Executive Decision Report
Forward Plan Reference: FP/24/01/12
Decision Date: 7 February 2024
Key Decision: Yes

Housing Revenue Account (HRA) Revenue and Capital Budget Setting 2024/25 including Dwelling Rent Setting and Fees and Charges for 2024/25, MTFP and 30-Year Business Plan Update

Executive Member(s): Cllr Liz Leyshon - Deputy Leader of the Council and Lead Member for Resources and Performance(s); Cllr Federica Smith-Roberts - 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 presents to Members the proposed Housing Revenue Account (HRA) Annual Revenue Budget and Capital Programme for 2024/25, including the proposed Rent Setting and Fees and Charges for 2024/25.

1.2 This report also provides an update on the 5-Year Medium Term Financial Plan (MTFP) and the 30-Year Business Plan Review.

1.3 The proposals included in this report would enable the Council to set a balanced budget for the HRA for 2024/25.

2 Recommendations

2.1 That the Executive endorse and recommend the recommendations below for approval by the Council, which include changes for rents and service charges to be used to prepare the necessary notices to tenants ready for dispatch following the Council meeting on 20 February 2024 to ensure the 28 days, notice period is met.

2.2 That Full Council approve the following:

Revenue Budget for 2024/25 (see section 8)

2.3 The HRA Annual Revenue Budget for 2024/25 as shown in Appendix A.

Rent Setting for 2024/25 (see section 10)

2.4 An increase of 7.7% to Dwelling Rents in line with the Governments 2019 (and updated 2023) Rent Standard.

2.5 An increase of 7.7% for Sheltered and Extra Care housing rents in line with the dwelling rents increase.

2.6 An increase of 7.7% for Shared Ownership properties.

2.7 An increase of 7.7% on affordable rental tenures, with the rent being reviewed at relet based on 80% of open market rent capped at the LHA rate.

2.8 The continuation of rent flex at relet for new tenants within the West of the Council for tenants part of the in-house service (dwelling stock inherited from the legacy Somerset West and Taunton Council) as included in the Rent Charging Policy. This will be levied at basic rent plus 5% for general needs tenants and 10% for sheltered and extra care tenants.

2.9 The introduction of rent flex at relet for new tenants within the North of the Council for tenants part of Homes In Sedgemoor (dwelling stock inherited from the legacy Sedgemoor District Council) as included in the Rent Charging Policy. This will be levied at basic rent plus 5% for general needs tenants and 10% for sheltered and extra care tenants.

Fees & Charges for 2024/25 (see section 11)

2.10 An increase in Service Charges for tenants in the North, managed by Homes In Sedgemoor, based on predicted costs in line with the service charging policy. The introduction of a transparent 10% service charge management fee. The service charges are contained in **Appendix B.**

2.11 An increase in Service Charges for tenants in the West, managed by the In-House Service, of (a) 7.7% for Grounds Maintenance and the Support / Sheltered Housing and

Extra Care accommodation services, (b) 6.8% for the Piper Lifeline service, (c) other charges based on actual costs incurred for laundry, heating, communal areas, communal door entry systems, (d) no change to the communal utilities charge, (e) a new charge for exceptional street cleaning, (f) sewerage will increase in line with the Wessex Water increases for 2024/25 once known. The service charges are contained in **Appendix C.**

2.12 An increase of 7.7% for garage rents.

2.13 An increase of 6.7% on temporary accommodation daily rates.

2.14 An increase of 6.7% for Meeting Hall hourly rental rates.

2.15 An increase of 6.7% for Guest Room charges.

Capital Programme from 2024/25 (see section 12)

2.16 The HRA Major Works and Improvement Capital Programme for 2024/25 of £8,834,500 for HiS and £19,189,200 for the In-House Service.

2.17 To approve **a capital budget of £940,000** for the delivery of the **Bespoke Homes Phase 2** scheme (North of Somerset). This scheme will deliver 2 large and fully adapted new homes that will be built to low carbon standards in excess of building regulations and extend two existing council dwellings to create larger adapted homes. The proposal is to finance this using an appropriate combination of up to 29.78% subsidy from Homes England and the remainder funded by borrowing. These homes will be let at social rents.

2.18 To approve **a capital budget of £968,000** for the delivery of the **Rochester Road Step Down / Move on Accommodation** (West of Somerset). This scheme will deliver 8 new homes and let to vulnerable adults or children such as low complex homeless or children leaving care. The homes will use Modern Methods of construction and be of built to low carbon standards in excess of building regulations. The proposal is to finance this scheme using a combination of Better Care Funding and the remainder funded by borrowing. These new homes will be let at affordable rents and discounted if appropriate.

2.19 To approve **a capital budget of £2,000,000** for the delivery of the **Step Down / Move On Accommodation** scheme (West of Somerset). This scheme will deliver 16 new homes for vulnerable adults or children such as low complex homeless or children leaving care. The homes will be built to low carbon standards in excess of building regulations and use Modern Methods of construction. The proposal is to finance this scheme using a combination of Better Care Capital Funding and the remainder funded by borrowing. These new homes will be let at affordable rents and discounted if appropriate.

2.20 To approve **a capital budget of £2,615,430** for the delivery of the **Taunton Road** scheme (North of Somerset). This scheme will deliver 11 new homes that will be built to low carbon standards in excess of building regulations. The proposal is to finance this using an appropriate combination of up to 40% subsidy from RTB receipts and the remainder funded by borrowing. These new homes will be let at affordable rents.

2.21 To approve a **supplementary budget of £656,760** for the current **Cricketers** scheme (North of Somerset) to fund the projected overspend to complete the scheme. This scheme is delivering 16 new homes and will be built to low carbon standards in excess of building regulations. The proposal is to finance this using Homes England capital grant, Hinkley Point C funding and the remainder funded by borrowing. These new homes will be let at affordable rents.

2.22 To approve **a supplementary budget of £375,000** for the current **Oxford Inn** scheme (West of Somerset) to fund the projected overspend to complete the scheme. This scheme is delivering 8 new homes will be built to low carbon standards in excess of building regulations. The proposal is to finance this using an appropriate combination of up to 40% subsidy from RTB receipts and the remainder funded by borrowing. These new homes will be let at affordable rents.

2.23 To approve **a budget return of £20,274,207** for the **North Taunton Woolaway Project Phase D** (West of Somerset).

2.24 To approve **a budget return of £10,499,189** for the **Zero Carbon Affordable Homes** scheme (West of Somerset).

2.25 To approve **a budget return of £950,000** for the **Tuckerton Lane** scheme (North of Somerset).

2.26 To approve **a budget return of £500,000** for the **Purchase of Properties for RTB** scheme (North of Somerset).

Medium Term Financial Plan 2024/25 – 2029/30 (see section 9)

2.27 To note the reviewed and updated assumptions in the 2024/25 5-Year Medium Term Financial Plan (MTFP).

2.28 To approve the transfer of four dwellings from the General Fund to the Housing

Revenue Account and delegate authority to the Lead Member for Communities, Housing and Culture and the Section 151 Officer to approve the final land transfer value.

2.29 To approve an increase in the HRA's strategic approach to generate capital receipts of approximately £1.225m through the sale of uneconomical assets on the open market.

30-Year Business Plan (see section 8)

2.30 The updated assumptions and figures in the 2024 HRA 30-Year Business Plan as summarised in section 7.

2.31 That members note the challenges and next steps for the HRA and landlord services.

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 Council places Housing Landlord risks on its risk register and this is supplemented by the Homes in Sedgemoor Board who also hold risks for the Arms Length Management Organisation. The Council has 10 risks on the risk register. At the time of writing, it reports the highest risks for the landlords relate to attraction of staff particularly trades and those with technical knowledge including surveyors and compliance specialists. Although the HRA is a ring-fenced account the potential of and the serving of a s114 notice due to general fund financial crisis can prevent or lead to the withdrawal of grant funding from government including Homes England and Department of Energy Security and Net Zero currently c£10m. Other risks for the Council as landlord relate to regulation and in particular compliance which is designed to ensure tenants and leaseholder are safe in their homes. Some HRA risks relate ensuring income is generated at the appropriate levels both rent and service charge collection and limiting void periods.

3.3 The following general risks and uncertainties have been identified when setting the budget for 2024/25.

Regulatory and Compliance

3.4 **Government Rent Policy:** A risk that applies not only to the Council but the whole Housing Sector is that the government's Rent Policy gives no direction after 2025/26 at CPI+1%. The rent settlement formula to be used from 2025 onwards has not yet been announced and the housing sector await the government publishing an initial consultation on the rent settlement from 2025. The business plan has to apply assumptions where no certainty can be applied.

3.5 The business plan assumes income does increase at 3.25% in 2025/26 and 2% thereafter. The service has in recent years experienced the impact of rent freezes and this does create long term and non-recoverable income loss to the business plan. However, if the government permit CPI+1% over a sustained period of time the service can invest more and faster in stock services and stock.

3.6 **Decent Homes Standard:** The decent homes standard is a key indicator on how well the council are investing in their homes and one of the indicators to ensure tenants live in good, thermally comfortable and heathy homes. The Council predict to have c1.8% non-decent homes as at March 2024. This is down from c3.5% as at March 2023. The two operating models differ in their performance with HiS achieving 0.18%. The Council aim to achieve 0.5% across its stock by March 2025 which would reflect top quartile performance. The most challenging element to eliminate non-decent homes relates to achieving sufficiently low Standard Assessment procedure (SAP) on some property architypes whilst also allowing affordable warmth. Although the Council has access to c£25m of grant the Business plan is being cautious and not including grants towards net zero until deliverability is more certain. This approach may allow the HRA to outperform its business plan.

3.7 **EPC C 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. If this standard is not achieved, then those properties would not be available to let and would result in lost income. This investment has been built into the business plan although delivery and the particular needs of some properties will continuously challenge the services ability to deliver EPC C. The average estimated cost of c£3600 per unit to achieve EPC C. Grant funding will allow costs to be reduced.

3.8 **Net Zero Carbon:** There is a requirement of the Council to ensure their housing stock is zero carbon by 2050. The industry has calculated this cost at £24k per unit and this assumption has been placed in the Business Plan. However, if the service integrates net zero investment with its decent homes investment, travels in a straight line through EPC C and then to net zero without undoing previous investment it will reduce the financial requirements to achieve net zero. In addition, if the service continues to attract grant and subsidy, dispose of the properties unable to achieve good thermal efficiency and build new homes to net zero standards the service will outperform the business plan.

3.9 **Landlord Compliance:** 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. The likelihood of RAAC in the Council's architypes is low but the service has been surveying a small number of buildings and has not identified structural risks.

3.10 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. Performance has significantly improved and predicts top quartile industry quartile performance by April 2024

3.11 **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. Further detail on 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 Act 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 the Council with additional impetus for the two operating models to share best practice and learn from one another. The in-house service is focussing 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.

3.12 **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 Council will have a single strategy and delivery priorities towards Net Zero. The bringing together the two operating models under one HRA allows greater scope for securing grant and delivering energy efficiency works.

3.13 **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. The current MTFP / Business Plan projects that the Council will meet their 1-4-1 spend requirements during the next six years.

Economic Operating Environment

3.14 **Inflation:** The economic operating environment has been significantly turbulent the last few years with the Consumer Price Index (CPI) reaching 10.7% in September 2022. The CPI in September 2023 has fallen to 6.7% and prudent rates of inflation for 2024/25 budget estimates have been applied to the cost of supplies such as utilities, contracts, materials. The budgets have been set based on an estimated 4% pay award, but no official decision has been made.

3.15 **Cost of borrowing:** The Bank of England has maintained interest rates at 5.25% after reaching a 15 year high in August 2023. This is having a significant impact on the budget estimates for 2024/25, the MTFP and the 30-Year Business when (a) existing debt (currently all on fixed rates of borrowing) falls due and a decision is made to re-finance this debt on current market rates, (b) any in-year borrowing or investment between the General Fund and HRA within the Council based on the year end Capital Financing Requirement, and (c) to finance any new borrowing requirements.

3.16 The PWLB has applied 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 30 June 2025) qualifying loans will attract a margin of 0.40% above Gilts which is a discount of 0.60% below the published PWLB rates.

3.17 The Council continues to explore opportunities to subsidise schemes and reduce the HRA's borrowing requirements through grants available from Homes England and Social Housing Decarbonisation Fund, Energy Company Obligation, respectively for (a) social housing development and regeneration schemes, where the Council 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, and (b) for the Major Works and Improvements Capital Programme, where costs are increasing to fund the delivery or EPC C by 2030 and Net Zero Carbon by 2050, if the programme exceeds the annual depreciation contribution to the Major Repairs Reserve then the Council will need to borrow to finance the remaining.

3.18 **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.

3.19 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. 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. The service is increasing its contract management capacity to ensure effective contractor oversight.

3.20 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 Works) 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.

3.21 **Recruitment:** The Council is experiencing recruitment issues (as seen country-wide) to fill vacancies. This is greater in trades and technical skills such as compliance and surveying. Unfortunately, where the service is unable to attract permanent staff with the skills necessary it turns to agency workers which bring higher cost and by their nature are transient. The In-house landlord service has recruited five graduate recruits and both delivery models try and support a small number of apprentices. The HRA has renewed its enthusiasm for growing our own talent.

3.22 **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

3.23 **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. In addition, the inability to fully deliver the capital programme (mentioned under 3.14) inevitably pushes the cost of our repairs (and voids) up, making these budgets difficult to manage. We therefore caveat the forecasts in these areas to account for fluctuations.

3.24 **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 be a positive, if there is sufficient officer capacity to meet it as early intervention can limit damage and save maintenance costs to the landlord.

3.25 **HRA Service Level Agreements with the Council:** The HRA has been systematically reviewing and formally agreeing new service level agreements, as part of the new unitary council, which will help 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.

3.26 **General Fund financial pressures**: There are various risks to the HRA due to the Somerset Council's General Fund financial pressures. One risk is the suspension of grants to the HRA if a Section 114 notice is served. Grants that could be impacted would include all Homes England grants including the recently awarded £5m regeneration grant and other grants supporting growth, as well as the energy grants.

