Executive Decision Report
Forward Plan Reference: FP/24/06/22
Decision Date: 02 September 2024
Key Decision: No

2024/25 Housing Revenue Account (HRA) Revenue and Capital Budget Monitoring as at Quarter 1 (30 June 2024)

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

1 Executive Summary

1.1 This report provides an update on the projected outturn financial position of the Council's Housing Revenue Account (HRA) for the financial year 2024/25 (as at 30 June 2024).

1.2 To note that the HRA has two operating models: an in-house service in the west of the county and an arms-length management organisation (ALMO) in the north of the county delivered by Homes in Sedgemoor. This report summarises the overall projected outturn financial position of the two operating models collectively.

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

Revenue Budget	Forecast overspend of £2.359m	Red
General Reserves	£11.823m forecast balance = favourable compared to £3.722m minimum requirement	Green
Earmarked Reserves	£209k opening balance	Green

1.4 The significant reasons for the variance being reported include:

Dwelling Rental Income: an under recovery of £819k mainly due to higher levels of voids on general needs and temporary accommodation categories of provision.

Repairs and Maintenance: an overspend of £1.443m on voids repairs due to increased demand and the poor condition of returned properties.

Supervision and Management: an underspend of £424k relating to vacancies within a number of different teams including new roles within the new operating structure

Insurance Premiums: an overspend of £312k due to increased premiums on the new insurance contract for the new council impacted in part to inflation on rebuild costs.

1.5 The Housing Senior Management Team will be undertaking preventative action to minimise further overspends and to aim to bring the forecast position back to budget. In order to achieve this the HRA Heads of Service will invest in the voids process to reduce average void times and to reduce the average number of void properties per day for general needs stock in order to increase income. They will also continue to review a number of initiatives such as maximising capitalisation opportunities and work with tenants to improve the condition of vacated properties in order to reduce void spend. The annual voids budget will need revisiting at budget setting for next year in light of upward cost pressures being seen across the sector. The HRA is able to finance the predicted overspend from general reserves and maintain the minimum balance requirement.

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

1.7 The HRA has set a balanced budget for 2024/25 however areas of risk for the year will relate to **regulatory and compliance** requirements. There are seven big compliance areas and the regulations are continually being updated. For example, changes are expected during the year in relation to Fire Safety and Damp & Mould, and there are new national concerns with regards to Reinforced Autoclaved Aerated Concrete (RAAC), where the cost impact is unknown. Furthermore, the Social Housing (Regulation) Act 2023 places new emphasis on customer safety, quality of accommodation, engagement, communication and greater evidence of listening to our tenants. We have seen significant increases in our costs related to regulatory and compliance requirements and the risk remains high that further increases will come.

1.8 From an **operational** perspective, the challenge here relates to the levels of demand from our tenants for support and service, for example for debt and benefit advice, repairs and maintenance on their properties, and the number and condition of void properties. This is a very reactive service based on the needs of the tenants. Additionally, as other services face budget pressures (social care, police, ambulance, mental health services, addiction services etc) the levels of complexity and demand increases and can require additional cost and resource to service this and meet our tenancy management responsibilities.

1.9 There are risks associated with the **economic operating environment** and the positive or negative impact this may have on any variation from the forecasts assumed when setting the budget, for example the cost of borrowing for the refinancing of debt, pay awards, cost of materials and utilities, etc. We continue to work in a very buoyant market for skilled workforce and materials and cost pressures continue to present a challenge.

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

1.11 The Housing Revenue Account (HRA) Capital Programme for 2024/25 onwards is

£92.896m. This consists of £35.579m of new schemes approved for 2024/25 plus £57.317m approved budget carry forward.

1.12 The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £60.189m profiled to be spent in 2024/25 with the balance of £32.707m projected forward into future years. The current forecast outturn is to budget.

2 Recommendations

2.1 The Executive:

2.2 To note the HRA's forecast financial performance and projected reserves position for 2024/25 financial year as at 30 June 2024, including key risks and future issues and opportunities detailed in the report which will be closely monitored and updated throughout the year.

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

3 Risk Assessment

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

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

3.3 Budgets and forecasts are based on known information and the best estimates of the housing service's future spending and income. Income and expenditure over the 2024/25 financial year are estimated by budget holders and then reported through the budget monitoring process. During this process risks and uncertainties are identified which could impact on the financial projections, but for which the likelihood, and/or amount are uncertain. The Council carries protection against risk and uncertainty in several ways, such as insurances and maintaining reserves. This is a prudent approach and helps to mitigate unforeseen pressures.

