Report Number: SWT 18/22

Somerset West and Taunton Council

Community Scrutiny – 23 February 2022
Executive – 16 March 2022

2021/22 Housing Revenue Account Financial Monitoring as at Quarter 3 (31 December 2021)

This matter is the responsibility of Executive Councillor Fran Smith, Housing

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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 2021/22 (as at 31 December 2021).

1.2 The current HRA **Revenue Budget** forecast is a projected overspend of £354k.

1.3 The revenue position remains under significant pressure as it continues to be affected by the ongoing impact of COVID and operating within an environment of economic recovery. The service has had a backlog of responsive and planned maintenance and compliance works to deliver. Costs have escalated in terms of materials, staffing, and servicing costs. Future financial pressures are still to be confirmed in terms of staff pay award, income collection, cost of implementing regulatory changes, and the cost of implementing a unitary authority. A thorough analysis of risks and uncertainties facing the HRA has been undertaken and careful monitoring of these will continue for early indications of further financial pressures.

1.4 Whilst best endeavours to forecast with as much accuracy as possible we have seen a historical change in forecasts each quarter and to year end. However, it is essential that control over spending continues to reduce the forecast overspend and maintain adequate reserves.

1.5 Since the Q1 report the housing senior management team have taken steps to better control expenditure, to undertake the capitalisation of some improvement works' costs and to maximise income to try to contain and reverse our overspend position. For example, voids performance is starting to improve, and an additional 50 garages have been let in recent months. Since the Q2 report there has been ongoing movements in the projections in particular some below the line treasury and corporate changes, which have had a mixture of positive and negative impacts on the forecast. The overall trend from Q1 to Q3 is a slightly improved position.

1.6 Members will be aware that budget setting for 2022/23 has been challenging, where some budgets required re-basing especially around repairs and maintenance, and consequently the service will be pursuing efficiency targets into next financial year and beyond. Whilst steps will continue to be taken to further control our 2021/22 forecast, it is also acknowledged that some solutions will take some time to deliver and that we are operating at a higher operating costs base particularly in the short term which has influenced our in year position.

1.7 There is currently sufficient capacity in general reserves to cover new in-year pressures identified to date and the current forecast outturn position.

1.8 The **unearmarked reserves** are projected to be £2.708m which is £708k above the recommended minimum balance of £2m.

1.9 The **earmarked reserves** opening balance is £1.1m. Of this £1.044m has been returned to general reserves to mitigate in-year budget pressures.

1.10 The HRA **Capital Programme** has a total approved budget of £118m. The profiled budgeted spend for 2021/22 is £29m and this is currently forecast to underspend in the year by £16.257m; £13.332m due to slippage of work into 2022/23 and £2.925m budget to be returned.

2 Recommendations

2.1 This report is to be noted as the HRA's forecast financial performance and projected reserves position for 2021/22 financial year as 31 December 2022.

3 Risk Assessment

3.1 Financial forecasts are based on known information and projections based on assumptions and reasonable estimates. 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 COVID and pace of economic recovery and based on experience it is feasible the year end position could change. It is common for further variances to emerge during the last quarter, reflecting an optimism bias within previous forecasting.

3.2 Despite the risks related to forecasting assumptions, it is essential that measures are implemented promptly to ensure the financial resilience of the Housing Revenue Account and adequate reserves are maintained. The current forecast highlights a risk that reserves may fall below acceptable levels by the end of this financial year if the projected overspend outturn position was to increase and further in year financial pressures arise.

3.3 Salient in year budget risks are summarised in section 9 in this report. The Council manages financial risk in several ways including setting prudent budgets, carrying out appropriate monitoring and control of spend, and operating robust financial procedures. The Council also holds both general and earmarked reserves which include contingencies to manage budget risk, though these are low for the HRA.

4 Background and Full details of the Report

4.1 This report provides the Housing Revenue Account (HRA) forecast end of year financial position for revenue and capital expenditure as at 31 December 2021.

4.2 The regular monitoring of financial information is a key element in the HRA's 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.

4.3 Members will be aware from previous experience that the position can change between 'in-year' projections and the final outturn position, mainly due to demand-led service costs and income levels. 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 partners, 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.