3.27 In addition, cost pressures to Somerset Council's General Fund could impact on the level of support available to tenants with complex needs (e.g. mental health support, social care support, learning disability services; externally funded advice and support services). This may result in more tenancy breakdown, antisocial behaviour and complex behaviours requiring far more intensive officer support which will increase our costs and reduce our ability to provide a good service.

3.28 **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.

Technical Accounting Risks

3.29 **Bad Debt Provision:** The budgeted bad debt provision of £197k 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.

3.30 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.

3.31 **Unitary Council:** The landlord functions have transitioned well into the new authority. The structure of the service now reflects the overarching responsibilities of the Council as it delivers services to tenants through two different delivery models, the in-house service and Homes in Sedgemoor. The creation of a small team responsible for the HRA business plan, regulation, compliance, asset strategy and overall landlord performance for all 10,000 homes moves the service forward. The council is set for driving forward an option appraisal commencing in the next eighteen months. The service has managed to establish governance arrangements to ensure timely decision making for the councils inhouse and arms-length management organisation. The challenges since April have included working with new financial systems, learning other corporate software including financial, risk management software and working to procedures such as those in relation to recruitment and governance.

3.32 The Business Plan provides comfort that the costs of the HRA can be met in the short and medium term if income is maximised and capital and net zero programmes are efficiently delivered. 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.

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 and will need to review these on an annual basis to determine whether future delivery can be afforded.

5 Scrutiny Comments / Recommendations

5.1 This report will be considered by Corporate and Resources Scrutiny on 1 February 2024. A summary of the comments and recommendations discussed will be provided here (or a verbal update) for the Executive to consider on 7 February 2024.

6 Background and Full details of the Report

6.1 Since the 1 April 2023, Somerset Council has managed two landlord operating models which 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).

6.2 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 there are 599 leasehold properties (489 from SWT and 110 from SDC).

6.3 The 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 capital debt taken on 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.

6.4 In order to manage the freedoms gained by the HRA through self-financing, a new **30-Year Business Plan** (2012-2042) was introduced. The plan is reviewed and updated on an annual basis, to take into consideration changes in national policies, local aspiration and the economic operating environment. The plan sets out the Councils' overall aims and objectives for the Housing Service, as well as laying out plans to manage the increased risks and opportunities.

6.5 The HRA 30-Year Business Plan has been reviewed and updated again as part of the 2024/25 budget setting cycle. In light of the update provided to Members on the 13 February 2023[1] (Housing Revenue Account Rent Set Report 2023/24 and Updated 30 Year Business Plan) which highlighted that balances were projected to fall below minimum levels in year 8, significant changes have been proposed to the capital programme. The balance is now projected not to fall below minimum levels until 2048/2049. Amendments to the business plan has pushed back this key risk by 18 years. The key changes / updates to the plan are described in section 7 below.

6.6 The system of 'self-financing' does bring financial benefits and more flexibility,

[1] Housing Revenue Account Rent Set Report 2023/24 and Updated 30 Year Business Plan – SCC Full Council 22 February 2023 (Paper E)

especially since the borrowing cap was removed on the 29 October 2018 which assisted with the ability to fund new build development. However, the HRA is still **heavily regulated** from both a financial and operational perspective. For example, rent increases are restricted by the Regulator of Social Housing's Rent Standard and there are specific regulations which govern eligible income and expenditure to prevent cross subsidy with the General Fund.

6.7 In addition, the HRA faces regulatory pressures in terms of substantial investment required in existing stock and management resources to deliver (a) the Decent Homes Standard that stipulates the condition of properties (b) building safety compliance (as per the requirements of the Building Safety Act 2022 and the new regulatory regime being introduced by the Building Safety Regulator), (c) the requirements of the Social Housing (Regulation) Act which hold Housing Providers (including council managed housing) to account for poor performance, (d) EPC C by 2030 as set by the government under the Clean Growth Strategy 2017, (e) decarbonisation commitments by 2050, as well as (f) continuing to invest in much needed new homes.

6.8 The HRA continues to face a number of risks and issues, some 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 our existing housing stock to achieve EPC C by 2030 and Net Zero Carbon by 2050, as well as trying to maintain our housing stock levels through new build social housing development schemes. These risks and issues are discussed in section 3 above.

6.9 **Opportunities of One Single HRA and Joint Working within the Unitary Council:** 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 and improve its decision making. 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.

6.10 The Council in c18 months will commence an options appraisal of its HRA management and ownership arrangements for its 10,000 homes. The options appraisal will require a comprehensive look at the opportunities to deliver landlord services. The options would tend to be: stay as we are (two delivery models), a single council management organisation (Inhouse or ALMO) or stock transfer. The speed at which the Council will be able to consider options will depend on the quality of the preparation for the appraisal. To ensure the option appraisal process which will involve, Members, Staff and Tenants a transitional programme has been designed. This programme entitled 'Preparations for Option Appraisal' has four projects which are:

- Successful Desegregation of Landlord and HRA - this transition project is now advanced
- Increasing capacity of Tenant Engagement within landlord services – Both HiS and the Inhouse service are working separately and collectively to support a strong body of engaged tenant
- Communication, publicity & promotion – This will be a critical element of the option appraisal to ensure Member, Staff and Tenants are engaged during the option appraisal process and influencing the preferred option.
- Ensuring robust financial data to support Options Appraisal – Ultimately the Council will be seeking to ensure tenants are able to receive the best services and quality of accommodation. The option appraisal process requires the capacity of the council's financial expertise to ensure the strengths of the different operating models are measurable and able to be compared.

7 HRA 30-Year Business Plan Review

7.1 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. within the capital programme) 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.

7.2 The combined HRA 30-Year Business Plan presented to Members on the 14 December 2022 and 13 February 2023, showed that the forecast for general balances fell below minimum levels in year 8 (2029/30), and that it was recommended that the New Council would need to review the Business Plan and the Housing Strategy for the whole of Somerset.

7.3 The Business Plan has been updated to reflect the Budget Estimates for 2024/25 (see section 8 below) as well as updated assumptions surrounding the current economic operating environment. These updates have been reviewed by an independent financial housing advisor, Altair (Housing Finance Associates Ltd).

7.4 **Baseline Summary:** The assumptions contained within the updated Business Plan presents a starting position that is affordable for much of the planning period but becomes financially unsustainable from 2048/49 when balances fall below minimum levels - the key performance measures described below provide more explanation on this. Where the previous forecast for general balances fell below minimum levels in year 8 (2029/30) the updated Business Plan is showing a **significantly improved position** with general balances maintained until year 25 (2048/49).

7.5 The projections allow for a substantial decarbonisation requirement which increases costs substantially from current levels but is not supported by additional income or funding. The financial impact of this additional cost has been partly mitigated by a medium-term efficiency programme and reduced corporate costs, alongside the current government grant schemes and increased expectations for open market asset sales built into the Baseline projections. There is emerging intelligence on decarbonisation and other pressures meaning that the position will continue to evolve. However, further mitigating actions will be required to provide an affordable position with capacity for new homes and other potential pressures and to safeguard the long-term financial sustainability of its HRA.

7.6 **Future New Build Social Housing Programme**: The current Business Plan does not have the capacity to deliver a development programme (after 6 years) to fully meet the RTB 1-4-1 spend requirement over the 30-year period. This is due to the capital investment required to deliver EPC C by 2030 and Net Zero Carbon (decarbonation) by 2050, whilst ensuring that the development programme can meet 1-4-1 spend requirements over the next 6 years.

7.7 The RTB position is a strategic financial risk that will need to be managed on an annual basis to ensure that RTB 1-4-1 spend targets can be met for the following 6 years with each iteration. If this is not possible then the Council will need to consider building capacity into the business plan to make this affordable (e.g. embedding further efficiency savings, reducing major works and improvements capital programme, etc), otherwise the Council will need to consider gifting the receipts to a Registered Housing provider or repaying capital receipts upon sale to the Treasury to avoid interest payments of 4% above base rate. The HRA and Housing Enabling teams believe this is a manageable challenge with a focus on growth and grant as well as the opportunity to develop a county wide Registered Provider partnership in the next 2 years.

7.8 **Potential Options for Mitigation:** Altair have suggested some potential options to mitigate the reducing affordability of the Business Plan in later years to include prioritising the reduction of underlying costs where possible, to review procurement arrangements and renegotiate contracts where possible, ensure HRA share of corporate costs is reasonable and will be one of the key themes of the option appraisal process. The alignment of the capital/ decent homes programme, grants and net zero could considerably reduce the business plans assumed investment in net zero. This mitigation has already commenced with the HRA being able to access up to c£25m of grants for low energy over the next three years.

7.9 The HRA needs to operate as a long-term business. We recommend establishing and embedding a business-like approach that maintains a continuous focus on minimising costs and maximising income. This will help the council to generate additional financial capacity continuously as part of its response to emerging pressures and opportunities, while investing in its stock and improving outcomes for tenants.

Key Assumptions and Main Changes

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

- Revenue Budget Estimates for 2024/25
- Capital Programme for the next 10 years
- Underlying inflation assumptions with Consumer Price Index (CPI) at 3.25% for 2025/26 (Bank of England Monetary Policy from November 2023) and 2% from 2026/24 onwards (long term HM Treasury Target)
- Dwelling Rent increases assumed of 7.7% in 2024/25 and CPI thereafter
- Existing properties relet at formula rent
- Rent flex continuing for homes managed by the in-house service only
- Void loss at 2.0% of gross rental income from 2025/26
- RTB Sales if 55 per annum with an average sale value of £100k
- Interest on new debt at 4.5% until 2025/26, reducing to 3.5% thereafter
- Minimum reserves position of £3.722m
- Efficiency gains of 2% from 2025/26 to 2029/30 on general management as well as repairs and maintenance
- Reduction of £700k in corporate costs in 2025/26
- Increased income of £50k pa for 5 years starting 2025/26 from service charges full cost recovery review
- Increased capital receipts of £1.225m per year from 2024/25
- Social housing development programme to include the approved Penlea House, Bigwood and Staple, Bespoke Homes 1, Syndenham, Carrotts Farm, Stafflands Farm, Cricketers, Seaward Way, Oxford Inn and North Taunton Woolaway Project,

Local Authority Housing Fund units.

- Social housing development programme to include the proposed Taunton Road, Bespoke Homes 2, Rochester Road and Step Down / Move-On Accommodation, appropriated properties from the previous SSDC.

7.11 **Main changes to the Business Plan:** The main changes to the Business Plan key assumptions and projections from February 2023 include increased income projections, reduction in revenue costs, increased capital receipts from asset sales, increased efficiency savings target, increased major works and improvement capital programme to deliver decarbonisation, a reduced development and regeneration programme. Further information can be found below:

(a) Projected income levels are now higher. This is primarily caused by:

- a greater rent increase for 2024/25 (7.7% compared with 6.5%)
- a current expectation that rents will increase by 3.25% in 2025/26 (previously 2%)
- the current version also includes a mitigating action on service charge recovery, which improves the position further over the medium term
- these result in higher levels of revenue income from 2029/30 onwards

(b) Revenue costs are much lower. This appears to be driven by:

- mitigating actions for delivering efficiency gains and cost reductions over the medium term, which reduce operating costs substantially
- lower interest rates of 3.5% from 2026/27 assumed for new borrowing in the current projections (the previous projections assumed 4.5%)

(c) Capital expenditure projections are quite different, but produce similar levels of investment by 2051/52, however the capital financing is different due to the focus of delivery:

- the current projections prioritise EPC C by 2030, Net Zero Carbon by 2050 and investment in the existing stock over new build.
- whereas the previous version focused on the decent homes standard, had some decarbonisation built in for the in-house service but none for HiS, and had an

extensive new build programme.

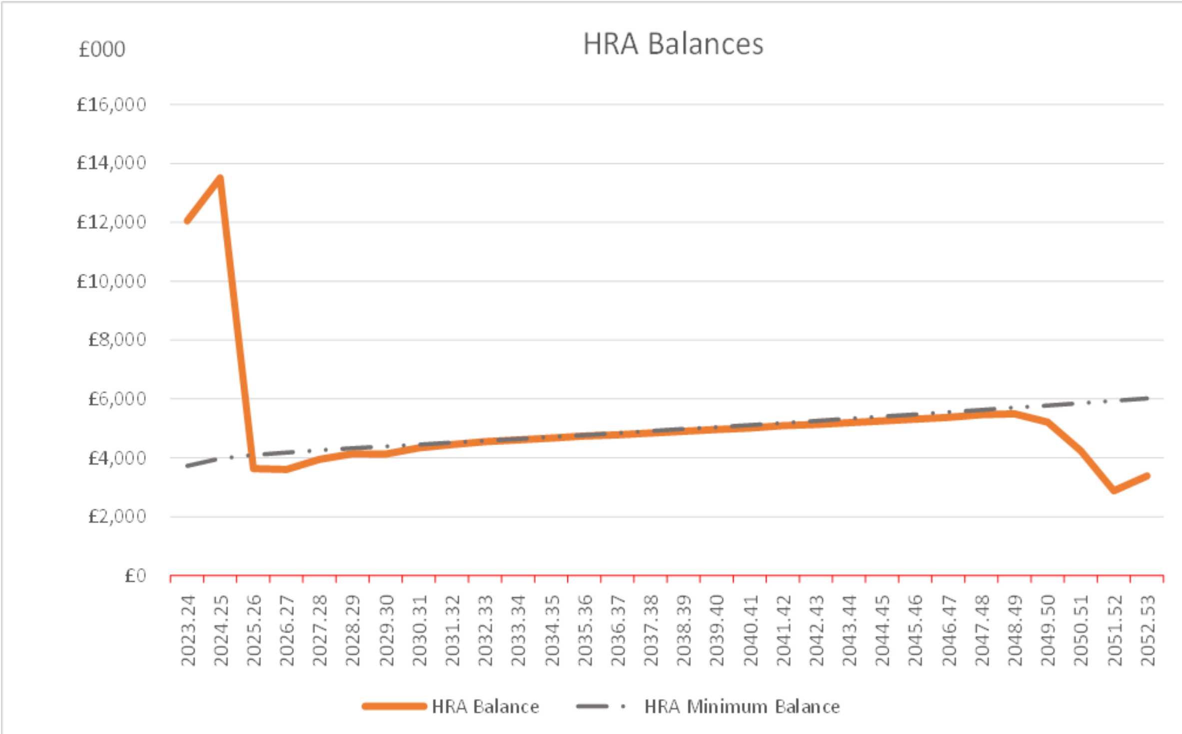
(d) Debt levels are higher under the current version:

- debt levels are higher because the HRA CFR at 1 April 2023 is £20m higher than projected in the previous version. This matches the new loans taken out by the HRA in March 2023.
- decarbonisation spending is also driving debt levels up and were not included to the same extent in the previous projections.
- higher overall income levels and the effects of assumed mitigating actions mean the greater projected debt level is more affordable.

