Towards Expenditure	(0.2)	(1.1)	(1.3)	(1.3)	(1.27)	0.000	0.0%	0.0	0.0%	-
	(29.9)	**(21.2)**	**(51.1)**	**(51.1)**	**(50.95)**	**0.166**	**1.1%**	**0.0**	**0.0%**	**A**
Expenditure										
Repairs and Maintenance	8.7	4.4	13.1	13.1	14.92	1.80	13.7%	0.0	0.0%	A
Supervision and Management	4.1	5.2	9.2	9.2	9.35	0.11	1.1%	0.0	0.0%	A
Special Services	1.6	1.3	2.9	2.9	2.94	0.00	0.0%	0.0	0.0%	-
Rents, Rates, Taxes and Other Charges	0.2	0.7	0.8	0.8	0.84	0.00	0.0%	0.0	0.0%	-
Central Recharges (to / from the General Fund)	3.2	0.2	3.4	3.4	3.43	0.00	0.0%	0.0	0.0%	-
	17.8	**11.8**	**29.6**	**29.6**	**31.487**	**1.91**	**6.5%**	**0.0**	**0.0%**	**A**
Other Operating Income and Expenditure										
Interest Payable	3.3	2.5	5.8	5.8	5.79	0.00	0.0%	0.0	0.0%	-
Interest Receivable	0.0	(0.3)	(0.3)	(0.3)	(0.25)	0.00	0.0%	0.0	0.0%	-
Change in Provision for Bad Debts	0.1	0.0	0.1	0.1	0.15	0.00	0.0%	0.0	0.0%	-
Depreciation	9.1	7.3	16.3	16.3	16.34	0.00	0.0%	0.0	0.0%	-
Capital Financing	0.0	1.2	1.2	1.2	1.16	0.00	0.0%	0.0	0.0%	-
Movement in Reserves	(0.4)	(1.3)	(1.6)	(1.6)	(1.65)	0.00	0.0%	0.0	0.0%	-
	12.1	**9.4**	**21.5**	**21.5**	**21.54**	**0.00**	**0.0%**	**0.0**	**0.0%**	**-**
Net Surplus(-) / Deficit for the Year	**0.0**	**0.0**	**0.0**	**0.0**	**2.07**	**2.07**	**7.6%**	**0.0**	**0.0%**	**A**