5 HRA Revenue Budget 2021/22 Forecast Outturn

5.1 The HRA is a ring-fenced, self-financing, account used to manage the Council's housing stock of some 5,700 properties, with the Council acting as the Landlord.

5.2 The Council retains all rental income to meet the costs of managing and maintaining the housing stock, as well as meeting the interest payments and repayment of capital debt.

5.3 The current year end forecast outturn position for the Housing Revenue Account for 2021/22 is a net overspend of £354k. This is a reduction on the projected overspend of £566k reported in Q2 and £610k as reported in Q1, though the outturn position is still of significant concern.

Table 1: HRA Revenue Outturn Summary

	Current Budget	Forecast Outturn	Forecast Variance	
	£000	£000	£000	%
Gross Income	-27,668	-27,436	232	0.8%
Service Expenditure	15,374	15,997	623	2.3%
Other Expenditure	12,294	11,793	-501	-1.8%
Total	**0**	**354**	**354**	**1.3%**

5.4 The variances to budget are shown in more detail in Table 2 and following explanations.

Table 2: Summary of Forecast Variances for the Year

	Current Budget £000	Outturn Forecast £000	Q3	Q2	Q1
			Variance £000		
Gross Income:					
Dwelling Rents	-24,951	-24,526	424	291	29
Non-Dwelling Rents	-704	-758	-54	8	6
Charges for Services / Facilities	-1,623	-1,718	-95	-27	-42
Other Income	-389	-434	-44	-2	-2
Sub-Total Gross Income	**-27,668**	**-27,436**	**231**	**269**	**-9**
Service Expenditure:					
Development & Regeneration	219	155	-64	-265	-43
Community Resilience	154	163	9	8	14
Tenancy Management	2,901	3,230	329	54	128
Maintenance	3,429	4,512	1,083	682	354
Assets	1,277	1,045	-232	-137	-53
Compliance	2,317	1,991	-326	438	233
Performance	5,077	4,901	-175	-187	-13
Sub-Total Service Expenditure	**15,374**	**15,997**	**623**	**590**	**620**
Central Costs / Movement in Reserves:					
Revenue Contribution to Capital	-	-	-	-	-
Interest Payable	2,669	2,819	150	-	-
Interest Receivable	-	-358	-358	-	-
Change in Provision for Bad Debt	180	180	-	-	-
Depreciation	7,663	7,370	-293	-293	-
Capital Debt Repayment	1,821	1,821	-	-	-
Movement In Reserves	-39	-39	-	-	-
Sub-Total Central Costs / Movement in Reserves:	**12,294**	**11,793**	**-501**	**-293**	**-**
Net Surplus(-) / Deficit for the Year	**-**	**354**	**354**	**566**	**610**

Income

5.5 **Dwelling Rent Income:** the budgeted income for 2021/22 is £24.951m, which reflects an assumption of 2% void losses and applying a 52-week year. The overall current projections suggest that less income will be recovered than predicted when setting the budget and providing an allowance for voids. The current projection for dwelling rent income is an under recovery against budget of £424k which is largely due to stock reductions related to the North Taunton regeneration scheme and levels of voids. This also includes £62k of write offs during the year so far.

5.6 **Non-Dwelling Rents:** The majority of this variance relates to a projected income in garage rents due to active advertising to fill voids; an increase of c50 rentals has already been achieved.

5.7 **Charges for Services / Facilities:**

5.8 The budgeted income for 2021/22 for the **Service Charge Income for Dwellings** (after discounts have been applied to tenants such as Piper Charge to Sheltered Housing and Extra Care) less an average 2% void loss and applying a 52-week year, is £1.380m. The current projections suggest that c£200k more income will be recovered than predicted when setting the budget and providing an allowance for voids.

5.9 The budget income for 2021/22 for income for **Leaseholder Charges for Services** is £233k. Leaseholds are invoiced a year in arrears. The routine repairs were low due to COVID and lockdown. The major repairs were also lower and capped at £250 this year. In addition to this, following a successful tender, building insurance premiums have now dropped meaning less of a recharge to our customers. Therefore £103k less income was billed to leaseholders.