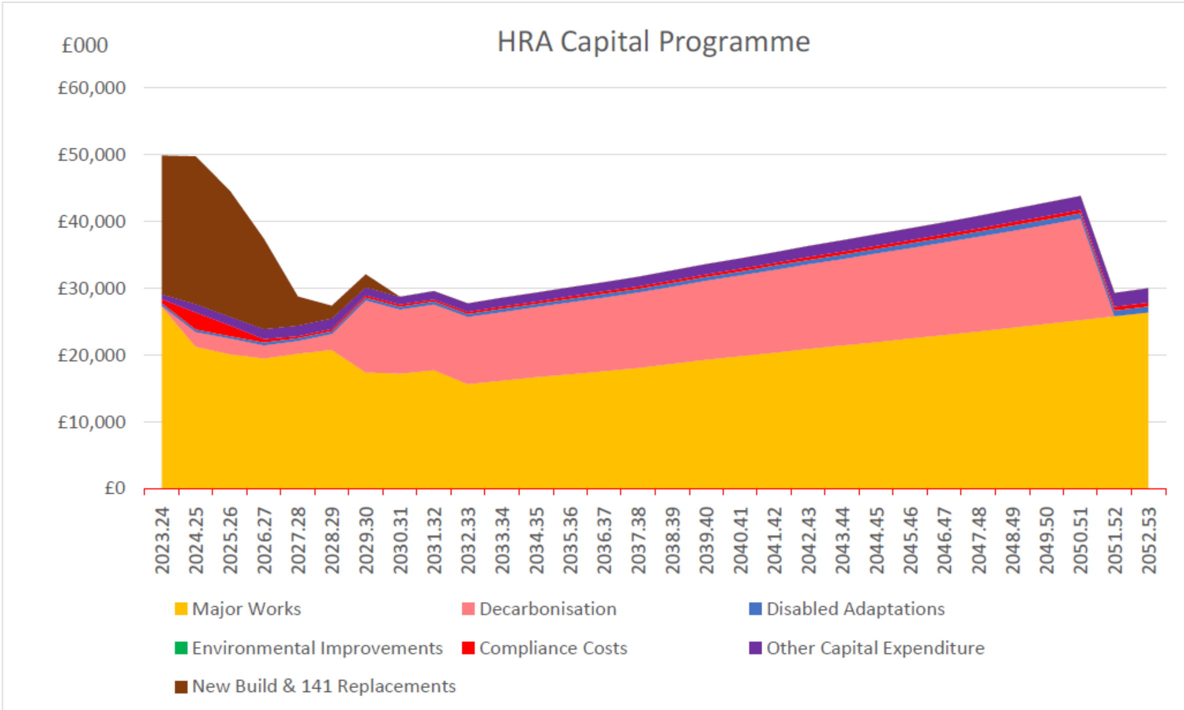
Key Performance Measures

7.12 The following key performance 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.

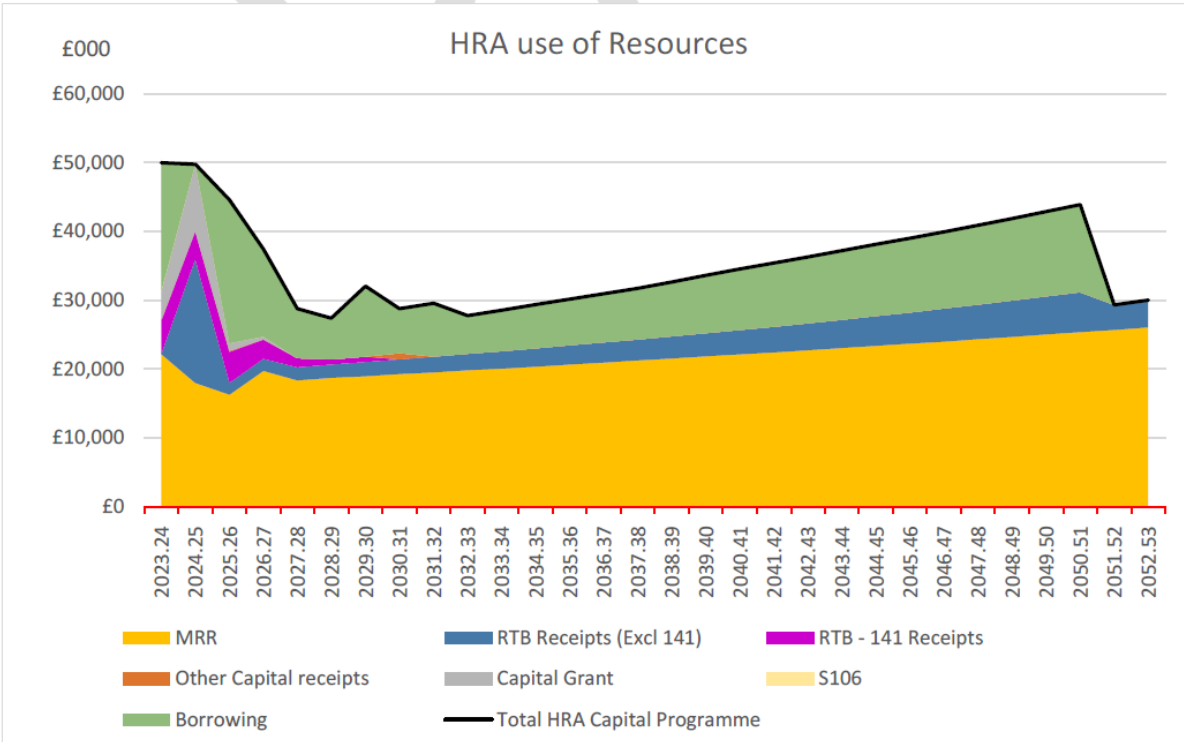
7.13 **Minimum General Reserves Balance:** This is maintained at above the recommended minimum balance of £3.722m throughout the majority of the forecast, dropping below in year 25 (2048/49). The business plan assumes that any “excess” rents generated are made available to repay debt.



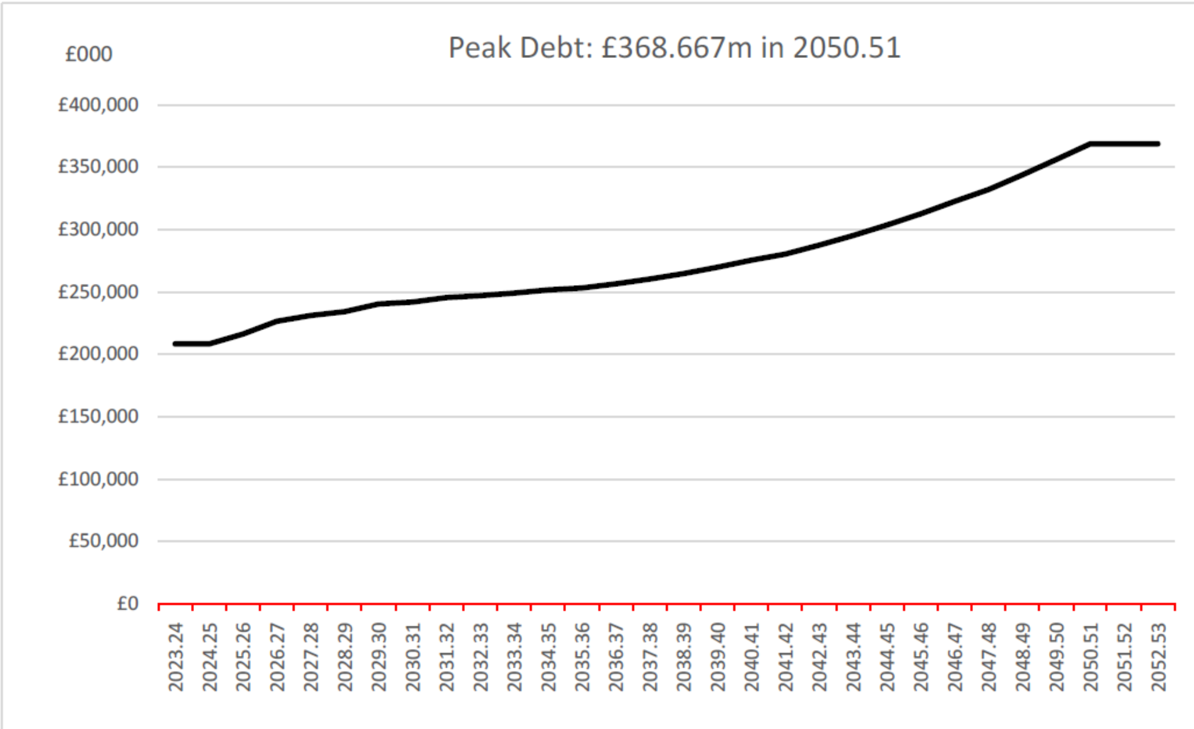
7.14 **Capital Programme**: The proposed capital programme allows for a new build programme that produces 448 new properties by 2029/30 (brown area), while continuing to maintain the existing stock (amber area). The investment requirement increases after the medium term to make allowance for the potential costs of decarbonisation investment (pink area).



7.15 **Capital Financing Requirement**: The Council is able to finance this capital programme using a combination of projected resources and additional borrowing. The chart shows that the Council remains heavily reliant on borrowing to finance the capital programme throughout the period.

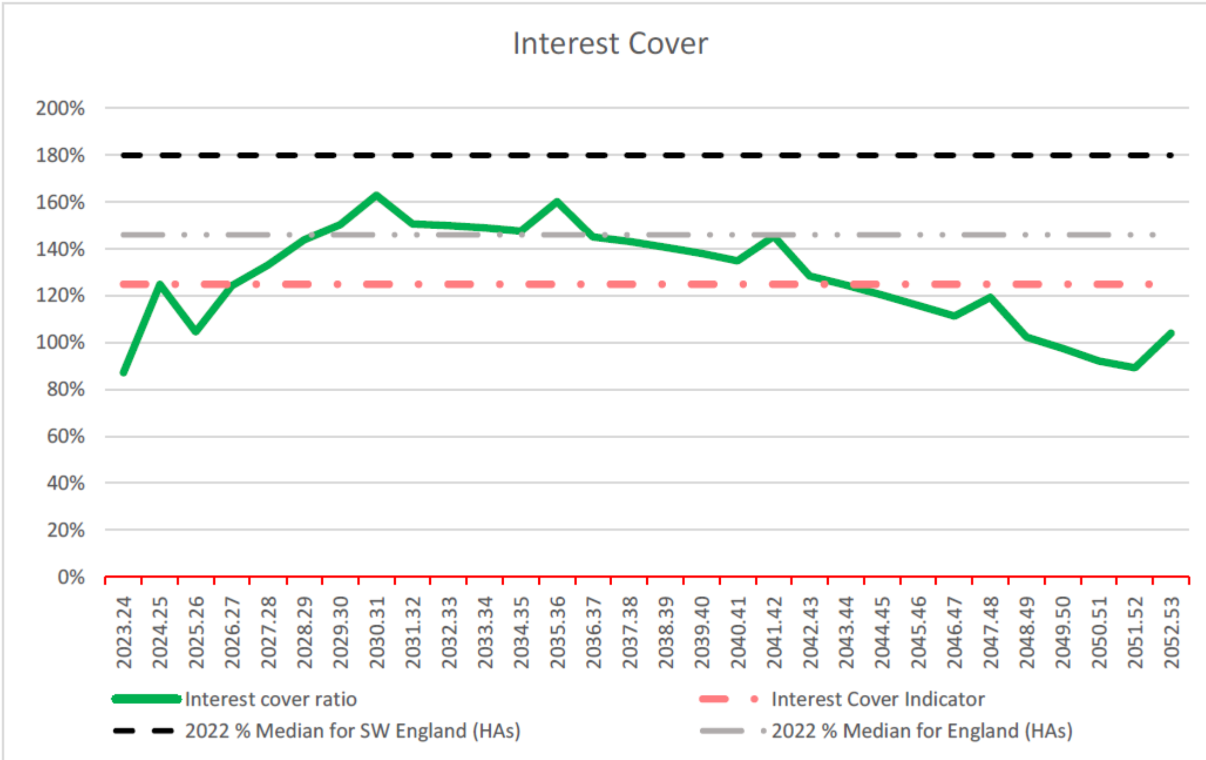


7.16 **Level of Debt:** This shows the level of borrowing required to finance the capital programme which is greater than the ability of the HRA to repay debt. Peak debt of £368.667m is reached in 2050/51, which corresponds with the end of the substantial decarbonisation investment programme. Debt then remains at this level for the last two years of the projections. Revenues are not strong enough for the authority to start reducing debt levels at any point during the projections. Instead, HRA debt continues to rise until year 28, exposing the authority to potential interest rate risk.



7.17 **Interest Cover**: The interest cover (green line) measures the ability of the HRA to pay the interest charges associated with its debt. The dashed pink line on this chart provides an indicative rate of 125%, at which the authority's operating surplus would be enough to cover the cost of interest charges, plus a further 25%. To facilitate comparisons, the two grey lines indicate median levels of performance for housing associations. This measure is widely used by housing associations and indicates the ability to pay for debt-related costs.

7.18 Mitigating actions included within the projections over the medium term enable the HRA to improve its performance to the 125% level and above from 2026/27 to 2043/44. The authority would need to agree and implement further actions to prevent debt levels becoming unaffordable from 2044/45 onwards.