Appendix B: HRA Approved Capital Budget

HRA Capital Programme	Prior Year Slippage	Current Year Approval Feb 2022 Budget Setting for 2022/23	Total Approved Budget	Current year Virements	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget	Pipeline Pending Approval	Provisional Capital Budget 22/23
Major Works	3,199,366	10,867,970	14,067,336	0	0	0	14,067,336	0	14,067,336
Fire Safety	373,671	150,000	523,671	0	0	0	523,671	3,313,829	3,837,500
Related Assets	-	50,000	50,000	0	0	0	50,000	0	50,000
Exceptional & Extensive	-	300,000	300,000	0	0	0	300,000	0	300,000
Vehicles	-	-	-	0	0	0	0	0	0
ICT & Transformation	85,138	210,000	295,138	0	0	0	295,138	0	295,138
Aids & Adaptations & DFGs	-	370,000	370,000	0	0	0	370,000	0	370,000
Sub-Total Majors & Improvements	**3,658,175**	**11,947,970**	**15,606,145**	**0**	**0**	**0**	**15,606,145**	**3,313,829**	**18,919,974**
Social Housing Development	82,191,096	-	82,191,096	0	0	0	82,191,096	0	82,191,096
Total In-House HRA	**85,849,271**	**11,947,970**	**97,797,241**	**0**	**0**	**0**	**97,797,241**	**3,313,829**	**101,111,070**
Major Works	1,718,969	9,856,810	11,575,779	0	0	0	11,575,779	0	11,575,779
Fire Safety	129,600	-	129,600	0	0	0	129,600	0	129,600
Related Assets	-	-	-	0	0	0	0	0	0
Exceptional & Extensive	-	-	-	0	0	0	0	0	0
Vehicles	-	-	-	0	0	0	0	0	0
ICT & Transformation	-	-	-	0	0	0	0	0	0
Aids & Adaptations & DFGs	-	400,740	400,740	0	0	0	400,740	0	400,740
Sub-Total Majors & Improvements	**1,848,569**	**10,257,550**	**12,106,119**	**0**	**0**	**0**	**12,106,119**	**0**	**12,106,119**
Social Housing Development	2,699,654	10,002,510	12,702,164	0	0	0	12,702,164	0	12,702,164
Total ALMO HRA	**4,548,223**	**20,260,060**	**24,808,283**	**0**	**0**	**0**	**24,808,283**	**0**	**24,808,283**
Major Works	4,918,335	20,724,780	25,643,115	0	0	0	25,643,115	0	25,643,115
Fire Safety	503,271	150,000	653,271	0	0	0	653,271	3,313,829	3,967,100
Related Assets	-	50,000	50,000	0	0	0	50,000	0	50,000
Exceptional & Extensive	-	300,000	300,000	0	0	0	300,000	0	300,000
Vehicles	-	-	-	0	0	0	0	0	0
ICT & Transformation	85,138	210,000	295,138	0	0	0	295,138	0	295,138
Aids & Adaptations & DFGs	-	770,740	770,740	0	0	0	770,740	0	770,740
Sub-Total Majors & Improvements	**5,506,744**	**22,205,520**	**27,712,264**	**0**	**0**	**0**	**27,712,264**	**3,313,829**	**31,026,093**
Social Housing Development	84,890,750	10,002,510	94,893,260	0	0	0	94,893,260	0	94,893,260
Total HRA	**90,397,494**	**32,208,030**	**122,605,524**	**0**	**0**	**0**	**122,605,524**	**3,313,829**	**125,919,353**

Appendix C: HRA Capital Financing of Total Approved Budget

HRA Capital Programme	TOTAL CAPITAL FINANCING	Capital Grant - Section 106	Capital Grants - Homes England	Capital Grant - Other	Capital Receipts	HRA Revenue Contribution	Major Repairs Reserve	Right To Buy (RTB) Capital Receipts	Borrowing
Major Works	14,067,336	-	-	1,000,000	-	-	13,067,336	-	-
Fire Safety	523,671	-	-	-	-	-	523,671	-	-
Related Assets	50,000	-	-	-	-	-	50,000	-	-
Exceptional & Extensive	300,000	-	-	-	-	-	300,000	-	-
Vehicles	-	-	-	-	-	-	-	-	-
ICT & Transformation	295,138	-	-	-	200,000	-	95,138	-	-
Aids & Adaptations & DFGs	370,000	-	-	-	-	-	370,000	-	-
Sub-Total Majors & Improvements	**15,606,145**	**-**	**-**	**1,000,000**	**200,000**	**-**	**14,406,145**	**-**	**-**
Social Housing Development	82,191,096	-	5,040,588	-	-	-	-	18,990,787	58,159,720
Total In-House HRA	**97,797,241**	**-**	**5,040,588**	**1,000,000**	**200,000**	**-**	**14,406,145**	**18,990,787**	**58,159,720**
Major Works	11,575,779	-	-	-	-	1,163,410	10,412,369	-	-
Fire Safety	129,600	-	-	-	-	-	129,600	-	-
Related Assets	-	-	-	-	-	-	-	-	-
Exceptional & Extensive	-	-	-	-	-	-	-	-	-
Vehicles	-	-	-	-	-	-	-	-	-
ICT & Transformation	-	-	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	400,740	-	-	-	-	-	400,740	-	-
Sub-Total Majors & Improvements	**12,106,119**	**-**	**-**	**-**	**-**	**1,163,410**	**10,942,709**	**-**	**-**
Social Housing Development	12,702,164	112,000	2,472,450	-	-	-	-	1,688,349	8,429,365
Total ALMO HRA	**24,808,283**	**112,000**	**2,472,450**	**-**	**-**	**1,163,410**	**10,942,709**	**1,688,349**	**8,429,365**
Major Works	25,643,115	-	-	1,000,000	-	1,163,410	23,479,705	-	-
Fire Safety	653,271	-	-	-	-	-	653,271	-	-
Related Assets	50,000	-	-	-	-	-	50,000	-	-
Exceptional & Extensive	300,000	-	-	-	-	-	300,000	-	-
Vehicles	-	-	-	-	-	-	-	-	-
ICT & Transformation	295,138	-	-	-	200,000	-	95,138	-	-
Aids & Adaptations & DFGs	770,740	-	-	-	-	-	770,740	-	-
Sub-Total Majors & Improvements	**27,712,264**	**-**	**-**	**1,000,000**	**200,000**	**1,163,410**	**25,348,854**	**-**	**-**
Social Housing Development	94,893,260	112,000	7,513,038	-	-	-	-	20,679,136	66,589,085
Total HRA	**122,605,524**	**112,000**	**7,513,038**	**1,000,000**	**200,000**	**1,163,410**	**25,348,854**	**20,679,136**	**66,589,085**