3.4 The following general risks and uncertainties have been identified:

Regulatory and Compliance

3.5 Over the past few years, the regulatory and compliance requirements have increased.

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

3.6 **Landlord Compliance:** Both operating models have good and well-established approaches to ensure the Council keep tenants safe. The seven big compliance areas include Gas, Electric, Water, Asbestos, Fire Safety, Lifts and 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 have now received a final report on the Fire Safety Audit recently undertaken and will be carrying out the recommended actions.

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

3.8 **Responding to increased stock quality standards:** Changes to the Regulator of Social Housing's decent home standard as well as net zero targets and milestones place an additional financial burden on resources. Both operating models have been successful at attracting grant and aligning some energy works with capital programmes to partially offset costs. For example, the HRA is currently utilising the Social Housing

Decarbonisation Fund Wave 1 & 2 and ECO4 utility obligation to minimise the cost of low carbon retrofit. After a period of transition, the Housing Revenue Account service will be in a good position to influence stock investment for all 10,000 homes and align strategy such as low carbon retrofit.

3.9 **Right To Buy (RTB) Receipts**: This is a government policy that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. The receipts allowed to be retained by the Council can now fund up to 100% of new social housing costs during 2024/25 and 2025/26, following an announcement on the 30 July 2024, and must be used within five years of receipt. The assumption is that this will fall back to 50% thereafter as per the previously announced rate from 1 April 2024.

3.10 The 30-Year Business Plan presented in February 2024 predicted that receipts could fund up to 40% of new social housing costs. This was based on the Government issuing a policy change from the 1 April 2021 allowing these receipts to account for up to 40% (previously 30%) spend on new social housing costs, with the remaining 60% coming from other funds such as revenue funding or borrowing. The Government subsequently communicated that this would increase to 50% from 1 April 2024. Officers are now working through the financial impact this has on the 30-Year Business Plan and an update will be presented to Members at Full Council in February 2025.

3.11 To date, with the exception of one instance in Q1 2015/16 where receipt and interest was repaid, the Council has successfully fully spent all of their retained 1-4-1 receipts. In addition, the HRA makes use of other grant funds including Homes England, Hinkley Point C and better care fund to reduce the costs to the HRA of regeneration, development or building homes to support vulnerable customers.

Economic Operating Environment

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

3.13 **Cost of borrowing:** The landlord service has a well-developed social housing and regeneration programme; these schemes can only obtain a maximum of 50% subsidy from the RTB Scheme (subject to criteria) leaving the Council to borrow to finance the remaining 50% cost of the scheme. However, as mentioned above, the Government has issued a policy change during 2024/25 and 2025/26 only allowing Councils to fund up to 100% of applicable schemes using RTB capital receipts. This will reduce the borrowing requirement for the Council during these years for these applicable schemes.

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

3.15 Whilst the majority of the majors and improvements capital programme will be funded by the Major Repairs Reverse (funded by annual depreciation charges) and capital grant is being sought to help subsidise some of this capital expense, there is still a short fall in financing this programme of works that requires an element of borrowing.

3.16 The cost of borrowing will have a significant impact on the Medium Term Financial Plan (MTFP) and 30-Year Business when new borrowing is required to either refinance debt falling due or to finance new borrowing requirements. Whilst the Bank of England has cut the interest rate to 5% (from 5.25%) on the 23 July 2024, this is the first drop since March 2020 when the interest rate was at 0.1%.

3.17 The Public Works Loan Board (PWLB) announced a reduction in the margin applied to loans that will be used to fund capital expenditure within the Housing Revenue Account (HRA). From the 15 June 2023 (until the 30 June 2025), for qualifying loans, the HRA (Housing Revenue Account) interest rates will be set at the gilt yield plus 40 basis points (0.40%), which is equivalent to the PWLB standard rate less 60 basis points (0.60%).

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

3.20 **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

3.21 **Repairs & Maintenance**: Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. flooding, cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required. Market pricing of materials etc can also be volatile with some unit costs increasing in recent years. As such the levels of demand do not always follow a recognisable trend. We therefore caveat the forecasts in these areas to account for fluctuations.

3.22 **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.

3.23 **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.

3.24 **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.

3.25 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.

3.26 **Unitary Council:** The landlord functions have transitioned well into the new authority. The challenges since April have been working with new financial systems, learning other corporate software such as risk management software and working to procedures such as those in relation to recruitment and governance. The areas at risk from year end variances against budgeted estimates include actual costs of shared services and staff, insurance premiums and other costs yet to be allocated such as utility invoices.

Technical Accounting Risks

3.27 **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.

3.28 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.

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

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

4 Partnership Implications

4.1 A range of HRA services are provided through partnership arrangements such as MIND, Citizen's Advice, etc. The cost of these services is reflected in the Council's financial outturn position for the year. The Housing Revenue Account is increasingly having to question the funding of services outside its core service 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 28 August 2024. A summary of the comments and recommendations discussed will be provided here (or a verbal update) for the Executive to consider on 2 September 2024.