5.10 The budgeted income for **Meeting Halls** for 2021/22 is £10k. The current projection is that no income will be received due to COVID restrictions preventing this service to be provided. The meeting halls were re-opened at the end of September 2021 and there have been a few bookings but nowhere near the budgeted amount.

Expenditure

5.11 **Development & Regeneration:** The underspend relates to a few posts held vacant for the early part of the year. The delivery of new development projects has not required this resource as the service has focused on establishing a development pipeline. The development pipeline of 342 units is now established and following procurement and planning this resource in the structure will be required as the service increasingly moves into delivery from 2022/23.

5.12 **Tenancy Management:** This area covers lettings, supported housing, rent recovery, leaseholders and other tenancy management support activities. The total current budget is £2.901m and it is forecasting an overspend of £329k. This relates to a number of different areas including (a) an overspend related to the upgrade of the controlled entry systems to flat blocks where we are now incurring expenditure relating to contracts and the maintenance of the systems that are higher than before, (b) an overspend due to increased levels of cleaning in supported housing settings required in light of COVID plus the cost for a range of compliance requirements, (3) an overspend related to a significant increase in activity following the implementation of annual tenancy reviews to identify and help resolve issues (for example house clearance due to hoarding), and (4) an overspend on staffing costs due to additional resource drafted in to help the team manage challenging workloads throughout COVID and backfilling long term sickness.

5.13 **Maintenance**: The overspend relates to the ongoing repairs and maintenance of the housing stock either tenanted or void activity undertaken to ensure our Lettable Standard is met. Whilst this is a very demand led and reactive service based on the needs of the tenants, this service is experiencing an increase in cost pressures as inflation drives up the cost of materials (as seen nationally). The assumed ongoing impact of this pressure is reflected in the rebasing of budgets for 2022/23. This year the team has also incurred additional costs to deliver the backlog of repairs following COVID restrictions.

5.14 **Assets**: The underspend relates to the delivery of the pre-planned maintenance external decorations programme being delayed due to COVID restricting staffing resources, and a number of staff vacancies during the year across the capital investment team.

5.15 **Compliance:** The service is forecasting an underspend of £326k which is due to the validation surveys recently undertaken identifying a range of compliancy areas requiring reduced funding during 2021/22 (e.g. Fire Risk Assessments needing review, rather than a full new survey), as well as reduced expenditure on staffing in the team due to vacancies. We are, however, continuing to maintain and improve on all necessary property safety compliance activities to ensure the safety of our residents.

5.16 **Performance:** Of the total budget of £5m, £3.9m relates to shared costs such as support services, pension deficit, governance leaving £1.1m on operating costs such as staffing, insurance, training, travel, stationery, printing and bank charges, as well as the Tenants Empowerment and Tenants Action Group. The underspend is an updated projection of shared support staff plus a combination of various small overspends offset by part year vacancy savings in the performance team and forecast underspends in both Tenants Empowerment and Tenants Action Group costs.

5.17 **Interest Receivable:** The updated capital spend projections (see section 6 and appendix D) forecast slippage of £13.3m and return of £2.9m. This has impacted the capital financing requirement for the HRA considerably and the update projections suggests that the HRA could receive c£358k of interest income. This is highly dependent on the final capital outturn for the year.

5.18 **Depreciation:** This is the current estimate for depreciation charges for the HRA. These will be finalised at the end of the financial year. Depreciation costs are credited to the Major Repairs Reserve and reinvested in the housing stock through financing of the capital programme.

6 HRA Capital Programme

6.1 The HRA approved Capital Programme is £118.3m. This consists of £13.8m of new schemes approved for 2021/22 plus £104.5m of previously approved schemes in prior years (see **Appendix A**).

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

6.3 The HRA Capital Programme relates to in-year works and longer-term schemes that will be completed over the next ten years. The current planned profiled spend is summarised in **Appendix C.** The budget has been profiled to reflect the estimated timing of costs for the approved schemes, with £29.9m profiled to be spent in 2021/22 with the balance of £88.4m projected forward into future years.

6.4 Further information on the three distinct areas of the HRA capital programme and its financial performance to date against this financial year can be found below and in **Appendix D.** It is currently forecast that the programme will underspend against profiled budget for 2021/22 by £16.257m; £13.332m slipping into subsequent years and £2.925m being returned.