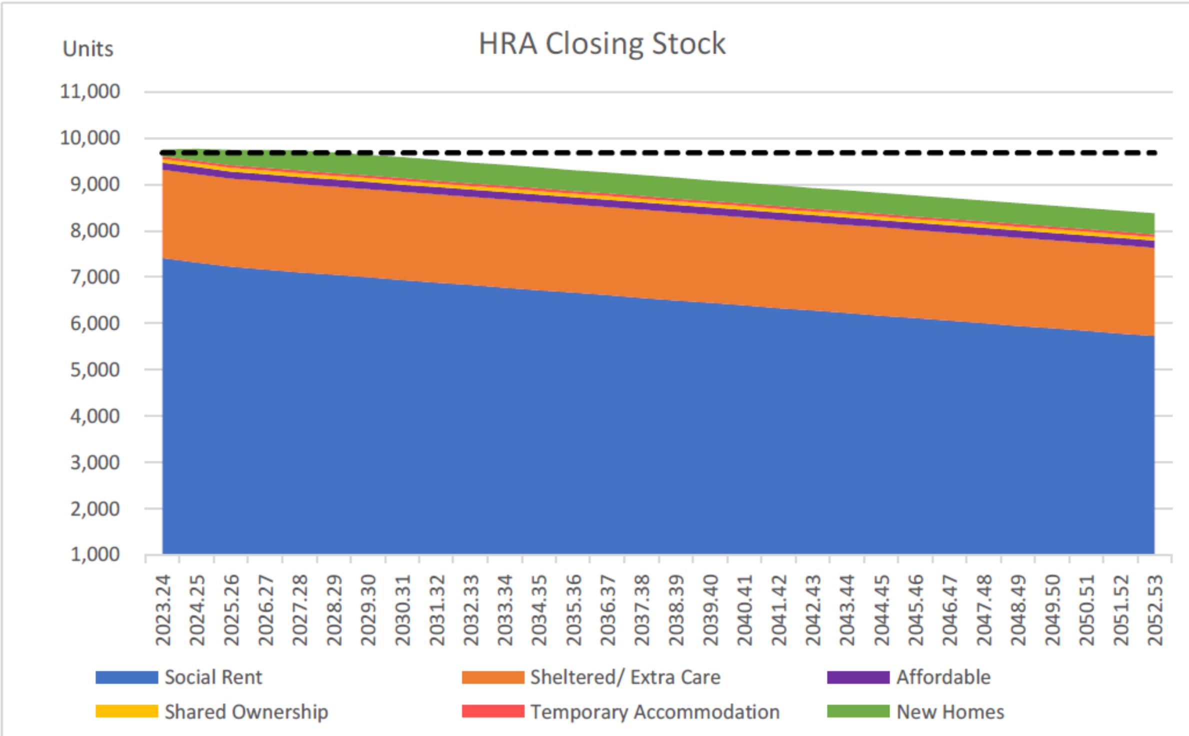


7.19 **Stock Levels**: The final chart shows the movement in stock numbers, taking into account the expected new homes, regeneration of existing dwellings, along with the effects of continuing RTB sales and other disposals.

7.20 This chart sees stock numbers keeping pace with the rate of disposals while the development and regeneration programme is delivered, reaching a peak of 9,774 homes in 2024/25. During this period the number of dwellings stays at around current levels (shown by the black dashed line).

7.21 From 2028/29 the number of homes declines each year from continuing right to buy sales estimated at 55 units pa and a fall in development schemes. By the end of the

30-year projection the stock drops to 8,381 units.



Scenarios and Sensitivity Testing

7.22 Altair have tested the projections in the Business Plan using a range of scenarios and sensitivity testing which show that the HRA is very sensitive to changes in the underlying assumptions.

7.23 There were eight specific scenarios that were assessed for their impact on affordability and financial sustainability – the impact on general reserve balances, the level of capital financing requirement, the ability to generate net income that is 125% or more of the cost of interest on debt and the ability to repay or reduce debt over the long term – to illustrate the potential impact on the HRA of different decisions and changes in the operating environment. These scenarios included:

A. Reducing rent loss from void properties to 1.5% from 2025/26.
B. Extending the use of rent flexibility to dwellings re-let by Homes in Sedgemoor.
C. Increasing the number of dwellings sold on the open market to 5 a year from

2025/26 to 2029/30.

D. Combining scenarios A to C, above.
E. Implementing a 5% rent increase for existing tenants in April 2024.
F. Implementing a 0% rent increase for existing tenants in April 2024.
G. National policy on rent increases returns to CPI +1% from 2025/26 to 2028/29.
H. The Council receives 20% external funding for investment in decarbonisation.
I. Interest rates increase by 1% against the baseline assumptions from 2026/27.
J. Interest rates decrease by 1% against the baseline assumptions from 2026/27.

7.24 In summary, any reduction in the level of income generated negatively impacts on the financial health of the HRA (scenarios E and F) as this has a cumulative impact on the overall position. The HRA will have fewer financial resources to support investment or respond to emerging pressures. The HRA would have to borrow more to finance its capital programme which means it also has to use a greater share of its rental income to service and repay debt. These scenarios caused the HRA to go into deficit over the long term which could lead to a potential unlawful situation.

7.25 Conversely, the position improves if the Council maximises income (scenarios A and B) within elements of their control – with rent flex having the largest positive impact – or the national policy announces CPI+1% from 2025/26 onwards or the government announces additional funding for investment in decarbonisation. These scenarios all reduce the HRA's borrowing requirement which would lower the level of interest charges on debt. Lower interest charges allow more of the income from tenants to be used to respond to emerging pressures, invest in the stock or develop new homes.

7.26 Exposure to interest rate variability is a key risk within the HRA projections. The Council will need to review and update its modelling assumptions regularly to ensure that exposure to this risk is understood and remains manageable.

8 Budget Estimates for 2024/25

8.1 Members are asked to approve the proposed HRA Revenue Budget for 2024/25 as shown in **Appendix A**

8.2 The HRA revenue budget's main items of expenditure are management and maintenance costs, interest payments and depreciation costs. The budget also includes income incurred from managing the Council's own housing stock and closely related services or facilities, which are provided primarily for the benefit of the council's own tenants. The main sources of income are from tenants in the form of rents and service charges).

8.3 Table 1 below provides a summary of the main proposed changes to the annual revenue budget estimates from 2023/24 to 2024/25.

Table 1: HRA Budget Setting 2023/24 to 2024/25 Changes

	£000	£000
Original Budget 2023/24 (balanced)		0
Reversal of One-Off Budgets in 2023/24:		
RCCO		**- 1,163**
Contribution from General Reserves		**1,650**
Other		**30**
Pressures in 2024/25:		
Inflationary Pressures -		
Depreciation	803	
Salary Costs (23.24 and 24.25)	741	
HiS Management Fee	432	
Cost of Materials	380	
Internal Recharges	200	
Insurance Premiums	158	
Other Inflation	154	
Growth Bids -		
Interest Payable	591	
Compliance	243	
Pre-Planned Maintenance	161	
Subscriptions	108	
Training	60	
Staff Changes for revisions in Structure	50	
Voids - Utilities and Rates	50	
Bad Debt Provision	50	
Other Pressures	259	

Total Pressures		**4,425**
Savings / Increase in Income in 2024/25:		
Dwelling Rental Income	5,730	
Fleet Contract (IFRS 16)	267	
Service Charges Income	217	
Other Savings	18	
Total Savings / Increase in Income		**6,232**
Budget Gap		- 1,291
One-Off Funding to General Reserves		1,291
Proposed Original Net Budget for 2024/25		0

8.4 The main changes over £50k creating a pressure include:

8.5 **Depreciation**: The depreciation charge for the HRA is transferred to the Major Repairs Reserve (MRR) to be reinvested in the housing stock through financing of the capital programme and/or repay capital debt. Depreciation is calculated based on each of the major components of each property, for example kitchen, bathroom, roof, etc. The estimated budgeted growth relates to the projected increase in Housing Price Index inflating the value of the dwellings and the Construction Output Price Index inflating the component replacement cost of materials.

8.6 **Staffing Changes and Inflation:** There is an inflationary cost increase of c£741k for the 2023/24 pay award top up (as the budget estimate was only 5%) and an estimated 4% pay award for 2024/25, based on the new structure.

8.7 This pressure includes a net growth of £50k for the revisions in the structure de-segregating the in-house service and creating a small HRA business function. This included an increase in costs of £870k offset by an increase in staff funding of £200k from grant income and a proposed transfer of £620k for some functions that were previously delivered through the shared staff arrangement with the GF into the HRA base structure. In addition, the HRA has the benefit of capitalising some additional posts in the structure, utilising the SDC's residual HRA budgets in a way more appropriate following LGR and the annual reviews of service level agreements with the general fund will ensure small increases in staffing costs are affordable.

8.8 The new structure of the HRA has aligned the responsibilities to be more alike responsibilities being undertaken by HiS. A new HRA business function holds the responsibility for the HRA business plan, income, asset investment and development programmes including Net Zero. The small HRA business function oversees the Council's regulatory responsibilities (compliance, RTB, Social Housing Regulation Act) and strategic direction such as asset management and zero carbon strategies. The HRA business function ensures both operating models are aligned to the priorities of the Council and Council tenants across the local authority can benefit from similar standards. The structure has little change for HiS who benefit from a comprehensive management agreement however the housing enabling function will come back in house from April 2024.

8.9 **Homes In Sedgemoor (HiS) Management Fee:** The housing stock in the North of the county (from the legacy Sedgemoor District Council area) is managed by HiS under a management agreement with HiS being paid a fee. The annual management fee payable to HiS is included in the business plan and includes an annual inflationary increase of £409,000. If HiS require additional funding this has been requested as growth in addition to the annual fee. The total Housing Management Fee payable to HiS in 2024/25 is £10,142,500.

8.10 Table 2 below shows how the management fee is allocated out across the HRA, noting the budget allocated to each line will be updated in year by advice from HiS.

Table 2: HiS Revenue Management Fee for 2024/25

	£	**£**
Income		**1,224,400**
Expenditure:		
Repairs and Maintenance	4,943,600	
Supervision and Management	4,842,200	
Special Services	844,400	
Rents, rates taxes and other charges	736,700	
Total Expenditure		**11,366,900**
Net Management Fee		**10,142,500**

8.11 **Cost of Materials:** The in-house landlord service includes budgetary provision to cover the costs of undertaking minor repairs and maintenance and void refurbishments to its existing assets on an annual basis. The budgets have been inflated by 15% to represent the expected rise in the cost of materials.

8.12 **Internal Recharges:** These are charges for costs shared by the General Fund and the HRA such as office space and ICT systems, as well as staff and share of the corporate and democratic core. These shared costs have been inflated to estimate the expected costs in 2024/25.

8.13 **Insurance Premiums:** The housing premiums were sourced on a competitive tender process. The Insurance market for local authorities in particular is extremely hostile at present, with the overall market responding to the global economic downturn and the cost of materials, labour and reinstatement have driven significant increases in claims inflation. The pressure increases the budget to the estimated insurance premiums for 2024/25.

8.14 **Other Inflation**: This pressure relates to estimated inflationary increases related to operating expenses such as electricity, gas, water, business rates, as well as contracts such as waste disposal, cleaning, fleet and fuel. This also includes inflationary increases on the Service Level Agreements with the GF for the Deane Helpline and Grounds Maintenance.

8.15 **Net Interest Payable:** The majority of our capital financing requirement is funded from existing long term borrowing which continues into 2024/25 and 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 £4.510m. An assumption has been made that the HRA will refinance £12m at 4.5% at the end of 2023/24 adding a further cost of £550k. The remainder of this budget is subject to the year-end capital financing requirement and position of reserves; the assumption has been made that the HRA will end the year with internal borrowing of c.£1m but is highly likely to change.

8.16 **Compliance Activity:** The HRA undertakes a number of compliance activities across its services including gas safety checks (LGSR's), water risk assessments and remedial works, electrical inspections (EICR's), asbestos surveys and re-inspections, fire risk assessment and remedial works, fire safety checks, and lift and stair-lift checks and remedial work. The estimated spend on delivering this activity is reviewed on a regular basis and feeds into the annual budget setting process.

8.17 **Pre-Planned Maintenance:** Following a comprehensive survey of the need for pre-planned maintenance (primarily external decorations) to be undertaken urgently on

HRA properties, an additional budget requirement has been determined to ensure appropriate works can be funded to protect these assets during 2024/25.

8.18 **Subscriptions:** The majority of this relates to the mandatory charge from the Regulator of Social Housing, which is proposing a £7 charge per property across our housing stock of nearly 10,000 homes. In addition, there is a £20k increase in charges from the Housing Ombudsman which we are obliged to pay, as well as a new subscription for Housing SouthWest.

8.19 **Training:** The Government has introduced a new requirement in the Social Housing Regulation Act that requires housing staff and managers to have appropriate qualifications and reflect a high standard of professionalism. The Council will be inspected against these regulations and expected to comply, meaning many existing officers will have to go on professional training courses for qualifications. This requirement is being phased in, but the service will be required to evidence progression towards this professionalisation which will carry a significant training cost across the service's staff.

8.20 **Voids – Utilities and Rates:** This is a combination of inflationary growth for gas, electric and water costs where the Council is liable on void properties, but also an increase in budget provision for Council Tax on void properties as the discount for empty properties was removed from 1 April 2023 (after the 2023/24 budget was proposed).

8.21 **Bad Debt Provision:** A bad debt provision is budgeted to reduce the expected income to be received from dwelling rents and service charges for write offs. This has been increased proportionately based on gross dwelling rents and service charges.

8.22 **Other Pressures:** These are growth items that are less than £50k individually and include budget for the Tunstall annual contract payment, pension deficit increases, a new tenant portal system, provision for price increases for software contract renewals, provision for a grounds maintenance SLA with the GF for septic tank sites, a reduction in meeting hall rental income, a "hard to access" budget, budgetary provision for tenant strategic group elections and consultancy support for service charge project to maximising full cost recovery.