6 Background and Full details of the Report

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

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

6.3 Somerset Council has 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 (HiS) which is an Arm's Length Management Organisation (ALMO) operating in the North, formerly Sedgemoor District Council (SDC). The combined total dwelling stock as at 1 April 2024 is 9,755 (5,709 for the inhouse service and 4,046 managed by HiS). In addition to this we have 599 leasehold properties (490 managed by the in-house service and 111 managed by HiS).

6.4 The Council's two operating models, which deliver the landlord functions, continue to operate as they did previously however we are now collating clearer comparator data to enable the Council to compare the two models like for like in terms of cost and performance. This is also aiding us with sharing learning. Further work is needed 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. This transition will see appropriate resources at landlord function level and at the strategic level allowing the in-house and Homes in Sedgemoor landlord service to be ambitious in delivering great and improving services to customers and allow the Council to make strategic decisions in relation to stock investment, growth, rent setting, zero carbon homes and administering its statutory and regulatory responsibilities. Following a period of transition, the Council will undertake an option appraisal of its stock and operating models.

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

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

7 HRA Revenue Budget 2024/25 Forecast Outturn

7.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 30 June 2024.

7.2 The current year end forecast outturn position for the HRA for 2024/25 is an overspend against budget of £2.359m. The table below summarises the approved revenue budget for the combined HRA for 2024/25, with more detail found in **Appendix A**. The main variances are explained below.

Table 1: HRA Revenue Outturn Summary 2024/25

	Current Budget	**Forecast Outturn**	**Forecast Variance**	
	£m	**£m**	**£m**	**%**
Gross Income	(57.391)	(56.386)	1.005	1.8%
Service Expenditure	32.634	33.988	1.354	4.1%
Other Expenditure	24.757	24.757	0.000	0.0%
Total	**0.000**	**2.359**	**2.359**	**4.1%**

Income

7.3 **Dwelling Rent Income:** The combined budgeted income for 2024/25 is £50.914m, which reflects an assumption of an average 1.66% void loss for general, extra care and sheltered stock (with temporary accommodation at 25%), applying a 53-week year and predicted stock changes such as RTB Sales and new builds from social development schemes.

7.4 The outturn position for dwelling rent income is an under recovery against budget of c.£819k for the in-house service which is in part due to timings of RTB sales and stock changes for social housing development schemes, but mainly due to higher levels of voids for general needs stock and especially temporary accommodation stock. This also includes £111k write offs, 95% of which were for former tenant arrears and where recovery routes had been exhausted.

7.5 The two Housing Heads of Service are developing a proposal to present to the Director of Communities to better manage expenditure on voids and reduce average void times. This will require investment in the service but this will be assessed on an invest to save basis. Discussions are ongoing with Adults Social Care to improve the number and quality of referrals for Extra Care Housing which should also reduce voids, and work is taking place with the Homeless Service to bring more capacity onto proactively tackling temporary accommodation voids.

7.6 The forecast includes £111,235 of write offs during the first quarter of the year (£5,533 on current tenancies and £105,702 on former tenancies), as shown in the table below. The high level of former tenant debt written off in quarter 1 has occurred due to a recent review and consideration of significantly aged debt from former tenants and a decision to write this debt off as unrecoverable following extensive recovery activity.

Table 2: Write Offs during 2024/25

	HiS			In-House			
	Current	**Former**	**Total**	**Current**	**Former**	**Total**	**TOTAL**
	£	**£**	**£**	**£**	**£**	**£**	**£**
Q1	6	7,384	**7,390**	5,527	98,318	**103,845**	**111,235**

7.7 **Charges for Services / Facilities:** The combined budgeted income of £3.580m for 2024/25 includes (a) £1.802m for the Service Charge Income for Dwellings (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 1.66% void loss and applying a 53-week year, (b) £150k for Leaseholder Charges for Services, and (c) £3k for Meeting Halls.

7.8 The outturn forecast is an under-recovery of £102k. This is mainly due to higher levels of voids, for service charge income, as mentioned above.

Expenditure

7.9 **Repairs and Maintenance**: The overspend of £1.443m relates to the void repairs service which is undertaken to ensure our Lettable Standard is met before reletting. This service is a very demand led and reactive service that has experienced increasing volumes of work compared to previous years. The service has also seen an increase in the poor condition of properties being returned for reletting which increases the average void cost per property.