6.5 **Major Works**: The approved budget of £14.5m is funded by the Major Repairs Reserve and relates to spend on major works to existing dwellings. New schemes approved for 2021/22 total £8.9m with slippage from the prior year of £5.6m.

6.6 All internal capital programme works were placed on hold during the COVID lockdown periods, and some external works were also delayed, causing budget slippage to occur from the 2020/21 financial year. The level of overall capital programmes to be delivered in 2021/22 was therefore significantly higher to try to catch up and delivering this volume of work was always going to be very challenging. Several of the existing contracts for various programmes were ending and this placed a strain on available procurement resources, compounded by a number of procurement exercises having a lower-than-normal level of interest to tender shown by contractors, leading to delays in commencing works on site. In addition, ongoing Brexit and COVID related disruption to supply chains (shortages and delays of materials) and the labour market (lack of skilled trades) has exacerbated the difficulty of delivering a wide range of capital programmes during the year. Finally, residents self-isolating and anxieties about providing access to their homes to allow works to be undertaken have further delayed programme completions.

6.7 The 2021/22 capital programme includes major programmes such as:

- Kitchens
- Bathrooms
- Air Source Heat Pumps
- Heating improvements
- Insulation and ventilation
- Door entry systems
- External doors

- Fascias and soffits
- Roofing
- Windows

6.8 The current forecast projected spend is £6.184m resulting in an underspend against budget of £8.346m which will fall into subsequent years.

6.9 **Improvements**: The approved budget of £3.8m is funded by the Major Repairs Reserve and relates to spend on improvements to existing dwellings. New schemes approved for 2021/22 total £1.1m with slippage from the prior year of £2.7m.

6.10 As noted in Major Works above, some capital programme works were placed on hold during the COVID lockdown periods causing budget slippage to occur from the 2020/21 financial year and this also affected some improvement programmes. Fire safety improvement works have been prioritised (e.g. programmes of installation of replacement fire doors, and new emergency lighting to communal areas, have commenced on site). However, again the disruption to supply chains and the labour market has caused delays in the commencement of a number of improvement programmes.

6.11 The current forecast projected spend is £2.231m resulting in an underspend against budget of £1.160m which will fall into subsequent years.

6.12 **Social Housing Development Programme:** The approved budget of £100m is for the provision of new housing through schemes such as Phases A-E for North Taunton Regeneration (NTWP), Seaward Way, Oxford Inn, Zero Carbon Affordable Homes and other buybacks to increase the Council's housing stock.

6.13 The new build programme has entered into one contract (Phase A NTWP) and is due to enter into a second contract (Seaward Way) in 2021/22. This will obligate SWT through contract £21m of spend between 2021 and 2024 and SWT will gain 101 new low carbon council homes and a community facility. Both contracts are design and build and therefore provide the council with cost certainty with costs risk primarily borne by the contractors. The service is also bringing forward a new planning application for NTWP phases B and C.

6.14 The project is decanting Phase B and Ci for start on site for early next financial year. Rent loss at NTWP will increase up to 2025/26 at which time additional units, over those demolished, will generate greater income at the point of phase D delivery. Predicted void loss is reflected in the HRA Business Plan and this will continue to be updated with business plan reviews. The decant strategy will decant customers in smaller subphases and retain as many customers within the scheme area through a two-move approach in order to maximise rental income. Some NTWP dwellings will continue to be used for temporary accommodation providing an income to mitigate some rent loss.

6.15 The service will review the delivery timescales and budget for the 61 new build units in the zero carbon affordable homes pilot and Oxford Inn following planning permission which is subject to a requirement to mitigate against phosphates. The garage income from these sites will not be affected by the proposed development until contracts are let for the schemes. Refurbishment schemes at Oake and NTWP Phase E will commence 2022/23 with rent loss being controlled by limiting the number of units under refurbishment to circa four per scheme at any one time.

6.16 Please note that there have been changes to the use of Right To Buy (RTB) receipts which are favourable to SWT and its new build programme. The new rules will increase the subsidy available for new build schemes by circa 10% and reduce the borrowing required for the schemes. All schemes are being future proofed to meet 2030 and 2050 low and zero carbon targets.

