

THE HRA REVENUE BUDGET 2022/23 AND CAPITAL PROGRAMME 2021/22 TO 2026/27	
	<u>HOUSING REVENUE ACCOUNT (HRA) BUDGET 2022/23</u>
	<u>Context</u>
1.	The HRA records all the income and expenditure associated with the provision and management of council owned homes in the City. This account funds a significant range of services to approximately 16,000 homes for Southampton tenants and their families and to over 2,000 homes for leaseholders. This includes housing and estate management, repairs, improvements, and statutory compliance activity; welfare advice, employment and skills support, support to address anti-social behaviour and support for the victims of domestic abuse; supported housing services for older people and those with extra care needs, neighbourhood wardens, and capital spending on council properties.
	<u>2021/22 Forecast Outturn</u>
2.	The HRA year-end forecast position as at the end of December 2021 for 2021/22 shows a favourable variance of £0.92M compared to a budget of £75.87M on 'business as usual' activity, with an additional favourable variance of £0.56M relating to reduced bad debt provision, which had initially been increased as a result of higher expected arrears following the Council's response to COVID-19. However, the predicted level of bad debt has not arisen resulting in this favourable position emerging.
	<u>HRA Medium Term Financial Position</u>
3.	This report sets out the HRA revenue budget for 2022/23 and the 40 year HRA business plan, covering the period 2022/23 to 2061/62.
4.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted, and there is now greater emphasis for councils to plan their new build strategy and financing at a local level.
5.	<p>The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The specific HRA Business Plan priorities are summarised below:</p> <ul style="list-style-type: none"> • All HRA debt is sustainable on a yearly basis. • The capital spending plans include provision to maintain and improve all existing dwellings and is based on a Housing stock capital strategy that continues to be developed and enhanced. • Capital regeneration budgets have been reduced to reflect the Councils stated priority for working in partnership with other Registered Providers to deliver future regeneration, as opposed to in-house delivery. A Capital provision of £60M is set aside for committed stock replacement at plots 2, 9 and 10 Townhill Park between 2021/22 and 2024/25 based on the existing financial assumptions. These will need to be revised when final scheme costings have been received and viability assessed. • An assumption that future development will be on the basis of a model of working with Registered Providers and utilising land disposals and future Right to Buy receipts to support stock replacement, replacing the existing acquisitions assumption. This is currently being worked through and will be further developed in a future iteration of the business plan model.

	<ul style="list-style-type: none"> The revenue budget protects the minimum balances of £2.0M per year over the life of the Plan.
6.	<p>The HRA Business Plan shows revenue balances that increase above minimum levels within the 40 year period. This has been mitigated to an extent by repayment of loans outstanding across the life of the Business Plan. The surpluses are subject to change annually and will reflect the annual review of stock investment needs (including commitments not yet costed, such as zero carbon ambition and future building safety requirements), estimated unit income and expenditure, as well as the prevailing external economic factors of the time.</p>
	<p><u>Rent & Service Charge Increases</u></p>
7.	<p>Under current Government guidance the Council can increase rent by a maximum of CPI plus 1 per cent based on the September CPI position.</p> <p>The Council is also required to set charges for communal heating in certain properties. Following the recent wholesale energy price increases, it is necessary to increase heating charges in order to ensure costs are being fully recovered. The proposal for rent and service charge increases is as follows:</p> <ul style="list-style-type: none"> No increase in Rent No increase in Service Charges No increase in Supported Accommodation Service Charges District heating charge increase of 16.52 per cent
	<p><u>Rents</u></p>
8.	<p>It is proposed that rents are not increased in 2022/23, despite Central Government guidelines for HRA rents allowing rent increases based on the Consumer Price Index (CPI) as at the previous September (2021) plus 1 per cent for tenants who are at or below formula rent (the government approved method of calculating social rent), or CPI for those tenants who are above formula rent. CPI in September 2021 was 3.1 per cent.</p> <p>The latest guidance, which was issued in 2020 by the then Ministry of Housing, Communities and Local Government, states that rents can increase by up to CPI+1 per cent (subject to the formula rent proviso above) for the years 2023/24 to 2024/25, and after that by up to CPI. These assumptions have been built into the HRA Business Plan.</p> <p>Although the Council is able to increase rent by up to 4.1 per cent for 2022/23, it is proposed to freeze rent and service charges to minimise impact on tenants who are facing increases in cost through increasing inflation, energy bills and fuel costs, concurrent with reducing universal credit from October 2021.</p> <p>The proposed rent freeze foregoes £1.3M in additional income in 2022/23, and £157M over the life of the 40 year business plan.</p>
9.	<p>It should be noted that the proposed rental increases are in the context of rental income lost in the four years from 2016/17 to 2019/20, where a 1 per cent per annum rent reduction was imposed on the HRA via Central Government instruction. This has led to a permanent divergence from previously inflation linked base rents, and an overall reduction to income compared to an inflationary linked rise of £33.7M by 2020/21 as set out in Table 1 below.</p>