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

7.11 **Supervision and Management:** This underspend of £424k relates to vacancies within a number of different teams including new roles within the new operating structure. The vacancies are a mixture of existing posts as well as posts that have been redesignated between teams as part of a reorganisation between the HRA Business Function area and the existing Property Services and Tenancy areas. We have had challenges recruiting to a number of posts due to delays in approval to job descriptions and concluding job evaluation and market allowances for posts to be able to successfully recruit. We recognise that HR Services are stretched due to wider council pressures and we are working with colleagues to ensure these issues are being progressed.

7.12 **Rents, Rates, Taxes and Other Charges:** This overspend of £312k relates to insurance premiums for 2024/25. To note that in preparation for the creation of the new Somerset Council, a procurement exercise was undertaken during 2022/23 to collectively insure the assets for the new council from 1 April 2023. As part of this process the insurers reviewed the risk profile of the Council and its asset holdings. In addition, inflation has increased the rebuild costs (with labour and raw materials increasing in price). As a result the insurance premiums have increased significantly. Whilst the budget for 2024/25 was inflated in anticipation of an expected increase in cost this increase was not sufficient. The budget will be updated as part of the budget setting process for 2025/26.

8 Capital Programme

8.1 The Housing Revenue Account (HRA) Capital Programme for 2024/25 onwards is £92.896m as summarised in the table below and further detail provided in **Appendix B**. This consists of £35.579m of new schemes approved for 2024/25 by Full Council on 20 February 2024 plus £57.317m of previously approved schemes in prior years that have been approved to be carried forward by the Executive on 5 August 2024.

Table 3: Summary of HRA Capital Programme Approved Budget for 2024/25

	2023/24 Slippage Budget	**2024/25 Approved Budget**	**2024/25 Total Budget**
	£000	**£000**	**£000**
Majors & Improvements	12,217	28,024	40,241
Social Housing Development	45,100	7,555	52,655
Total	**57,317**	**35,579**	**92,896**

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

8.3 To note that from the 1 April 2024, the percentage cost of a new home that local authorities can fund using Right to Buy receipts has increased again to 100% following an announcement on the 30 July 2024. The assumption is that this will fall back to 50% thereafter as per the previously announced rate from 1 April 2024 (previously 40% from 1 April 2021, and 30% prior to that date) with the remaining 50% coming from other funds such as revenue funding or borrowing. This has improved the financial position presented in February 2024, with more capital spend financed by capital receipts and a reduction in the borrowing requirement. The timeframe within which to spend these receipts remains at five years (previously 3 years).

8.4 The receipts allowed to be retained by the Council can now fund up to 100% of new social housing costs during 2024/25 and 2025/26,

8.5 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next six years. The current planned profiled spend is summarised in **Appendix D**. The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £60.189m profiled to be spent in 2024/25 with the balance of £32.707m projected forward into future years.

8.6 Information on what the HRA capital programme plans to deliver during 2024/25 can be found below and its financial performance to date against this financial year can be found in **Appendix E.** The current forecast outturn is to budget.

Major Works and Improvement:

8.7 The two operating models both aim to maintain homes to the Government's Decent Home Standard, including to enhance the thermal comfort of tenants by moving towards 2030 and 2050 standards.

8.8 The 2024/25 capital programme includes major programmes such as kitchens, bathrooms, heating improvements, insulation and ventilation, door entry systems, external doors, fasciae and soffits, roofing and windows.

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

Social Housing Development Programme:

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

8.11 The Right To Buy (RTB) scheme is a government scheme that enables tenants to purchase their homes at a discount, subject to meeting qualifying criteria. During 2022/23 the Council sold 50 properties (28 in the west and 22 in the north). The sales have dropped considerably year-on-year due to high levels of interest rates on mortgages and the increased cost of living. During 2023/24 the Council sold 17 properties (14 in the west and 3 in the north).

8.12 The 30-Year Business Plan currently estimates that on average 55 properties will be sold each year through the Right to Buy Scheme, however this will be reviewed during the annual update. Growth in our housing stock remains vital to replace stock lost in prior years and attempt to ensure Somerset has more affordable homes to meet the increasing demand.

8.13 The 30-Year Business Plan has aligned the social development schemes delivered by the in-house service and Homes in Sedgemoor with the strategic needs of the Council and within HRA business plan affordability assumptions. The period 2024/25 to 2028/29 are set to see over 300 new HRA affordable homes. The HRA will continue to align its growth ambitions with opportunities to deliver homes on behalf of the Council especially for vulnerable customers. The landlords are purchasing for displaced persons and building and purchasing properties to support the General Fund homelessness challenges. The HRA 30-Year Business Plan considers the cost of growth alongside the many other service needs. In practice compliance and regulation always remain the first priority and the HRA must work hard to retain development programmes.