8.23 The main changes over £50k resulting in savings / increase in income include:

8.24 **Dwelling Rent Income**: As per section 10 below, we are proposing to increase rents by

7.7% - generating approximately £3.5m extra in rental income. The target void rate for 2024/25 has been reviewed and on average this is reducing – generating approximately £634k extra income. Table 3 below shows the 2023/24 and 2024/25 budgeted void rate target. The aim is to reduce this void rate further to achieve an average of 1.5% across the entire HRA stock (for general needs, sheltered and extra care).

Table 3: Proposed budgeted void rates for 2024/25

	In-House Void Rate				
	2023/24 Budgeted Void Rate	**2024/25 Budgeted Void Rate**	**Change**	**2024/25 Estimate Stock Numbers**	**2024/25 Estimated Void Numbers**
GN	1.82%	1.08%	-0.73%	4662	85
SH	1.34%	1.12%	-0.22%	892	12
EX	11.36%	11.63%	0.26%	86	10
Average / Total		**1.89%**		**5640**	**106**
	HiS Void Rate				
	2023/24 Budgeted Void Rate	**2024/25 Budgeted Void Rate**	**Change**	**2024/25 Estimate Stock Numbers**	**2024/25 Estimated Void Numbers**
GN	1.02%	1.00%	-0.02%	3140	32
SH	2.50%	2.00%	-0.50%	825	21
EX	2.50%	2.50%	0.00%	96	2
Average / Total		**1.35%**		**4061**	**55**
HRA Average Void Rate		**1.66%**		**9701**	**161**

8.25 During a typical financial year, the HRA collects rents and service charges from tenants over 52 weeks per year – this is based on the number of Monday's that fall within the year. However, on average every 5 or 6 years there will 53 Monday's falling within a year. The financial year 2024/25 will be a 53-week year and as such the Council will receive 53 weeks of rental income due to this and the accruals concept of accounting, this will generate approximately an extra £934k during the financial year. To note that whilst the in-house service tenants will be invoiced equally across 53-weeks the Homes In Sedgemoor tenants will be invoiced equally over 51 weeks (with 2-weeks rent break at Christmas). When setting the budget an estimate for stock changes during 2023/24 and 2024/25 is made, for RTB Sales and as per the development programme, and this assumes approximately £570k of income – £287k of this relates to growth in new affordable homes.

8.26 **Fleet Contract and IFRS 16:** The 2023/24 revenue budget assumed that the lease element of the fleet would be funded by revenue due to the delayed adoption of IFRS 16 until 2024/25. These lease costs can now be capitalised, and the revenue and capital budgets reflect this change.

8.27 **Service Charges Income:** As per section 11 below, we are proposing to increase service charges and also incur 53 weeks during 2024/25.

8.28 **One-Off Funding to General Reserves**: The net budget gap after pressures and savings is £1.279m, with c£1m relating to the 53-weeks occurrence and is one-off for 2024/25. The proposal is to transfer the net budget gap to general reserves.

9 Medium Term Financial Plan

9.1 The draft Medium Term Financial Plan (MTFP) has been based on the continued operation of the HRA within Somerset Council and is included in **Appendix A.**

9.2 Members are asked to note the reviewed and updated assumptions in the 2024/25 5-Year Medium Term Financial Plan (MTFP).

9.3 Members are asked to approve the transfer of four dwellings from the General Fund to the Housing Revenue Account and delegate authority to the Lead Member for Communities, Housing and Culture and the Section 151 Officer to approve the final land transfer value.

9.4 The current projections show that the HRA is able to set a balanced budget based on the current assumptions and the following strategies being delivered over the next 5 years.

9.5 **Service Charges – Full Cost Recovery**

9.6 Work with external service charge consultants has identified that we are under-recovering service charges against what is eligible expenditure to charge. The business plan allows for the improved recovery of service costs from households to reflect this, by increasing the service charges estimated income by £50k per year for five years starting from 2025/26 to a total of £250k per year.

Allocation of Corporate Costs

9.7 The HRA is a ring-fenced account held within the General Fund. There are specific regulations which govern eligible income and expenditure to prevent cross subsidy with the General Fund. There will be legitimate charges between the GF and the HRA.

9.8 In response to the creation of the new unitary council, ongoing local government reorganisation and the GF financial crisis, a review of all Service Level Agreements (SLAs) is being undertaken to ensure a fair and transparent apportionment of corporate costs between the HRA and GF. The business plan incorporates a guesstimated saving of £700k in 2025/26.

Efficiency Savings

9.9 The MTFP proposes the delivery of 2% efficiency targets per year on housing management and repairs & maintenance expenditure for 5 years from 2025.26 delivering savings of £508k in 2025/26 and achieving £2.539m by 2029/30.

9.10 The delivery of these savings is essential to help build financial capacity within the Business Plan to finance the interest payable on the debt required to deliver the capital programme and / or refinance existing debt.

Void Loss

9.11 When a property is vacant there is a loss of income received from rent and service charges and an increase in costs incurred for gas, electric, water and council tax charges.

9.12 The current business plan assumes voids at 2% of gross rental income which is achievable based on current performance. In order to further reduce the income lost on void properties the management team are aiming to reduce the void loss further to an average of 1.5% across the entire HRA stock (for general needs, sheltered and extra care). This will be achieved through shorter void turnaround times and reducing the number of long-term vacant dwellings.

Capital Receipts - Active Asset Management

9.13 The HRA has a strategic approach 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. A new HRA Asset Management Strategy is being developed which incorporates all 10,000 homes plus other HRA assets.

9.14 This strategic approach assumes the HRA 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.

9.15 The current MTFP incorporates a 5-Year Asset Strategy (agreed by SWT Full Council 8 Feb 2022 as part of the Budget Setting report) where the HRA would actively obtain new capital receipts of £350k per year for five years from 2023/24. For example, this was approximately 2 units at an average capital receipt of £175k per property. This would enable £350k to be released from the revenue voluntary repayment of provision (debt) (paid by the in-house service) to provide further revenue capacity for on-going in-year operational costs. This was in conjunction with £1.471m to be funded using Right to Buy (RTB) 'unadjusted allowable debt' capital receipts, again, to provide further revenue capacity for on-going in-year operational costs. Thus a total contribution of £1.821m towards a Voluntary Revenue Provision (VRP). The legacy Sedgemoor District Council HRA MTFP did not have a VRP.

9.16 The updated MTFP proposes to increase the predicted capital receipt per year to £1.225m which is approximately seven units at an average capital receipt of £175k per property for the lifetime of the Business Plan. These capital receipts will be used to replace the funding for the VRP from the Right to Buy (RTB) 'unadjusted allowable debt' capital receipts and ensures the continued contribution by the HRA to make a voluntary repayment of debt whilst releasing funds to meet revenue pressures.

9.17 The generation of capital receipts is to both reduce investment where the properties are unable to achieve the standard of accommodation required by the Council and regulation in a cost-effective way. The Council has a requirement to achieve Net Zero Carbon by 2050 but also milestones such as Energy Performance Certificate rating of C by 2025 and there are minimal SAP requirements under decent homes regulations. Unfortunately, due to the age and construction of the Council's stock some dwellings will not achieve high thermal efficiency without excessive cost. In addition, the Council seeks to achieve affordable warmth as well as Net Zero Carbon. Although the Council has been successful at attracting grant some homes will remain uneconomic. The Council is also aware that some of its homes will exceed their life expectancy or, in the case of specialist provision, no longer fit their original purpose due to enhanced regulation or customer expectations. The Business Plan has an opportunity through the sale of a small number of uneconomic dwellings to reduce its expenditure and reinvest the income into improving its existing dwellings or building better.

Housing Stock Growth

9.18 The MTFP and Business Plan projections show that the Council is able to meet its RTB 1-4-1 spend target for the next 6 years as long as the proposed capital social housing development programme (as shown in **Appendix D**) is delivered successfully.

9.19 The Council will need to build new schemes into the business plan on an annual basis to ensure that RTB 1-4-1 spend targets can be met for the following 6 years with each iteration. At present the business plan model assumes that receipts falling due are gifted to a Registered Housing Provider as opposed to being repaid to the Treasury with interest.

9.20 It is evident that regulatory, legislative and economic pressures faced by the HRA are placing a significant risk on the sustainability of the business plan to be able to increase the housing stock using RTB receipts (meeting 1-4-1 requirements) after year 6.

9.21 The Council will need to build further capacity into the business plan to make this affordable (e.g. embedding further efficiency savings, reducing or extending the delivery timeframe of the decarbonisation capital programme, etc), otherwise the Council will need to consider gifting the receipts to a Registered Housing Provider or repaying capital receipts upon sale to the Treasury to avoid interest payments of 4% above base rate.

Asset Transfer

9.22 The legacy South Somerset District Council (SSDC) sold their housing stock to a registered provider many years prior to the formation of Somerset Council. Upon the creation of Somerset Council, SSDC held four dwellings within their General Fund.

9.23 The Council is proposing to transfer these four dwellings from the General Fund to the Housing Revenue Account. The appropriation of these four dwellings will be undertaken in line with the latest technical guidance. These four dwellings were independently valued for the 2023/24 accounts at £620k. The proposal is to delegate authority to the Lead Member for Communities, Housing and Culture and the Section 151 Officer to approve the final land transfer value.

10 Rent Setting for 2024/25

10.1 The recommendation for rent setting for 2024/25 are as follows:

- An increase of 7.7% to Dwelling Rents in line with the Government's 2019 (and updated 2023) Rent Standard.

- An increase of 7.7% for Sheltered and Extra Care housing rents in line with the dwelling rents increase.

- An increase of 7.7% for Shared Ownership properties.

- An increase of 7.7% on affordable rental tenures, with the rent being reviewed at relet based on 80% of open market rent capped at the LHA rate.

- The continuation of rent flex at relet for new tenants' within the West of the Council for tenants part of the in-house service (dwelling stock inherited from the legacy Somerset West and Taunton Council) as included in the Rent Charging Policy. This will be levied at basic rent plus 5% for general needs tenants and 10% for sheltered and extra care tenants.

- The introduction of rent flex at relet for new tenants' within the North of the Council for tenants part of Homes In Sedgemoor (dwelling stock inherited from the legacy Sedgemoor District Council) as included in the Rent Charging Policy. This will be levied at basic rent plus 5% for general needs tenants and 10% for sheltered and extra care tenants.

10.2 The HRA's main sources of income are from dwelling rents and accounts for approx. 90% of its income. Other sources of income include service charges, rents from garages, shops, land access and meeting halls. Since the HRA is a statutory ring-fenced account, separate from the General Fund, the income must be used to fund expenditure incurred on operating the landlord function for the primary benefit of the Council's own tenants.

10.3 When setting rents the Council must comply with the Government's updated Rent Standard.

10.4 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 March 2020 (excluding shared ownership homes and temporary accommodation). This superseded the Government's previous 10 year rent increase policy implemented in April 2015.

10.5 On 25 February 2019 the Government confirmed that increases to social housing rents will be limited to the Consumer Price Index (CPI) plus 1% for 5 years from 2020/21 to 2024/25, as per the 2019 Rent Standard. On the 12 December 2022 the Government issued an updated 2023 Rent Standard to cap rents at 7% for existing tenants (relets at 11.1%) for 2023/24, to operate alongside the 2019 Rent Standard. This means for any relet property after 31 March 2023 the rent would be based on the Government's formula rent which would be an increase of 11.1% for 2023/24. Usually both the 'actual rents' and 'formula rents' increase by the same amount.

10.6 The application of 'formula rents' at relet is detailed in the Regulator's Rent Standard which is grounded in the government's Policy Statement on Rents. This allows 'actual rents' to converge with 'formula rents' for social rent properties. This is because of the long-standing rent convergence process which started back in 2002/03, with subsequent legislative changes meaning that rent levels can now only converge to the prescribed formula rent upon the relet of the property. It is important that rents move towards formula rent in line with both Government and local policy as rental income is the main source of funding.

10.7 The Rent Standard allows the Council to increase rents in 2024/25 to a maximum of the CPI in September 2023 plus 1%. The September 2023 CPI figure is 6.7% as published by the Office for National Statistics on the 18 October 2023.

10.8 Therefore, in accordance with the Regulator of Social Housing's 2019 and updated

2023 Rent Standard and our own adopted Rent Policy, it is proposed that all Dwelling Rents for 2024/25 will increase by 7.7%.

10.9 Within the Government's Rent Standard there are a number of items that are optional for a Council to adopt. As such the Council has their own separate Somerset Council Rent Charging Policy[2], covering the content and those elements proposed to be adopted from the Government Rent Standard, which was approved by the Executive on the 14 December 2022.

10.10 **Appendix F** presents an Equalities Impact Assessment of the financial impact that the slightly above inflation increase in rents (and service charges) will have on our tenants. Of our tenants approximately 50% are eligible for benefits meaning that this increase will be partially or wholly covered for those tenants. For the other 50% "self-funders" we have continued support available to our tenants from our in-house debt and benefit advisors, there are external support services available which the HRA make a contribution towards such as MIND and Citizens Advice, and the HRA also has a Hardship Fund available.

Affordable Rented Properties and Shared Ownership

10.11 For affordable rented properties the rent is initially set at 80% of the open market rental value inclusive of service charges, capped at LHA Rate, and thereafter the rent increases according to the Government's Rent Standard. For shared ownership properties the rents are set according to individual lease agreements.

Rent Flex Policy

10.12 Within the 2019 Rent Standard the Government provides the opportunity for Councils to apply "rent flex" which gives the flexibility to set rents at up to 5% above social formula rate on general needs housing and up to 10% for sheltered and extra care housing. This is in recognition of higher costs that the Housing Provider might have, for example through providing enhanced support services, or due to deprivation and higher demand. In applying the flexibility, a housing provider should ensure that there is a clear rationale for doing so which takes into account local circumstances and affordability.

10.13 Rent flex was introduced by the in-house service from April 2020 as approved by SWT

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[2] Housing Revenue Account Draft 30 Year Business Plan and Rent Charging Policy (Item 9 and Appendix C) SCC Executive 14.12.2022

Full Council on the 19 February 2020[3]. The recommendation is that rent flex is continued to be applied at relet for properties in the West of the Council.