<u>**Appendix D: HRA Annual Profiling of Approved Capital Budget**</u>

HRA Capital Programme	Total Approved Budget	Planned Capex 2023/24	Planned Capex 2024/25	Planned Capex 2025/26	Planned Capex 2026/27	Planned Capex 2027/28	Planned Capex 2028/29	Planned Capex 2029/30	Planned Capex 2030/31
Major Works	**14,067,336**	14,067,336	0	0	0	0	0	0	0
Fire Safety	**523,671**	523,671	0	0	0	0	0	0	0
Related Assets	**50,000**	50,000	0	0	0	0	0	0	0
Exceptional & Extensive	**300,000**	300,000	0	0	0	0	0	0	0
Vehicles	**0**	0	0	0	0	0	0	0	0
ICT & Transformation	**295,138**	295,138	0	0	0	0	0	0	0
Aids & Adaptations & DFGs	**370,000**	370,000	0	0	0	0	0	0	0
Sub-Total Majors & Improvements	**15,606,145**	**15,606,145**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Social Housing Development	**82,191,096**	9,438,477	14,249,899	18,434,353	12,774,879	8,927,976	8,725,275	8,016,150	1,624,087
Total In-House HRA	**97,797,241**	**25,044,622**	**14,249,899**	**18,434,353**	**12,774,879**	**8,927,976**	**8,725,275**	**8,016,150**	**1,624,087**
Major Works	**11,575,779**	11,575,779	0	0	0	0	0	0	0
Fire Safety	**129,600**	129,600	0	0	0	0	0	0	0
Related Assets	**0**	0	0	0	0	0	0	0	0
Exceptional & Extensive	**0**	0	0	0	0	0	0	0	0
Vehicles	**0**	0	0	0	0	0	0	0	0
ICT & Transformation	**0**	0	0	0	0	0	0	0	0
Aids & Adaptations & DFGs	**400,740**	400,740	0	0	0	0	0	0	0
Sub-Total Majors & Improvements	**12,106,119**	**12,106,119**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Social Housing Development	**12,702,164**	8,699,918	4,002,246	0	0	0	0	0	0
Total ALMO HRA	**24,808,283**	**20,806,037**	**4,002,246**	**0**	**0**	**0**	**0**	**0**	**0**
Major Works	**25,643,115**	25,643,115	0	0	0	0	0	0	0
Fire Safety	**653,271**	653,271	0	0	0	0	0	0	0
Related Assets	**50,000**	50,000	0	0	0	0	0	0	0
Exceptional & Extensive	**300,000**	300,000	0	0	0	0	0	0	0
Vehicles	**0**	0	0	0	0	0	0	0	0
ICT & Transformation	**295,138**	295,138	0	0	0	0	0	0	0
Aids & Adaptations & DFGs	**770,740**	770,740	0	0	0	0	0	0	0
Sub-Total Majors & Improvements	**27,712,264**	**27,712,264**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Social Housing Development	**94,893,260**	18,138,395	18,252,145	18,434,353	12,774,879	8,927,976	8,725,275	8,016,150	1,624,087
Total HRA	**122,605,524**	**45,850,659**	**18,252,145**	**18,434,353**	**12,774,879**	**8,927,976**	**8,725,275**	**8,016,150**	**1,624,087**