9 <u>HRA Earmarked Reserves</u>

9.1 The Housing Revenue Account (HRA) Earmarked Reserves at the beginning of 2024/25 totalled £209k, as shown in the table below. These have been carried forwards from

Somerset West and Taunton. There were none held by Sedgemoor District Council.

9.2 Earmarked reserves are set aside for a specific purpose and are reviewed on a regular basis. These funds have been earmarked to be spent within this financial year.

Table 4: Earmarked Reserves Balances

Description	Opening Balance 01/04/2024 £000	Transfers £000	Projected Balance 31/03/2025 £000
Hinkley – Community Grants	65	(65)	0
Climate Change Grant - Electric Vehicles	77	(77)	0
Hinkley – Home Moves Plus Grant	32	(32)	0
Tenant Satisfaction Grant	35	(35)	0
Total	**209**	**0**	**0**

10 HRA Unearmarked Reserves

10.1 The Housing Revenue Account (HRA) Unearmarked Reserves opening balance of £12.859m (subject to the completion of the external audit of the statutory financial statements for 2023/24) stands above the recommended minimum balance of £3.722m and provides ongoing financial resilience and mitigation for unbudgeted financial risks.

10.2 The recommended minimum balance for the combined HRA is £3,722,400 and this equates to approximately 6.5% of gross income and £382 per property.

10.3 As part of the budget setting proposals to Full Council on 20 February 2024, a contribution to reserves of £1.323m will be made to supplement general reserves. Further approved (or proposed) allocations to / from Unearmarked Reserves are shown in the table below.

Table 5: HRA Unearmarked Reserves Balance

	Approval	£000
Balance Brought Forward 1 April 2024		**12,859**
Budgeted Contribution to reserves	FC – Feb24	1,323
Current Balance		**14,182**
Forecast: 2024/25 Projected Overspend		-2,359
Projected Balance 31 March 2025		**11,823**
Recommended Minimum Balance		3,722
Projected Balance above Minimum Reserve Balance		8,101

10.4 The current outturn position is forecast to be a net overspend of £2.359m. If the forecast outturn position does not improve, the deficit will reduce reserve balances to £11.823m, which is £8.101m above the recommended minimum balance of £3.722m.

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

Background Papers

HRA Budget Setting Report 2024/25 – Full Council 20 February 2024
HRA Outturn Report 2023/24 – Executive 5 August 2024

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Appendix A	Housing Revenue Account (HRA) Approved Budget for 2024/25
Appendix B	Approved Capital Budget 2024/25
Appendix C	Capital Financing of Total Approved Budget 2024/25
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Appendix E	Profiled Capital Budget for 2024/25 Vs Forecast Capital Outturn for 2024/25

Report Sign-Off (if appropriate) (internal use only - not for publication)

	Officer Name	Date Completed
Legal & Governance Implications	David Clark (Jill Byon on behalf of DC)	15.08.2024
Communications	Peter Elliott	13.08.2024
Finance & Procurement	Nicola Hix (Jason Vaughan on behalf of NH)	13.08.2024
Workforce	Alyn Jones	15.08.2024
Asset Management	Oliver Woodhams	10.08.2024
Executive Director / Senior Manager	Chris Hall / Jason Vaughan	07.08.2024 / 13.08.2024
Strategy & Performance	Alyn Jones	15.08.2024
Executive Lead Member	Cllr Federica Smith / Cllr Liz Leyshon	15.08.2024 / 13.08.2024
Consulted:	Councillor Name	
Local Division Members		
Opposition Spokesperson	Cllr Mandy Chilcott Deputy Leader of the Opposition and Opposition Spokesperson for Resources and Performance	15.08.2024
	Cllr Andy Dingwall Opposition Spokesperson for Communities, Housing and Culture	15.08.2024
Scrutiny Chair	Cllr Bob Filmer, Chair - Scrutiny Corporate & Resources Committee	15.08.2024
	Cllr Gwil Wren, Chair - Scrutiny Communities Committee	15.08.2024