6.17 The current forecast projected spend is £5.2m resulting in an underspend against in-year profiled budget of £6.8m. Of this £3.8m slippage will fall into subsequent years due to some delays in schemes commencing and £2.9m will be a budget return as new build schemes are projected to meet RTB 1-4-1 spend requirements instead of purchases.

7 HRA Earmarked Reserves

7.1 The HRA Earmarked Reserves at the beginning of 2021/22 totalled £1.107m (see **Table 3** below). Of this £869k was approved to be returned to General Reserves by Full Council on 5 October 2021 and a further £175k by the Executive on 15 December 2021. The remaining funds have been earmarked to be spent within the next two years.

Table 3: Earmarked Reserves Balances

Description	**Opening Balance 01/04/2021 £000**	**Return to General Reserves £000**	**Projected Balance 31/3/2022 £000**
HRA One Teams	26	-20	6
HRA Social Housing Development Fund	849	-849	0
HRA Hinkley	57	-30	26
HRA Contribution to Change	175	-175	0
HRA Total	**1,107**	**-1,074**	**32**

8 HRA Unearmarked Reserves

8.1 The HRA general (unearmarked) reserves at the start of the year were £2.686m. This is £686k above the minimum recommended reserve level of £2m. Remaining at or above these targets provides financial resilience to in year pressures through volatility and unforeseen cost increases and income reductions.

8.2 General reserves have increased by £1.044m through the return of earmarked reserves that are no longer required for their original purpose (approved by Full Council on 5 October 2021 and the Executive 15 December 2021). However, there are several commitments and pressures for 2021/22 and forecast for 2022/23 that will significantly reduce general reserves if savings cannot be found during the year.

8.3 The current outturn position is forecast to be a net overspend of £354k. If the forecast outturn position does not improve the deficit will reduce reserve balances to £2.708, which is £708k above the recommended minimum balance of £2m. It is essential that control on spending for the remainder of the year continues to reduce the forecast overspend and maintain adequate reserves. If reserves do fall below adequate minimum levels it will be vital that sustainable plans are implemented during 2022/23 to restore balances to acceptable level. Financial pressures this year have demonstrated the potential scale of financial risks, which will almost certainly be exacerbated during the transition to the unitary authority and in an increasingly volatile operating environment. It is vital that costs are managed within annual income totals to ensure ongoing affordability of services.

8.4 **Table 4** below summarises the movement on the HRA unearmarked reserves during 2021/22.

Table 4: HRA Unearmarked Reserves Balance

	Approval	**£'000**
Balance Brought Forward 1 April 2021		**2,686**
Approved - Released EMRs	Full Council – 05.10.21	869
Approved - Release further EMRs	Executive – 15.12.21	175
Approved – Share of Change	Director 16.06.21	-21
Approved - OC & Supply Chain Project Lead	Director / S151	-19
Approved - Housing Improvement Programme Manager	SMT	-89
Approved - Housing Policy Review	SMT	-20
Approved - Housing Performance Complaints CM	SMT	-19
Approved - Compliance Administrator	SMT	-19
Approved - Building Safety CM	SMT	-25
Approved - Stock Condition Surveyors x2	SMT	-59
Approved - Procurement Support	SMT	-60
Approved - 1.75% Pay Award	Executive – 15.09.21	-175
Approved - Share of Additional H&S Costs	Director	-96
Forecast Balance after current commitments		**3,129**
Projected Outturn - Total variance		-354
22/23 - Housing Policy Review	SMT	-30
22/23 - Housing Performance Complaints CM	SMT	-6
22/23 - Stock Condition Surveyors x2	SMT	-30
Forecast Balance 31 March 2022		**2,708**
Recommended Minimum Balance		2,000
Projected Balance above recommended Minimum Balance		708

9 Risk and Uncertainty

9.1 Budgets and forecasts are based on known information and the best estimates of the housing service's future income and expenditure activity. Income and expenditure over the financial year is controlled by budget holders and then reported through the budget monitoring process. During this process any risks and uncertainties are identified which could impact financial projections, but for which the likelihood and/or amount are uncertain.