Appendix E: HRA Profiled Capital Budget for 2023/24 Vs Forecast Capital Outturn for 2023/24

HRA Capital Programme	Profiled Capex Budget 2023/24	Expenditure YTD	% Spend	Forecast Outturn 2023/24	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Major Works	**14,067,336**	1,943,377	14%	**8,631,014**	(5,436,322)	(5,436,322)	0
Fire Safety	**523,671**	783,699	150%	**1,500,000**	976,329	976,329	0
Related Assets	**50,000**	0	0%	**110,000**	60,000	60,000	0
Exceptional & Extensive	**300,000**	49,740	17%	**300,000**	0	0	0
Vehicles	**0**	0	0%	**0**	0	0	0
ICT & Transformation	**295,138**	7,512	3%	**95,138**	(200,000)	0	(200,000)
Aids & Adaptations & DFGs	**370,000**	121,878	33%	**370,000**	0	0	0
Sub-Total Majors & Improvements	**15,606,145**	**2,906,207**	**19%**	**11,006,152**	**(4,599,993)**	**(4,399,993)**	**(200,000)**
Social Housing Development	**9,438,477**	3,978,155	42%	**9,438,477**	0	0	0
Total In-House HRA	**25,044,622**	**6,884,362**	**27%**	**20,444,629**	**(4,599,993)**	**(4,399,993)**	**(200,000)**
Major Works	**11,575,779**	3,671,611	32%	**11,575,779**	0	0	0
Fire Safety	**129,600**	1,604,102	1238%	**129,600**	0	0	0
Related Assets	**0**	0	0%	**0**	0	0	0
Exceptional & Extensive	**0**	0	0%	**0**	0	0	0
Vehicles	**0**	0	0%	**0**	0	0	0
ICT & Transformation	**0**	0	0%	**0**	0	0	0
Aids & Adaptations & DFGs	**400,740**	70,350	18%	**400,740**	0	0	0
Sub-Total Majors & Improvements	**12,106,119**	**5,346,063**	**44%**	**12,106,119**	**0**	**0**	**0**
Social Housing Development	**8,699,918**	5,966,187	69%	**8,208,577**	(491,341)	8,659	(500,000)
Total ALMO HRA	**20,806,037**	**11,312,250**	**54%**	**20,314,696**	**(491,341)**	**8,659**	**(500,000)**
Major Works	**25,643,115**	5,614,988	22%	**20,206,793**	(5,436,322)	(5,436,322)	0
Fire Safety	**653,271**	2,387,802	366%	**1,629,600**	976,329	976,329	0
Related Assets	**50,000**	0	0%	**110,000**	60,000	60,000	0
Exceptional & Extensive	**300,000**	49,740	17%	**300,000**	0	0	0
Vehicles	**0**	0	0%	**0**	0	0	0
ICT & Transformation	**295,138**	7,512	3%	**95,138**	(200,000)	0	(200,000)
Aids & Adaptations & DFGs	**770,740**	192,228	25%	**770,740**	0	0	0
Sub-Total Majors & Improvements	**27,712,264**	**8,252,270**	**30%**	**23,112,271**	**(4,599,993)**	**(4,399,993)**	**(200,000)**
Social Housing Development	**18,138,395**	9,944,342	55%	**17,647,055**	(491,341)	8,659	(500,000)
Total HRA	**45,850,659**	**18,196,612**	**40%**	**40,759,326**	**(5,091,334)**	**(4,391,334)**	**(700,000)**