Appendix A: HRA Approved Budget and Forecast Outturn for 2024/25

	In-House	ALMO	Combined					
	Approved Budget	Approved Budget	Original Budget	Current Budget	Full Year Projection	Month 3 Variance		A/(F)
	£m	£m	£m	£m	£m	£m	%	
Income								
Dwelling Rents	(30.5)	(20.4)	(50.9)	(50.9)	(50.1)	0.8	1.6%	A
Non Dwelling Rents	(0.7)	(0.6)	(1.3)	(1.3)	(1.3)	0.1	6.2%	A
Charges for Services / Facilities	(2.0)	(1.6)	(3.6)	(3.6)	(3.5)	0.1	2.9%	A
Contribution Towards Expenditure	(0.3)	(1.3)	(1.6)	(1.6)	(1.6)	0.0	0.1%	A
	(33.5)	**(23.9)**	**(57.4)**	**(57.4)**	**(56.4)**	**1.0**	**1.8%**	**A**
Expenditure								
Repairs and Maintenance	9.6	5.1	14.7	14.7	16.1	1.4	9.8%	A
Supervision and Management	5.6	5.1	10.7	10.7	10.3	(0.4)	-4.0%	F
Special Services	1.6	0.9	2.5	2.5	2.5	0.0	0.9%	A
Rents, Rates, Taxes and Other Charges	0.5	0.8	1.3	1.3	1.6	0.3	23.4%	A
Central Recharges (to / from the General Fund)	3.0	0.5	3.4	3.4	3.4	0.0	0.0%	-
	20.2	**12.4**	**32.6**	**32.6**	**34.0**	**1.4**	**4.1%**	**A**
Other Operating Income and Expenditure								
Interest Payable	4.4	1.7	6.1	6.1	6.1	0.0	0.0%	-
Interest Receivable	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-
Change in Provision for Bad Debt	0.2	0.0	0.2	0.2	0.2	0.0	0.0%	-
Depreciation	9.5	7.6	17.1	17.1	17.1	0.0	0.0%	-
Capital Financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	-
Movement In Reserves	(0.9)	2.2	1.3	1.3	1.3	0.0	0.0%	-
	13.3	**11.5**	**24.8**	**24.8**	**24.8**	**0.0**	**0.0%**	**-**
Net Surplus(-) / Deficit for the Year	**0.0**	**0.0**	**0.0**	**0.0**	**2.4**	**2.4**	**4.1%**	**A**

Appendix B: HRA Approved Capital Budget 2024/25

HRA Capital Programme	Prior Year Slippage	Current Year Approval Feb 2024 Budget Setting for 2024/25	Total Approved Budget 2024/25	Current Year Virements	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget 2024/25
Major Works	4,025,895	14,511,360	18,537,255	-	-	-	18,537,255
Fire Safety	2,652,383	2,323,000	4,975,383	-	-	-	4,975,383
Related Assets	-	400,000	400,000	-	-	-	400,000
Exceptional & Extensive	4,856,959	1,305,000	6,161,959	-	-	-	6,161,959
Vehicles	-	279,825	279,825	-	-	-	279,825
ICT & Transformation	82,626	-	82,626	-	-	-	82,626
Aids & Adaptations & DFGs	-	370,000	370,000	-	-	-	370,000
Sub-Total Majors & Improvements	11,617,864	19,189,185	30,807,049	-	-	-	30,807,049
Social Housing Development	41,387,344	3,343,000	44,730,344	-	-	-	44,730,344
Total In-House HRA	53,005,207	22,532,185	75,537,392	-	-	-	75,537,392
Major Works	445,294	8,334,700	8,779,994	-	-	-	8,779,994
Fire Safety	-	262,500	262,500	-	-	-	262,500
Related Assets	-	-	-	-	-	-	-
Exceptional & Extensive	-	237,300	237,300	-	-	-	237,300
Vehicles	-	-	-	-	-	-	-
ICT & Transformation	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	153,701	-	153,701	-	-	-	153,701
Sub-Total Majors & Improvements	598,995	8,834,500	9,433,495	-	-	-	9,433,495
Social Housing Development	3,712,744	4,212,190	7,924,934	-	-	-	7,924,934
Total ALMO HRA	4,311,739	13,046,690	17,358,429	-	-	-	17,358,429
Major Works	4,471,189	22,846,060	27,317,249	-	-	-	27,317,249
Fire Safety	2,652,383	2,585,500	5,237,883	-	-	-	5,237,883
Related Assets	-	400,000	400,000	-	-	-	400,000
Exceptional & Extensive	4,856,959	1,542,300	6,399,259	-	-	-	6,399,259
Vehicles	-	279,825	279,825	-	-	-	279,825
ICT & Transformation	82,626	-	82,626	-	-	-	82,626
Aids & Adaptations & DFGs	153,701	370,000	523,701	-	-	-	523,701
Sub-Total Majors & Improvements	12,216,858	28,023,685	40,240,543	-	-	-	40,240,543
Social Housing Development	45,100,088	7,555,190	52,655,278	-	-	-	52,655,278
Total Combined HRA	57,316,946	35,578,875	92,895,821	-	-	-	92,895,821