9.2 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. These can result in potentially significant differences to current forecasts.

9.3 The current areas of risk and uncertainty being reported include:

9.4 **Year-End Adjustments**: There are certain items that are not determined or finalised until the financial year-end. For example the final allocations of support service recharges and the final assessment of provisions required for bad debts. These can result in potentially significant differences to current forecasts.

9.5 With regards to bad debts, for a significant part of the year we have been unable to issue 'notice seeking possession' as part of our normal early intervention within our rent recovery process (due to eviction not being allowed during the pandemic). Although rent recovery performance is holding up well, this is likely to impact our ability to meet our year end rent recovery target.

9.6 **Staff Pay Award:** The budgets have been set based on 0% pay award for 2021/22 following the government's announcement in respect of public sector pay. However, pay negotiations are still being undertaken. The current forecast estimates a 1.75% pay award increasing direct staffing costs by c£175k. The Executive have agreed in principle that the final pay award will be funded from General Reserves.

9.7 **COVID-19:** The impact of COVID during the last financial year included delays in responsive repairs works (Revenue) and planned major and improvement works (Capital) reducing spend in these areas. The repairs non-emergency backlog is being resolved by recruitment of additional resources for the in-house trade team and by use of external contractors. However, we continue to have difficulty in recruitment of in-house skilled tradespersons for a range of work areas. We continue to carefully monitor and manage progress in this area and keep residents informed in relation to their repair requests.

9.8 The ongoing impact of the pandemic presents a risk to the Housing Service, particularly in terms of revenue collection as well as impact on tenant mental health and wellbeing. We have already seen a drop in inflation rates impacting our future income and expenditure, however another significant risk relates to financial hardship that will result from the impact of COVID, particularly following the ending of government support such as furlough and the current uplift in Universal Credit. The net result is unclear with respect to unemployment however inflation and UC will result in much tighter finances for many households which will impact on their ability to pay rent. Furthermore, there may be an increasing need to invest more in support services for tenant households affected by the impact of COVID. This could present across a range of service demands including increased debt and benefits advice; unemployment support, mental health support; anti-social behaviour intervention, safeguarding and domestic abuse support.

9.9 In addition, there has been substantial increases on a range of construction materials (and this pattern is expected to continue). Also, difficulties in recruitment of construction professional and trades staff for both normal work levels and COVID backlog is leading to salary inflation. Both factors are putting further pressure on several revenue and capital budgets.

9.10 **Repairs & Maintenance**: Overall this is a very demand led and reactive service based on the needs of the tenants. There are also a number of uncontrollable variables associated with this service such as the weather (e.g. cold winters causing burst pipes, roof leaks, etc), condition of properties when returned (e.g. void refurbishments), consumer demand on minor internal / external repairs (e.g. broken door or fence) and the type of repair work required. Market pricing of materials etc can also be volatile with some unit costs increasing in recent months. 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.

9.11 **Landlord Compliance:** A review of all compliance areas against every property for which Somerset West and Taunton Council has landlord property compliance responsibility has largely been undertaken. The compliance works required following this review are currently being planned and procured. Whilst additional budget provision has been added for 2021/22 the full extent of the financial pressure remains uncertain as more information is gathered.

9.12 **Electrical Compliance:** As noted above, a high number of remedial works have been identified from the electrical inspection condition reports. The majority of this is expected to fall under 'major' works and capitalised. However, an unknown proportion of this will only be 'minor' works and will need to be funded from revenue presenting a potential overspend.

9.13 **Welfare Reform and Universal Credit (UC):** The impacts of Welfare Reform and UC are significant with the number and value of rent accounts in arrears expected to increase considerably. Several mitigations are already in place to help support tenants affected by Welfare Reform and UC such as debt advice, access to discretionary housing payments and an arrears management team with redesigned workflow processes. Welfare Reform and UC may require the Council to revise future income projections as our experience with Welfare Reform and UC develops.