10.14 The proposal is to introduce 'rent flex' at relet for properties in the North of the Council managed by Homes in Sedgemoor (inherited from Sedgemoor District Council). In accordance with the Housing Act 1985 s105 3b the Council would need to consult with tenants on this policy before implementing. The intention is to consult with tenants with a view to implementing this policy for new tenants from 1 April 2024.

10.15 Homes in Sedgemoor are introducing rent flex to bring consistency to rent setting across Somerset Council owned stock and to recognise additional cost burdens in Housing (many of which have been outlined separately in this report such as additional compliance requirements, Net Zero Carbon requirements, etc). This will improve revenue streams to help deliver the strategic priorities of the HRA Business Plan.

Void Loss

10.16 This accounts for the rental income lost through periods when the property is empty (aka void). These continue to be lower than the Business Plan adopted in February 2023 and as such it has been deemed appropriate to reduce the expected void rate. See section 8 paragraph X above. The aim is to reduce this void rate further to achieve an average of 1.5% across the entire HRA stock (for general needs, sheltered and extra care) in order to maximise income and utilise our stock for the benefit of our tenants needs.

11 Fees and Charges - Non-Dwelling Rental Income and Service Charges Income

11.1 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.

11.2 The recommendations for fees and charges are as follows:

- An increase in Service Charges for tenants in the North, managed by Homes In Sedgemoor, based on predicted costs in line with the service charging policy. The introduction of a transparent 10% service charge management fee. The service

[3] Housing Revenue Account (HRA) Budget Estimates 2020/21 (Including Rent Setting and Fees and Charges) – SWT Full Council 19 February 2020

charges are contained in **Appendix B.**

- An increase in Service Charges for tenants in the West, managed by the In-House Service, of (a) 7.7% for Grounds Maintenance and the Support / Sheltered Housing and Extra Care accommodation services, (b) 6.8% for the Piper Lifeline service, (c) other charges based on actual costs incurred for laundry, heating, communal areas, communal door entry systems, (d) no change to the communal utilities charge, (e) a new charge for exceptional street cleaning, (f) sewerage will increase in line with the Wessex Water increases for 2024/25 once known. The service charges are contained in **Appendix C.**

- An increase of 7.7% for garage rents.

- An increase of 6.7% on temporary accommodation daily rates.

- An increase of 6.7% for Meeting Hall hourly rental rates.

- An increase of 6.7% for Guest Room charges.

Service Charges

11.3 In addition to rent, tenants may also pay service charges. Rents are generally taken to include all charges associated with the occupation of a property, such as maintenance and general housing management services. Service charges usually reflect additional services which may not be provided to every tenant, or which may be connected with communal facilities rather than being particular to the occupation of a dwelling. Service charges are subject to separate legal requirements and are limited to covering the cost of providing the services.

11.4 Service charges are not governed by the same factors as rent. However, the government policy statement on rents for social housing[4], advises that increases for service charges should remain within the limit on rent changes, of CPI+1%, to help keep charges affordable.

11.5 Somerset Council will be doing more work in 2024/25 to review its service charges and ensure it applies charges consistently and transparently. We will be looking to align our approach more closely between HiS and SC directly managed stock.

[4] Policy statement on rents for social housing - GOV.UK (www.gov.uk) – paragraph 2.35

11.6 **For HiS Tenants in the North:** The proposal is to continue charging tenants in line with the service charging policy. There will an increase or decrease on individual charges depending on the predicted expenditure incurred during 2023/24 to then be charged in 2024/25. Homes In Sedgemoor will show the management fee of 10% separately during 2024/25, whereas in previous years it has been included within each applicable service charge. This mirrors the inhouse service approach.

11.7 **Appendix B** shows the service charges for 2023/24 which have been inflated by 7.7% to give an indication of the likely service charges to be levied during 2024/25. Tenants will be charged for their proportion of the actual costs incurred and not an inflationary amount.

11.8 Tenants are expected to see a significant increase in energy charges over and above inflation of 7.7%. This is due to the national increase in the energy prices. This will be the first time the energy price increase will impact tenants service charges.

11.9 **For In-House Tenants in the West:** The proposal is to increase service charges by CPI+1% for Grounds Maintenance and the Support / Sheltered Housing and Extra Care accommodation services.

11.10 The Piper Lifeline service is proposing to increase their charges by 6.8% in line with the General Fund corporate proposal contained with a separate fees and charges report.

11.11 Other charges have been proposed for 2024/25 based on actual costs incurred during 2023/24 such as laundry, heating, communal areas, communal door entry systems; and the charge has increased or decreased based on this. The communal utilities charge has been frozen, a new charge for exceptional street cleaning being introduced and sewerage will increase in line with the Wessex Water increases for 2024/25 once known.

11.12 A 10% management fee will continue to be applied to service charges that are eligible for Housing Benefit (e.g. Grounds Maintenance, Exceptional Street Cleaning, Communal Areas, Laundry, Door Entry and Sewerage) to help ensure that these remain affordable for tenants.

11.13 For further information and analysis on fees and charges, for example how these compare to the average cost of renting properties in the private rented sector and other Housing Providers please see **Appendix C.**

Garages

11.14 The Council owns a number of block garages which are rented out to both HRA housing tenants and private people/organisations.

11.15 In the North, there are around 1,200 garages over 95 sites. In 2017/18 a programme of works commenced to refurbish several of the garages. HiS made an upfront investment of £1m of their own reserves to fund the refurbishment of garages. Any income above the pre-agreed base line budget of £307,300 is paid back to HiS to cover the £1m investment. Until the investment is repaid in full the Council does not receive a financial gain. This investment has not only improved the neighbourhood look and feel but has also had a positive impact on the street scene with ASB in these areas seeing a large reduction.

11.16 The initial review of the condition of the garages also identified a number of units that were suitable for demolition and redevelopment, and some of the sites have been brought forward as part of the housing development plans For example houses have now replaced garages o the former Sydenham site.

11.17 Due to the refurbishment programme, there are two levels of charges being non-refurbished and newly refurbished. The Council is proposing to increase garage rents by 7.7% which is CPI+1% in September 2023. The levels of voids are c490 units. Table 4 below shows the current charges for 2023/24 and the proposed charges for 2024/25.

Table 4: Garage Weekly Rental Charge for HiS Tenants (based on 51-week rent year)

		Weekly Rent 2023/24 (£)	**Weekly Rent 2024/25 (£)**	**Increase (£)**
Council tenants (VAT not applicable)	Refurbished Garage	11.98	12.90	0.92
Council tenants (VAT not applicable)	Non-Refurbished Garage	9.96	10.73	0.77
Private tenants and Owner Occupiers (exc. VAT)	Refurbished Garage	11.98	12.90	0.92
Private tenants and Owner Occupiers (exc. VAT)	Non-Refurbished Garage	9.96	10.73	0.77

Private tenants and Owner Occupiers (inc. VAT)	Refurbished Garage	14.38	15.48	1.11
Private tenants and Owner Occupiers (inc. VAT)	Non-Refurbished Garage	11.95	12.87	0.92

11.18 In the West, there are around 1400 garages. There are some sites earmarked for possible future demolition and redevelopment, however the social development capital programme is at full capacity for the next few years. In terms of asset maintenance there is currently a £20k capital budget for 2023/24 and a £20k revenue budget for repairs and maintenance, increasing respectively to £200k and £23k in 2024/25. The Council is proposing to increase garage rents by 7.7% which is CPI+1% in September 2023. The levels of voids are c490 units. Table 5 below shows the current charges for 2023/24 and the proposed charges for 2024/25.

Table 5: Garage Weekly Rental Charge for In-House Service Tenants (based on 53-week rent year)

	Weekly Rent 2023/24	Weekly Rent 2024/25	Increase
Council Tenants (VAT not applicable)	7.39	7.96	0.57
Private Tenants and Owner Occupiers (excluding VAT)	11.64	12.54	0.90
Private Tenants and Owner Occupiers (including VAT)	13.97	15.04	1.08

Temporary Accommodation

11.19 The General Fund (GF) Homeless Service has a statutory duty to provide interim accommodation for unintentionally homeless individuals. The GF Homeless Service use of the HRA stock, designated as temporary accommodation, is preferable to commercial Bed and Breakfast which does not have cooking facilities and is more expensive.

11.20 In 2022/23 a new daily charge was introduced to reflect the increased demand for Temporary Accommodation and the costs of regular turnover of occupants reflected the need for a higher daily rate to cover these related costs. The demand for Temporary Accommodation remains extremely high. To note that only the in-house service has properties designated as temporary accommodation.

11.21 It is proposed to increase the daily charge for properties assigned to temporary accommodation by the September CPI at 6.7%. Temporary Accommodation is exempt from the Government's Rent Standard. Table 6 below shows the daily rates that will be applied for 2024/25.

Table 6: Daily Rates for Temporary Accommodation

No. of Bedrooms	Daily Rate 2023/24	Daily Rate 2024/25	Increase
Studio	£18.20	£19.42	£1.22
1-bed	£18.20	£19.42	£1.22
2-bed	£22.92	£24.46	£1.54
3-bed	£26.83	£28.63	£1.80
4-bed	£32.85	£35.05	£2.20

Meeting Halls

11.22 For Homes In Sedgemoor, the fees levied for 2024/25 for meeting room hire will be increased by CPI at 6.7% as shown in table 7 below. There is no charge where a tenant makes a booking for a tenants' only event.

Table 7: North Somerset Area Meeting Hall Charges for Non-Residents in 2024/25

	Per Hour Actual Charge 2023/24	Per Hour Proposed Charge 2024/25	Increase
Regular bookings (VAT exempt) (regular booking - a minimum of 1 booking per quarter over 12 months or weekly/fortnightly over 3-12 months)	£9.40	£10.03	£0.63
All other bookings (VAT exempt)	£11.20	£11.95	£0.75

11.23 For the In-house Service, the fees levied for 2024/25 for meeting room hire will be increased by CPI and then rounded up to the nearest 10p as requested by tenants during feedback provided in 2017/18. Table 8 below shows the rates that will be applied for 2024/25. There is no charge where a tenant makes a booking for a tenants' only event.

Table 8: West Somerset Area Meeting Hall Charges for Non-Residents in 2024/25

	Actual Charge 2023/24	**Proposed Charge 2024/25**	**Increase**
First hour	£13.00	£13.90	£0.90
Each half hour thereafter	£6.60	£7.10	£0.50
6 hours plus	£77.10	£82.30	£5.20
Total charge for residents in a scheme and community organisations	£17.80	£19.00	£1.20

Guest Rooms

11.24 The fees levied for 2024/25 for guest room hire will be increased by CPI and then rounded up to the nearest 50p as requested by tenants during feedback provided in 2017/18. Guest Rooms are currently not available due to works required to bring to rentable standard. Table 9 below shows the rates that will be applied for 2024/25.

Table 9: Guest Room Charges for 2024/25

Located at Tauntfield, Middleway, Hope Corner Lane, Kilkenny and Lodge	**Actual 2023/24**	**Proposed 2024/25**	**Increase**
No. of nights per person -1st night per person per night	£27.00	£29.00	£2.00
No. of nights per person -2	£38.50	£41.50	£3.00
No. of nights per person -3	£52.50	£56.50	£4.00
No. of nights per person -4	£65.00	£69.50	£4.50
No. of nights per person -5	£77.00	£82.50	£5.50
No. of nights per person -6	£91.50	£98.00	£6.50
No. of nights per person -7	£103.50	£110.50	£7.00

Other Income

11.25 The HRA does have a number of shops/other rental properties and the income from these are laid out in specific rent/lease agreements and income from these will be charged and collected as stipulated.

11.26 Charges to leaseholders will continue to be based on actual costs incurred.

12 Capital Programme

12.1 The recommendations are as follows:

12.2 The HRA Major Works and Improvement Capital Programme for 2024/25 of £8,834,500 for HiS and £19,189,200 for the In-House Service.

12.3 To approve **a capital budget of £940,000** for the delivery of the **Bespoke Homes Phase 2** scheme (North of Somerset). This scheme will deliver 2 large and fully adapted new homes that will be built to low carbon standards in excess of building regulations and extend two existing council dwellings to create larger adapted homes. The proposal is to finance this using an appropriate combination of up to 29.78% subsidy from Homes England and the remainder funded by borrowing.

12.4 To approve **a capital budget of £968,000** for the delivery of the **Rochester Road Step Down / Move on Accommodation** (West of Somerset). This scheme will deliver 8 new homes and let to vulnerable adults or children such as low complex homeless or children leaving care. The homes will use Modern Methods of construction and be of built to low carbon standards in excess of building regulations. The proposal is to finance this scheme using a combination of Better Care Funding and the remainder funded by borrowing. These new homes will be let at affordable rents and discounted if appropriate.

12.5 To approve **a capital budget of £2,000,000** for the delivery of the **Step Down / Move On Accommodation** scheme (West of Somerset). This scheme will deliver 16 new homes for vulnerable adults or children such as low complex homeless or children leaving care. The homes will be built to low carbon standards in excess of building regulations and use Modern Methods of construction. The proposal is to finance this scheme using a combination of Better Care Capital Funding and the remainder funded by borrowing. These new homes will be let at affordable rents and discounted if appropriate.

12.6 To approve **a capital budget of £2,615,430** for the delivery of the **Taunton Road** scheme (North of Somerset). This scheme will deliver 11 new homes that will be built to low carbon standards in excess of building regulations. The proposal is to finance this using an appropriate combination of up to 40% subsidy from RTB receipts and the remainder funded by borrowing. These new homes will be let at affordable rents.

12.7 To approve a **supplementary budget of £656,760** for the current **Cricketers** scheme (North of Somerset) to fund the projected overspend to complete the scheme. This scheme is delivering 16 new homes and will be built to low carbon standards in excess of building regulations. The proposal is to finance this using Homes England capital grant, Hinkley Point C funding and the remainder funded by borrowing. These new homes will be let at affordable rents

12.8 To approve **a supplementary budget of £375,000** for the current **Oxford Inn** scheme (West of Somerset) to fund the projected overspend to complete the scheme. This scheme is delivering 8 new homes will be built to low carbon standards in excess of building regulations. The proposal is to finance this using an appropriate combination of up to 40% subsidy from RTB receipts and the remainder funded by borrowing. These new homes will be let at affordable rents.