Appendix C: HRA Capital Financing of Total Approved Budget 2024/25

HRA Capital Programme	TOTAL CAPITAL FINANCING	Capital Grant - Section 106	Capital Grant - Homes England	Capital Grant - Other	Capital Receipts	HRA Revenue Contribution	Major Repairs Reserve	Right To Buy (RTB) Capital Receipts	Borrowing
Major Works	19,111,155	-	-	3,500,000	-	-	8,547,374	-	7,063,781
Fire Safety	4,975,383	-	-	-	-	-	-	-	4,975,383
Related Assets	400,000	-	-	-	-	-	400,000	-	-
Exceptional & Extensive	5,156,959	-	-	-	-	-	300,000	-	4,856,959
Vehicles	279,825	-	-	-	-	-	-	-	279,825
ICT & Transformation	82,626	-	-	-	-	-	82,626	-	-
Aids & Adaptations & DFGs	370,000	-	-	-	-	-	370,000	-	-
Sub-Total Majors & Improvements	30,375,949	-	-	3,500,000	-	-	9,700,000	-	17,175,949
Social Housing Development	44,730,344	100,000	3,305,709	3,729,469	-	-	-	15,294,978	22,300,188
Total In-House HRA	**75,106,292**	**100,000**	**3,305,709**	**7,229,469**	**-**	**-**	**9,700,000**	**15,294,978**	**39,476,136**
Major Works	8,779,994	-	-	584,300	-	-	7,100,200	-	1,095,494
Fire Safety	262,500	-	-	-	-	-	262,500	-	-
Related Assets	-	-	-	-	-	-	-	-	-
Exceptional & Extensive	237,300	-	-	-	-	-	237,300	-	-
Vehicles	-	-	-	-	-	-	-	-	-
ICT & Transformation	-	-	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	153,701	-	-	-	-	-	-	-	153,701
Sub-Total Majors & Improvements	9,433,495	-	-	584,300	-	-	7,600,000	-	1,249,195
Social Housing Development	8,356,034	-	1,322,450	213,800	-	-	-	3,459,133	3,360,651
Total ALMO HRA	**17,789,529**	**-**	**1,322,450**	**798,100**	**-**	**-**	**7,600,000**	**3,459,133**	**4,609,846**
Major Works	27,891,149	-	-	4,084,300	-	-	15,647,574	-	8,159,275
Fire Safety	5,237,883	-	-	-	-	-	262,500	-	4,975,383
Related Assets	400,000	-	-	-	-	-	400,000	-	-
Exceptional & Extensive	5,394,259	-	-	-	-	-	537,300	-	4,856,959
Vehicles	279,825	-	-	-	-	-	-	-	279,825
ICT & Transformation	82,626	-	-	-	-	-	82,626	-	-
Aids & Adaptations & DFGs	523,701	-	-	-	-	-	370,000	-	153,701
Sub-Total Majors & Improvements	39,809,443	-	-	4,084,300	-	-	17,300,000	-	18,425,144
Social Housing Development	53,086,378	100,000	4,628,159	3,943,269	-	-	-	18,754,111	25,660,839
Total Combined HRA	**92,895,821**	**100,000**	**4,628,159**	**8,027,569**	**-**	**-**	**17,300,000**	**18,754,111**	**44,085,982**

Appendix D: HRA Annual Profiling of Approved Capital Budget 2024/25

HRA Capital Programme	Total Approved Budget	Planned Capex 2024/25	Planned Capex 2025/26	Planned Capex 2026/27	Planned Capex 2027/28	Planned Capex 2028/29	Planned Capex 2029/30
Major Works	18,537,255	18,537,255	-	-	-	-	-
Fire Safety	4,975,383	4,975,383	-	-	-	-	-
Related Assets	400,000	400,000	-	-	-	-	-
Exceptional & Extensive	6,161,959	6,161,959	-	-	-	-	-
Vehicles	279,825	279,825	-	-	-	-	-
ICT & Transformation	82,626	82,626	-	-	-	-	-
Aids & Adaptations & DFGs	370,000	370,000	-	-	-	-	-
Sub-Total Majors & Improvements	30,807,049	30,807,049	-	-	-	-	-
Social Housing Development	44,730,344	14,838,818	16,426,800	11,528,118	1,880,062	51,546	5,000
Total In-House HRA	**75,537,392**	**45,645,866**	**16,426,800**	**11,528,118**	**1,880,062**	**51,546**	**5,000**
Major Works	8,779,994	8,779,994	-	-	-	-	-
Fire Safety	262,500	262,500	-	-	-	-	-
Related Assets	-	-	-	-	-	-	-
Exceptional & Extensive	237,300	237,300	-	-	-	-	-
Vehicles	-	-	-	-	-	-	-
ICT & Transformation	-	-	-	-	-	-	-
Aids & Adaptations & DFGs	153,701	153,701	-	-	-	-	-
Sub-Total Majors & Improvements	9,433,495	9,433,495	-	-	-	-	-
Social Housing Development	7,924,934	5,109,931	2,815,003	-	-	-	-
Total ALMO HRA	**17,358,429**	**14,543,426**	**2,815,003**	**-**	**-**	**-**	**-**
Major Works	27,317,249	27,317,249	-	-	-	-	-
Fire Safety	5,237,883	5,237,883	-	-	-	-	-
Related Assets	400,000	400,000	-	-	-	-	-
Exceptional & Extensive	6,399,259	6,399,259	-	-	-	-	-
Vehicles	279,825	279,825	-	-	-	-	-
ICT & Transformation	82,626	82,626	-	-	-	-	-
Aids & Adaptations & DFGs	523,701	523,701	-	-	-	-	-
Sub-Total Majors & Improvements	40,240,543	40,240,543	-	-	-	-	-
Social Housing Development	52,655,278	19,948,748	19,241,803	11,528,118	1,880,062	51,546	5,000
Total Combined HRA	**92,895,821**	**60,189,292**	**19,241,803**	**11,528,118**	**1,880,062**	**51,546**	**5,000**