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

9.15 **Building Regulation and Fire Safety:** The Grenfell Tower fire and subsequent Review of Building Regulation and Fire Safety bring several operational and financial risks. These have been mitigated with the increases in revenue and capital budgets approved for 2021/22 for compliance related work. However, the exact costs are currently unclear. There are likely to be other impacts, such as on the repairs budget due to additional work to communal areas, more intensive management of flat blocks and further resilience within teams to respond to the volume and breadth of enquiries. We will need to ensure continued compliance with these statutory requirements.

9.16 **Housing White Paper:** In November 2020 the Government published the Housing White Paper which sets out the changes to how social landlords will operate. It will require 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. Many of the new changes in the white paper have already been mitigated in Housing by strengthening our compliance activities, setting up the new Housing Performance Team to be responsible for communications, performance data and engagement but this will need to be kept under review and self-assessment has begun.

9.17 **Job Costing Charges via Open Contractor (OC):** The project lead is thoroughly reviewing and improving the efficient and accurate operational use of OC. The underlying issues around timing of information and accuracy of coding still remains and the ability of services to accurately forecast their outturn position on charges coming from OC remains low though still largely affected by the demand led nature of the service. Reporting ‘work arounds’ have been developed to assist budget holders with their forecasting whilst the project progresses.

9.18 **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, following a temporary amendment to the scheme policy from the 1 April 2021. To date, the Council has successfully fully spent all of their retained 1-4-1 receipts within the require timescales resulting in no returns being made to the Treasury/DLUHC.

9.19 Whilst projected spend on new build developments is currently adequate to meet 1-4-1 spend requirements this is dependent on the successful delivery of these social development schemes. There is a risk that progress on new build schemes could be delayed and purchasing houses on the open market is also hindered, both as a direct result of COVID, and may result in funds being return to DLUHC/Treasury.

9.20 **Unitary Authority:** The Secretary of State has announced his decision on the future of local government in Somerset and has chosen the "One Somerset" option put forward by the County Council. This means there will be one new council for Somerset replacing the existing five councils in April 2023. The costs of implementation will be significant and will bring significant additional demand on officers to support the process with potential additional capacity required.

9.21 It is currently unknown what the future potential HRA costs will be because of this decision, and whether these costs will need to be funded using revenue or capital budgets. From a capital perspective the business plan does provide some headroom to allow non-right to buy receipts to be used as flexible capital receipts to fund transformation costs. However, this direction ends on the 31 March 2022 and whilst a statement of intent has been issued by the Government to extend this directive for a further three years, this has not yet been confirmed. 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 to make this affordable.

10 Links to Corporate Aims / Priorities

10.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

11 Partnership Implications

11.1 A range of HRA services are provided through partnership arrangements such as MIND, citizen's advice, Inspire to Achieve, Taunton East Development Trust, North Taunton and Wiveliscombe Area Partnership. The cost of these services is reflected in the Council's financial outturn position for the year.

12 Scrutiny Comments / Recommendations

12.1 To be added following the Corporate Scrutiny meeting.

Democratic Path:

- **Community Scrutiny – 23 February 2022**
- **Executive – 16 March 2022**
- **Full Council - No**

Reporting Frequency: **Quarterly**

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Appendix A: HRA Approved Capital Budget

SWT Capital Programme	Prior Year Slippage	Current Year Approval Feb 2021 Budget Setting for 2021/22	Current Year Approval Feb 2021 Budget Setting for 2022/23	Total Approved Budget	Current Year Supplements	Current Year Returns	Revised Current Year Approved Capital Budget
Major Works	5,646,075	8,883,710	-	14,529,785	-	-	**14,529,785**
Fire Safety	1,553,967	202,000	-	1,755,967	-	-	**1,755,967**
Related Assets	30,073	100,000	-	130,073	-	-	**130,073**
Exceptional & Extensive	-	293,500	-	293,500	-	-	**293,500**
Vehicles	347,800	121,000	-	468,800	-	-	**468,800**
ICT	745,598	-	-	745,598	-	-	**745,598**
Aids & Adaptations & DFGs	-	370,000	-	370,000	-	-	**370,000**
Sub-Total Majors & Improvements	**8,323,513**	**9,970,210**	**-**	**18,293,723**	**-**	**-**	**18,293,723**
Social Housing Development	96,203,047	3,830,000	-	**100,033,047**	-	-	**100,033,047**
Total HRA	**104,526,560**	**13,800,210**	**-**	**118,326,770**	**-**	**-**	**118,326,770**