12.9 To approve **a budget return of £20,274,207** for the **North Taunton Woolaway Project Phase D** (West of Somerset).

12.10 To approve **a budget return of £10,499,189** for the **Zero Carbon Affordable Homes** scheme (West of Somerset).

12.11 To approve **a budget return of £950,000** for the **Tuckerton Lane** scheme (North of Somerset).

12.12 To approve **a budget return of £500,000** for the **Purchase of Properties for RTB** scheme (North of Somerset).

12.13 The HRA Major Works and Improvement Capital Programme for 2024/25 of £8,834,500 for HiS and £19,189,200 for the In-House The HRA Capital Programme consists of two main elements: (1) the Major Works and Improvements programme which mainly ensures that a decent homes standard is maintained and that the housing stocks major components are replaced periodically, and (2) Social Housing

Development and Regeneration which is mainly focused on building new homes.

12.14 The HRA 2024 Business Plan proposes and presents some material changes to the capital programme. The strategic operational and financial focus is on achieving EPC C by 2030, Net Zero Carbon by 2050 and meeting our RTB 1-4-1 spend requirements within the next six years.

12.15 The draft 10-Year HRA Capital Programme from 2024/25 to 2033/34, that will deliver the capital investment proposed within the Business Plan, is shown in **Appendix D**.

12.16 The 2024/25 proposed capital budget returns, supplements and new bids, along with the proposed financing per scheme, are shown in **Appendix E.**

12.17 The proposed HRA Capital Programme for 2024/25, that will deliver the capital investment proposed within the Business Plan, is shown in table 10 below. To note that this only includes Major Works and Improvement Schemes and does not include social housing development schemes that have previously been approved or where approval is being sought for new schemes.

Table 10: HRA Capital Programme for 2024/25

Capital Investment	**HiS £000**	**In-House £000**	**Total £000**
Major Works	8,335	14,511	**22,846**
Fire Safety	263	2,323	**2,586**
Related Assets	-	400	**400**
Exceptional & Extensive	237	1,305	**1,542**
Vehicles	-	280	**280**
ICT & Transformation	-	-	**-**
Aids & Adaptations & DFGs	-	370	**370**
Total Majors & Improvements	**8,835**	**19,189**	**28,024**

12.18 The Council plans to finance this investment through an appropriate combination of Major Repairs Reserve (from depreciation), Capital Receipts, Capital Grants, Revenue Funding and Borrowing, as shown in table 11 below.

Table 11: HRA Finding of Capital Programme 2024/25

Capital Investment	**£000**

Major Repairs Reserve	17,983
Capital Receipts	0
Capital Grants	4,057
Revenue Funding	0
Borrowing	5,984
Total Funding	**28,024**

12.19 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.

Major Works and Improvement

12.20 The aim of the Major Works and Improvement programme is to ensure homes do not deteriorate and through investment maintain their integrity and achieve the decent homes standard and regulatory standards for healthy and safe homes. The Programme also invests a small amount of its funding into estate and environmental works. Both operating vehicles have the same responsibilities in terms of decency and regulation. The new housing structure will increase the ability for the Council to invest to ensure consistent standards.

12.21 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 2024/25. This includes schemes such as kitchens, bathrooms, heating improvements, insulation and ventilation, door entry systems, external doors, rainwater water goods, fasciae and soffits, roofing and windows. 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.

12.22 The two operating models both aim to maintain the decent homes standard whilst enhancing the thermal comfort of tenants by moving towards EPC C by 2030 and Net Zero Carbon by 2050. The business plan presented to Members in February 2023 did include a moderate amount of investment to achieve the 2030 EPC C target, but it did <u>not</u> include the costs of meeting the 2050 zero carbon target – these are now included at an estimate cost of £24k per unit delivered from 2024 to 2050. Note that whilst new build properties built to low carbon standards can be let at affordable rents with argument that running costs will be lower, once the existing stock is retrofitted to low carbon standards these units will still be let at social rents.

12.23 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.

12.24 The Council has been successful in its bid for capital grant funding from Social Housing Decarbonisation Funds Wave 1&2 and the inhouse service has access to £20m of energy company obligation (ECO4) which will be extended to the HiS managed stock.

12.25 The Council sometimes experience stock which is no longer economic. Individual properties may be disposed whilst others progress as regeneration schemes providing and for future developments. Two properties at Oake are examples of potential small scale disposals and Wordsworth Drive and Coleridge Crescent Flats is an example of a larger unsustainable scheme which is being demolished and its land available for future development. There are some projects such as those as 10 homes at Oake and 28 properties at North Taunton Phase E which due to new grant funding have moved to the major works programme for retention and investment. These schemes do not currently contain development proposals.

12.26 In these programmes, decanting sometimes needs to take place and the additional costs associated with moving tenants are significant and are considered in the process of considering the most appropriate.

Social Housing Development and Regeneration

12.27 The HRA is bringing together a more strategic approach in relation to the development and acquisitions of new homes. The HRA has a greater number of development schemes and a number of opportunities to support the ambitions and cost saving requirements of the general fund.

12.28 As the HRA Business Plan is one plan for the whole local authority area the unitary nature of the authority enables the council to look more strategically at its HRA investment. This year's HRA Business Plan review took the opportunity to remove unnecessary pressure from the business plan by removing schemes which were stalled from the plan and placing them in the pipeline of opportunities. Annually the housing service will consider the strongest pipeline schemes and comfort in the business plan and recommend strong and deliverable schemes to Members. A number of schemes have been removed from the business plan and placed in the pipeline of schemes for reappraisal.

12.29 The HRA and the General Fund is benefitting from acquiring and hosting c35 homes to support customers which the General Fund has a duty towards such as rough sleepers or displaced persons at risk of homelessness. In addition, the business plan in partnership with Adults Services is aligning a small proportion of the Better Care capital fund to build 24 homes for single vulnerable adults and children leaving care who require move on or step down accommodation. In addition, the HRA is continuing its support for the Bespoke Homes approach which builds and converts a small number of homes for larger families with complex health needs. These schemes will benefit the Councils homeless, adult social care and children's services potentially reducing their revenue expenditure. The outcomes will also include positive health benefits.

12.30 The HRA mainly develops on existing HRA residential land or underused HRA land. It will support the General Fund developing schemes where they are mutually beneficial, and this may include the use of General Fund land. However, the HRAs ability to service borrowing is based on its revenue income mainly from rents and therefore the HRA has a finite capacity to develop new homes.

12.31 The HRA can develop anywhere in the local authority area and over the coming years will aims to acquired homes in Martock, Yeovil and Langport. However, the reach of the Council’s management and maintenance service become more expensive as they progress beyond the West and the North. Additional consideration needs to be made on how properties will be managed and maintained when they fall in locations where stock was historically transferred to existing or newly created registered providers.

12.32 The HRA strategy is aimed at maximising grant income by prioritising RTB receipts in the first instance unless improved grant rates can be achieved through other sources such as Homes England and Better Care Fund. The service currently has additional complementary subsidy through the Brownfield development fund and Hinkley Point C.

12.33 All new build homes will be built to low carbon standards either net zero or net zero ready. Net zero ready allows the property to be net zero without the need for extra investment as the national grid decarbonises. The development programme has introduced construction materials such as porotherm blocks, underfloor ultra insulated slabs/tiles, mechanical ventilation and heat recovery, solar Photovoltaic tiles and air source heat pumps. The specifications allow tenants to benefit from affordable warmth.

In order to manage the additional cost of achieving net zero or net zero ready the rents are set at affordable rent levels as opposed to social rent levels.

12.34 The Council's development programme will be approved in February within the HRA rent and budget setting paper. The exception will be any unexpected acquisition programmes which appear in year such as happened with the Local Authority Housing Fund.

12.35 The Council has a strong pipeline of potential developments to bring forward over coming years. Pipeline schemes will be proposed to Members after their affordability has been agreed through the viability and business planning process and other challenges such as phosphates/Nitrate neutrality have been resolved.

12.36 The HRA, like all developers, has to manage nitrate neutrality, the planning process, highway regulation, environmental and ecological considerations in the same way as private developers. The HRA has a number of phosphate credits from its demolition programmes but is also working on creating additional credits through its upgrade of Private Water Sewage Treatment plants. It is hoped that through this approach the HRA will overcome in the short-term Nitrate Neutrality requirements.

12.37 As the HRA proposes more schemes through the annual cycle the ability of the Council to manage its responsibilities towards Right to Buy expenditure and its 1:4:1 agreement with government will be managed.

12.38 **The HRA has twelve pre-approved social housing development and regeneration schemes:** in the West there is the North Taunton Woolaway Project, Zero Carbon Affordable Homes, Seward Way and Oxford Inn, and in the North there is Penlea House, Bigwood and Staple, Bespoke Homes 1, Sydenham, Tuckerton Lane, Carrotts Farm, Stafflands Farm and Cricketers.

12.39 **This report seeks approval to deliver four new schemes:** Taunton Road (11 units), Bespoke Homes two (2 new and 2 converted homes), Rochester Road (8 units) Move on / Step down units and additional Step Down / Move On using modern methods of construction (16 units).

12.40 The current schemes and those proposed, will deliver social and affordable homes between 2023 and 2027. The updated Business Plan includes these as well as £10m in the pipeline for those that have not yet been development into individual schemes. These proposals will enable the Council to meet its total spend requirements for the next 6 years under the RTB "1-4-1 Agreement".

12.41 The RTB Scheme enables the Council to subsidise the cost of building a new home to up to 40% with the Council funding the remainder from other sources, such as borrowing. A new build scheme can only have one source of Government funding so is not permitted to have both, for example, Homes England and retained RTB receipts as funding. The exception to this has been the interpretation used for the new Homes England Regeneration schemes which have seen Somerset Council awarded the first fund which introduced £5m additional subsidy into the North Taunton regeneration project replacing £5m of HRA borrowing and sitting alongside RTB funding.

Budget Returns

12.42 The Council has through its business planning process introduced a more strategic approach to investing in new and acquired homes. One benefit of this approach is to remove £32m of schemes requiring some additional appraisal from the business plan. The HRA has a healthy pipeline of schemes being considered which it will bring forward for Full Council approval on an annual basis. The following schemes previously approved will be returning to pipeline status until a time to bring them forward.

12.43 This report seeks approval to return capital budgets for North Taunton Phase D, Zero Carbon Affordable Homes, Tuckerton Lane and Buybacks. The HRA will benefit by reappraising these schemes against other pipeline schemes. Some of these schemes have questions in terms of planning, phosphate, grant or their outputs. By placing these properties in the pipeline the HRA has also reduced its assumed borrowing for development by c£32m. Together with additional grant for existing schemes the HRA business plan has been able to utilise and spread nearly £40m of borrowing to achieve zero carbon in its existing stock. The business plan has had to forgo assumption on rents for the properties placed in the pipeline and therefore the business plan retains pressure in its later years,

12.44 **North Taunton Woolaway Project Phase D (West of Somerset):** Members are asked to approve a **budget return** of £20,274,207 for the North Taunton Woolaway Project Phase D. This scheme will now await an option appraisal as a pipeline scheme. The delivery of this schemes requires a resolution in terms of phosphate requirements and additional costs relating to highway infrastructure. Please note that all tenants living in phase D will be accommodated in NTWP phases A, B and C or if they choose away from the estate.

12.45 **Zero Carbon Affordable Homes (West of Somerset):** Members are asked to approve a **budget return** of £10,499,189 for the Zero Carbon Affordable Homes scheme. These schemes will now await an option appraisal as a pipeline scheme. One scheme did not receive planning permission and the service will consider if it progresses the scheme trough redesign, two schemes may be redesigned to support more homes suitable for vulnerable adults and young people, one scheme will be considered following a revision of market cost and inflation due to the passage of time since its budget was agreed.

12.46 **Tuckerton Lane (North of Somerset):** Members are asked to approve the **budget return** of £950,000 for the Tuckerton Lane scheme. This scheme will now await and option appraisal as the scheme included a community facility which is challenging to fund without additional subsidy.

12.47 **Purchase of Properties for RTB (North of Somerset):** Members are asked to approve **budget return** of £500,000 for the Purchase of Properties for RTB scheme. These purchases are no longer required in the short term as the HRAs is progressing 35 acquisitions through the Local Authority Housing Fund and Rough Sleeper Accommodation Programme. The current and proposed new build development programme sufficiently meet our 1-4-1 spend requirements over the next six years, without the need to purchase properties.

12.48 A brief update on each live and proposed scheme is provided below:

12.49 **North Taunton Woolaway Project (West of Somerset):** This is a major regeneration project in progress at North Taunton which is a significant financial commitment and one with a significant impact on the community. The scheme involves demolishing a large number of defective nontraditional build Woolaway Homes and replacing them with a larger number of low carbon homes with a wide range of bed sizes and all to a lifetime homes standard. The homes are all built to accessibility standards and the development includes a good proportion of fully adapted properties. The cost of regeneration is high compared to development on a clean site as some properties have to be purchased from private owners before demolition and building and decanting is required, and compensation paid. Since its commencement the Council has been successful in obtaining funding from Homes England to help subsidise and reduce the amount of borrowing required for this scheme.

12.50 **Seaward / Rainbow Way (West of Somerset):** This scheme provides 54 net zero homes including flats, houses and accessible bungalows. The scheme is in Minehead in the far west of the local authority area. The scheme has benefitted from a design and build contract entered pre covid and is exceptional value with various subsidies supporting the schemes. The first lets are anticipated March/April 2024 with the remainder in 2024/2025.

12.51 **Oxford Inn (West of Somerset):** Oxford Inn is in Halcon, Taunton and was a public house owned by the HRA. The building is being demolished and 2 houses and 6 flats are being built to net zero standards.