Appendix E: HRA Profiled Capital Budget for 2024/25 Vs Forecast Capital Outturn for 2024/25

HRA Capital Programme	Profiled Capex Budget 2024/25	Expenditure YTD	% Spend	Other Commitments	Forecast Adjustment	Forecast Outturn 2024/25	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Major Works	19,111,155	2,302,608	12%	16,806	16,791,741	19,111,155	-	-	-
Fire Safety	4,975,383	21,098	0%	45,511	4,908,774	4,975,383	-	-	-
Related Assets	400,000	-50,602	-13%	-	450,602	400,000	-	-	-
Exceptional & Extensive	5,156,959	154,652	3%	-	5,002,307	5,156,959	-	-	-
Vehicles	279,825	-	0%	-	279,825	279,825	-	-	-
ICT & Transformation	82,626	87,849	106%	-87,849	82,626	82,626	-	-	-
Aids & Adaptations & DFGs	370,000	36,966	10%	235	332,798	370,000	-	-	-
Sub-Total Majors & Improvements	30,375,949	2,552,572	8%	-25,297	27,848,674	30,375,949	-	-	-
Social Housing Development	14,838,818	8,739,497	59%	-6,313,028	12,412,349	14,838,818	-	-	-
Total In-House HRA	**45,214,766**	**11,292,069**	**25%**	**-6,338,325**	**40,261,022**	**45,214,766**	**-**	**-**	**-**
Major Works	8,779,994	6,531	0%	1,232,494	7,540,969	8,779,994	-	-	-
Fire Safety	262,500	-	0%	-	262,500	262,500	-	-	-
Related Assets	-	-	0%	-	-	-	-	-	-
Exceptional & Extensive	237,300	-	0%	-	237,300	237,300	-	-	-
Vehicles	-	-	0%	-	-	-	-	-	-
ICT & Transformation	-	-	0%	-	-	-	-	-	-
Aids & Adaptations & DFGs	153,701	179,430	117%	-33,112	7,383	153,701	-	-	-
Sub-Total Majors & Improvements	9,433,495	185,961	2%	1,199,382	8,048,152	9,433,495	-	-	-
Social Housing Development	5,541,031	718,029	13%	186,236	4,636,765	5,541,031	-	-	-
Total ALMO HRA	**14,974,526**	**903,991**	**6%**	**1,385,618**	**12,684,917**	**14,974,526**	**-**	**-**	**-**
Major Works	27,891,149	2,309,139	8%	1,249,300	24,332,710	27,891,149	-	-	-
Fire Safety	5,237,883	21,098	0%	45,511	5,171,274	5,237,883	-	-	-
Related Assets	400,000	-50,602	-13%	-	450,602	400,000	-	-	-
Exceptional & Extensive	5,394,259	154,652	3%	-	5,239,607	5,394,259	-	-	-
Vehicles	279,825	-	0%	-	279,825	279,825	-	-	-
ICT & Transformation	82,626	87,849	106%	-87,849	82,626	82,626	-	-	-
Aids & Adaptations & DFGs	523,701	216,397	41%	-32,877	340,181	523,701	-	-	-
Sub-Total Majors & Improvements	39,809,443	2,738,533	7%	1,174,085	35,896,825	39,809,443	-	-	-
Social Housing Development	20,379,848	9,457,527	46%	-6,126,792	17,049,114	20,379,848	-	-	-
Total Combined HRA	**60,189,292**	**12,196,060**	**20%**	**-4,952,707**	**52,945,939**	**60,189,292**	**-**	**-**	**-**