Appendix B: HRA Capital Financing of Total Approved Budget

SWT Capital Programme	TOTAL CAPITAL FINANCING	Capital Grants	Right To Buy (RTB) Capital Receipts	Capital Receipts	HRA Revenue Contribution	Major Repairs Reserve	Other Earmarked Reserves	Borrowing
Major Works	14,529,785	-	-	-	-	14,529,785	-	-
Fire Safety	1,755,967	-	-	-	-	1,755,967	-	-
Related Assets	130,073	-	-	-	-	130,073	-	-
Exceptional & Extensive	293,500	-	-	-	-	293,500	-	-
Vehicles	468,800	-	-	-	-	468,800	-	-
ICT	745,598	-	-	-	-	745,598	-	-
Aids & Adaptations & DFGs	370,000	-	-	-	-	370,000	-	-
Sub-Total Majors & Improvements	**18,293,723**	**-**	**-**	**-**	**-**	**18,293,723**	**-**	**-**
Social Housing Development	100,033,047	470,000	18,524,287	-	-	-	-	81,038,760
Total HRA	**118,326,770**	**470,000**	**18,524,287**	**-**	**-**	**18,293,723**	**-**	**81,038,760**

Appendix C: HRA Annual Profiling of Approved Capital Budget

SWT Capital Programme	Total Approved Budget	Capital Spend 2021/22	Capital Spend 2022/23	Capital Spend 2023/24	Capital Spend 2024/25	Capital Spend 2025/26	Capital Spend 2026/27	Capital Spend 2027/28	Capital Spend 2028/29
Major Works	14,529,785	14,529,785	-	-	-	-	-	-	-
Fire Safety	1,755,967	1,755,967	-	-	-	-	-	-	-
Related Assets	130,073	130,073	-	-	-	-	-	-	-
Exceptional & Extensive	293,500	293,500	-	-	-	-	-	-	-
Vehicles	468,800	468,800	-	-	-	-	-	-	-
ICT	745,598	372,799	372,799	-	-	-	-	-	-
Aids & Adaptations & DFGs	370,000	370,000	-	-	-	-	-	-	-
Sub-Total Majors & Improvements	**18,293,723**	**17,920,924**	**372,799**	**-**	**-**	**-**	**-**	**-**	**-**
Social Housing Development	100,033,047	11,933,318	30,525,739	16,635,980	11,824,610	12,846,700	10,966,880	4,522,260	777,560
Total HRA	**118,326,770**	**29,854,242**	**30,898,538**	**16,635,980**	**11,824,610**	**12,846,700**	**10,966,880**	**4,522,260**	**777,560**

Appendix D: HRA Profiled Capital Budget for 2021/22 Vs Forecast Capital Outturn for 2021/22

SWT Capital Programme	Profiled Capex Budget 2021/22	Expenditure YTD	Forecast Outturn 2021/22	Variance; - underspend + overspend	- Slippage c/f	In Year - Underspend + Overspend
Major Works	14,529,785	1,777,701	**6,183,723**	(8,346,062)	(8,346,062)	0
Fire Safety	1,755,967	(396,523)	**980,000**	(775,967)	(775,967)	0
Related Assets	130,073	16,389	**35,999**	(94,074)	(94,074)	0
Exceptional & Extensive	293,500	(52,364)	**40,000**	(253,500)	(253,500)	0
Vehicles	468,800	0	**468,800**	0	0	0
ICT	372,799	334,248	**372,799**	0	0	0
Aids & Adaptations & DFGs	370,000	60,460	**333,044**	(36,956)	(36,956)	0
Sub-Total Majors & Improvements	**17,920,924**	**1,739,911**	**8,414,365**	**(9,506,559)**	**(9,506,559)**	**0**
Social Housing Development	11,933,318	3,033,623	**5,182,954**	(6,750,364)	(3,825,032)	(2,925,331)
Total HRA	**29,854,242**	**4,773,534**	**13,597,319**	**(16,256,923)**	**(13,331,592)**	**(2,925,331)**