12.52 **Penlea House (North of Somerset):** This development in Bridgwater in on the site of a large HRA property. the scheme is in development and will provide 33 flats including 10 fully wheelchair accessible units on the ground floor. the scheme is in development.

12.53 **Bigwood and Staple (North of Somerset):** This scheme is built on a brownfield site where a fire destroyed the former commercial buildings. The schemes will deliver 29 homes for social rent and is close to completion. The scheme contributed to the town centre regeneration of Bridgwater. Many of the scheme's properties are designed to support those who need occasional carers or flexible space.

12.54 **Bespoke Homes 1 (North of Somerset):** Like Bespoke Homes 2 this scheme provides a number of new build larger homes for families with extra complexity whilst also converting some to support larger families with additional health challenges.

12.55 **Sydenham (Bespoke Homes One) (North of Somerset):** This scheme is complete and in its defects period. This turned an underused HRA garage site into 15 modern homes including a bespoke 6-bedroom home in partnership with Somerset Occupational Health Scheme.

12.56 **Carrotts Farm (North of Somerset):** This scheme is delivering three 2 bed homes purchased from the market for social rent.

12.57 **Cricketers (North of Somerset):** This scheme will deliver 16 new homes which will be 1, 2 and 3 bedroom in Nether Stowey supported by Homes England and HPC Funding. The scheme is on site with ten properties let and six to be let shortly. The units will be at affordable rents in line with the Home's England funding (£1,570,000).

12.58 **Taunton Road (North of Somerset):** This is a new scheme for members to approve of 11 dwellings benefitting from RTB funding and awaiting confirmation that brownfield fund can be used on this scheme. This will be delivered using low carbon construction with an anticipated delivery in 2025.

12.59 **Bespoke Homes 2 (North of Somerset):** This scheme will deliver two large 5/6 bed new homes for rent and two converted existing HRA dwellings. This scheme will provide larger homes for families with complex housing and health needs. This is a new scheme for members to consider providing low carbon homes with the support of Somerset's Occupational Health Service. These homes rarely come through the planning system.

12.60 **Rochester Road and Step Down / Move On MMC Accommodation (West of Somerset):** The HRA will use modern methods of construction to build 24 units of single persons accommodation. These homes will benefit from Better Care Fund and Council borrowing. The properties will be used for step down/move on accommodation for vulnerable adults and children leaving care. The homes will allow up to a two-year period to help tenants strengthen their skills to sustain tenancies and prepare for their seek their next step on their housing pathway.

12.61 **Local Authority Housing Fund (LAHF) and Rough Sleeper Accommodation Programme (RSAP):** The HRA is a great place to host properties which are of the benefit to the General Fund especially where the grant rates work in favour of the General Fund and the HRA. The HRA predict to have purchased 35 properties between 2022 and 2025 which will benefit the General Fund objectives in relation to displaced persons and rough sleepers. These properties are purchased from the market and the preference is for ex local authority stock. The programme has purchased properties in Yeovil as well as Taunton and Bridgwater. These types of initiatives bend the capacity of the HRA however provide strength to the HRA Business Plan.

13 HRA Unearmarked Reserves

13.1 The Housing Revenue Account (HRA) Unearmarked Reserves opening balance for 2023/24 of £13.699m stands above the recommended minimum balance of £3.722m and provides ongoing financial resilience and mitigation for unbudgeted financial risks.

13.2 The recommended minimum balance for the combined HRA is £3,722,400 and is equates to approximately 6.5% of the budget gross income for 2024/25 and £385 per property.

13.3 As part of the budget setting proposals to Full Council on 22 February 2023, £1.650m of current reserves was used to support the base budget in 2023/24. The Q3 outturn forecast projection for 2023/24 is an overspend of £275k, suggesting that the closing balance at the end of the year will be £11.774m.

13.4 The forecast budget gap for 2024/25 is a surplus of £1.291m which is being proposed to transfer to General Reserves and will increase balances to £13.065m which is £9.343m above the minimum balance. Table 12 below summarised the financial projections for the HRA's unearmarked reserves.

Table 12: 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		-275
Projected Balance 31 March 2024		**11,774**
Budgeted Transfer of Surplus to General Reserves		1,291
Projected Balance 31 March 2025		**13,065**
Recommended Minimum Balance		3,722
Projected Balance above Minimum Reserve Balance		9,343

13.5 Whilst the budget has been set based on best estimates using information currently available, a budget is just an estimate and the HRA has highlighted a number of risks in section 3 above. It is prudent to maintain a sufficient level of reserve above the minimum balance to provide financial resilience and mitigation for unbudgeted financial risks that may come to light during the financial year.

14 Right to Buy Scheme

14.1 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. The scheme saw the maximum discount increase significantly in 2012 from £30,000 up to £75,000 followed by a steady increase year on year to up to £96,000 from April 2023.

14.2 The legacy Council's signed up to a "1-4-1 Agreement" with the Treasury/Government to retain a higher proportion of RTB the additional receipts on the understanding that these receipts would be used to fund new social housing. This agreement continues now under Somerset Council until such time as the Council decides to opt out.

14.3 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%. This places pressure on the business plan to fund the remaining 60% usually from borrowing, as the RTB capital grant cannot be used in conjunction with any other government grants within a single new build scheme.

14.4 Since the increase to the discount was implemented in 2012, RTB sales have increased. The RTB sales during the last three years and predicted for 2024/25 are shown in table 13 below.

Table 13: RTB Sales from 2020/21 to 2022/23, and estimated for 2023/24

	HiS	**In-House**	**Combined Total**
2020/21	21	34	**55**
2021/22	36	35	**71**
2022/23	22	28	**50**
2023/24*	3+4	11+6	**24**

* estimated total RTB sales

14.5 The number of RTB sales have dropped significantly during 2023/24 most likely due to the rise in interest rates on mortgages and the overall increase in the cost of living. Future years’ trends will be monitored closely to see if this reduction continues and if so, the business plan may be updated. However, for now, the Council will continue to estimate 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.

14.6 For each RTB sale the capital receipt has to be ‘pooled’. The Council does not get to keep the full receipt. The receipt is split over the following main areas:

- 1-4-1 Spend – to subsidise replacement homes (40% maximum of the cost)
- Unadjusted Allowable Debt - towards historic debt (from self-financing)
- Treasury Share - paid back to Government
- Transaction Costs – £1300 per sale towards the cost of administering the scheme

14.7 The MTFP and Business Plan projections show that the Council is able to meet its RTB 1-4-1 spend target for the next 6 years as long as the proposed capital social housing development programme (as shown in **Appendix D**) is delivered successfully.

14.8 There is a strategic financial risk that will need to be monitored closely on an annual basis to ensure that RTB 1-4-1 spend targets can be met for the following 6 years with each iteration. If this is not possible then the Council will need to consider building capacity into the business plan to make this affordable (e.g. embedding efficiency savings, reducing major works and improvements capital programme, etc), otherwise the Council will need to consider gifting the receipts to a Registered Housing provider or repaying capital receipts upon sale to the Treasury to avoid interest payments of 4% above base rate.

14.9 To date, with the exception of one instance in Q1 2015/16 where receipt and interest was repaid by Sedgemoor District Council, the Council has successfully fully spent all of their retained 1-4-1 receipts.

15 Treasury Management

15.1 In 2012 the legacy Councils took out additional external borrowing of £133m (£85.198m for the Somerset West and Taunton Council legacy authority and £47.321m for the Sedgemoor District Council legacy authority) as part of the self-financing settlement with the Government.

15.2 As part of the self-financing agreement, an individual housing revenue borrowing cap was implemented (£116m for SWT and £61m for SDC). This meant that the HRA was unable to exceed capital borrowing within the HRA Business Plan. The Government has since abolished the HRA Debt Cap in October 2018 and HRAs are able to borrow against their expected rental income, in line with the Prudential Code.

15.3 The HRA is charged with the costs of any borrowing – both for external loans attributed to HRA capital investment and for any internal borrowing required from the Council's cash reserves to fully cover the HRA's capital borrowing requirement (also known as the Capital Financing Requirement – CFR).

15.4 The estimated CFR on 1 April 2024 is £191m. It is currently projected this will be financed with £159m of existing external loans taken by the HRA and the balance covered by existing HRA reserves. The estimated CFR on 31 March 2025 is £216m. It is currently projected this will be financed with £159m of existing external loans taken by the HRA, £24m of internal borrowing and the balance covered by existing HRA reserves. These figures will be updated as capital expenditure is incurred, and treasury management decisions are taken regarding use of internal and external borrowing throughout the year.

15.5 The existing external loans attributable to the HRA carry an average interest rate of 2.84%. It is assumed that any new borrowing will incur interest costs at an average 4.5%. The 2024/25 budget includes an estimate of £6.140m for total interest costs taking into account the forecast financing requirements for the year ahead. This includes an estimate for internal borrowing costs from the Council and as such there is no expectation for any investment interest earned by the Council in proportion to HRA reserve balances.

15.6 The Business Plan assumes that there will be a significant increase in new borrowing from year 10 onwards 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. The business plan model uses Major Repairs Reserve and other capital reserves first to finance capital spend, with borrowing used as 'last resort' for the residual balance of financing required.

15.7 Unlike the General Fund, there is no statutory requirement for the HRA to make a minimum revenue provision (MRP) charge to revenue in respect of paying off the principal sum of the borrowing undertaken to finance the capital programme. The HRA can however make a voluntary revenue provision – at present the HRA revenue budget does not have ongoing financial capacity to fund this, and instead has committed to use a combination of RTB Unadjusted Allowable Debt and new capital receipts from the open market to repay debt, finance any new external borrowings as required or to reduce the year-on-year capital financing requirement, up to £1.821m per year (this was the amount previous set aside by SWT) where reserves balances allow.

15.8 The cash flow, investment and borrowing activities related to the HRA will be undertaken within the overarching framework and operations for treasury management within Somerset Council and advice sought from Arlingclose, the Council’s Treasury advisors. Please refer to the Council’s Capital Strategy 2024/25 and Treasury Management Strategy 2024/25 being presented to Full Council on the 20 February 2024.

16 Challenges and Next Steps

16.1 The HRA needs to continue to operate as a long-term business. A long-term view is required when making decisions. The HRA projections should be treated as part of the early warning system that helps it to identify, manage and mitigate the effects of emerging risks, while spotting and maximising potential opportunities.

16.2 To deliver an HRA that is financially sustainable requires a medium-term focus on reducing costs and maximising income, while exploring further options that help safeguard its financial health. The following assumptions are embedded within the current Business Plan and it is important that these are delivered:

- Reviewing the recovery of costs to ensure **service charges** reflect the costs of services provided over the medium term – to deliver £50k pa for five years starting 2025/26 to a total of £250k pa.

- Ensuring the allocation of **corporate costs** to the HRA is set at a fair level – to deliver savings of £700k from 2025/26.

- Implementing **a five-year efficiency programme** that reduces housing management and repairs & maintenance costs by 2% pa, starting in 2025/26 – to deliver savings of £508k in 2025/26 and achieving £2.539m by 2029/30.

- Introduce **rent flex** for homes managed by HiS.

- **Reduce void loss** to achieve an average of 1.5% across the entire HRA stock (for general needs, sheltered and extra care).

- Increased **capital receipts** of £1.225m per year from 2024/25 from open market sales to fund repayment of debt.

- Improve **stock related data** in relation to long term component replacements for the in-house stock and the net zero decarbonisation requirement for all dwellings. These gaps increase the risk that the assumed future investment levels may be inaccurate. The authority needs to improve the data available to minimise this risk.

- Establishing an affordable mechanism for **housing stock growth**.

17 Legislation

17.1 The HRA is governed by the following legislation:

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

17.2 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.

17.3 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.

Background Papers

Housing Revenue Account (HRA) Budget Estimates 2020/21 (Including Rent Setting and Fees and Charges) – SWT Full Council 19 February 2020
HRA Budget Setting including Rent Setting and Fee and Charges REPORT 202... (somersetwestandtaunton.gov.uk)
Housing Revenue Account Draft 30 Year Business Plan and Rent Charging Policy – SCC Executive 14 December 2022
Meeting of SCC Executive on Wednesday, 14th December, 2022, 10.00 am - Modern Council (somerset.gov.uk) (Item 9)

Housing Revenue Account Rent Set Report 2023/24 and Updated 30 Year Business Plan – SCC Full Council 22 February 2023
Meeting of SCC County Council on Wednesday, 22nd February, 2023, 10.00 am - Modern Council (somerset.gov.uk) (Paper E)

2024/25 General Fund Budget Report including Fees & Charges Report (ref DHL) - SC Full Council 20 February 2023

Medium Term Financial Reports 2024/25 including the Capital Strategy 2024/25 and Treasury Management Strategy 2024/25 - SC Full Council 20 February 2023

List of Appendices

Appendix A	Revenue Budget and Medium Term Financial Plan for 2024/25
Appendix B	Proposed Fees and Charges for Homes In Sedgemoor for 2024/25
Appendix C	Proposed Fees and Charges for the In-House Service for 2024/25
Appendix D	HRA MTFP 10-Year Capital Programme
Appendix E	HRA Proposed Capital Budgets for 2024/25 and Capital Financing per Scheme
Appendix F	Equality Impact Assessment Form

Report Sign-Off

	Officer Name	Date Completed
Legal & Governance Implications	David Clark	25.01.2024
Communications	Peter Elliott	23.01.2024
Finance & Procurement	Nicola Hix	24.01.2024
Workforce	Alyn Jones	23.01.2024
Asset Management	Oliver Woodhams	23.01.2024
Executive Director / Senior Manager	Chris Hall / Jason Vaughan	22.01.2024/ 24.01.2024
Strategy & Performance	Alyn Jones	23.01.2024
Executive Lead Member	Cllr Federica Smith / Cllr Liz Leyshon	24.01.2024/ 23.01.2024
Consulted:	Councillor Name	
Local Division Members		
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	Sent 25.01.24
	Cllr Andy Dingwall Opposition Spokesperson for Communities, Housing and Culture	Sent 25.01.24
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	Sent 25.01.24
	Cllr Gwil Wren, Chair - Scrutiny Communities Committee	Sent 25.01.24