10. Table 1 – HRA Estimated Rent Loss

HRA ESTIMATED RENT LOSS COMPARISON DUE TO 1% RENT REDUCTION P.A. FOR 4 YEARS FROM APRIL 2016

	Year	Stock	With 1% reduction			Without 1% reduction			In year Loss	% in year loss of income (est)	Running total income loss
			% Change from previous year	With Reductions	Estimated Income	Assumed CPI increase (prior to 20/21) if no 1% decrease	Per previous increases	Estimated Income			
	2015.16	16,503		87.18	75,102,997		87.18	75,102,997	0		
Rent reduction period	2016.17	16,363	-1.0%	86.31	73,721,216	0.9%	87.97	75,136,068	-1,414,852	2%	-1,414,852
	2017.18	16,223	-1.0%	85.45	72,359,561	2.0%	89.73	75,983,077	-3,623,515	5%	-5,038,367
	2018.19	16,083	-1.0%	84.59	71,017,767	4.0%	93.31	78,340,458	-7,322,691	9%	-12,361,058
	2019.20	15,943	-1.0%	83.75	69,695,573	3.4%	96.49	80,298,906	-10,603,333	13%	-22,964,391
CPI + 1% period	2020.21	15,828	2.7%	86.07	71,112,893	2.7%	99.09	81,872,126	-10,759,233	13%	-33,723,624

Service Charges

11. The current charging mechanism for service charges in the HRA does not currently recover all costs that are applicable for a service charge. This means that general tenant rent is currently covering some of the costs associated with these specific areas. Work is ongoing to review the extent of the 'gap' between costs and income and recommendations around this will be made following that review. However, for 2022/23, the proposal is to freeze service charges as they currently stand.

12. The weekly charges to be levied for next year are shown in Tables 2 and 3 below.

13. Table 2 – General Service Charges

	21/22	22/23
Concierge monitoring	£2.77	£2.77
Walk-Up Block Wardens	£1.47	£1.47
Cleaning service in walk-up blocks	£0.73	£0.73
Door Entry System	£0.22	£0.22
Emergency Lighting Testing	£0.27	£0.27
Garden/Ground Maintenance	£0.22	£0.22
Tower Block Wardens	£5.20	£5.20

14. Table 3 – Supported Accommodation

	21/22	22/23
Community Alarm	£1.31	£1.31
Support Management	£2.76	£2.76
Careline Silver	£5.13	£5.13
Careline Gold	£3.14	£3.14
	£4.45	£4.45

Heating Charges

15. The annual review of the Landlord-Controlled Heating (LCH) account projects a deficit of £0.68M, and the latest information on future price changes (provided by our energy procurement partners) suggest price increases of 6 per cent for electricity and gas in 2022/23. The primary driver for price increases has been the recent increases in wholesale prices, which is a significant risk as noted in para 19 in the covering report, and these will

	<p>be monitored carefully. As 90 per cent of the energy used by LCH is electricity, it is proposed that the charges to tenants for 2022/23 will increase by 16.52 per cent.</p> <p>Annex 3.2 shows the proposed weekly and annual changes by band. The bands are set on the basis of floor space in square metres, ensuring smaller properties pay proportionately less than larger properties, and a specific band (J) for hostels. The proposed percentage increase is applied equally to each band.</p> <p>This increase (and future annual increases in line with energy inflation) are designed to maintain equilibrium on the account over the next five years, while avoiding the large deficit/surplus swings of the past.</p>
	<p><u>Other Key Assumptions</u></p>
16.	<p>Rent arrears have continued to rise in the current financial year, 2021/22, linked to the impact of Welfare Reform and exacerbated by the impact of COVID-19. Following this in the 2021/22 plan, the bad debt provision was increased by 3 per cent in 2021/22 and 2022/23. Work undertaken to date suggests that a reduction in the existing 2022/23 provision contribution is reasonable, and further work will be done to review the provision in light of arrears levels through 2022. It is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.</p>
17.	<p>The cyclical maintenance budgets have been increased by £2M per annum to take account of increased statutory landlord responsibilities for fire safety, water safety, electrical and mechanical safety.</p>
18.	<p>Other cost pressures, staffing inflation estimated at 1.75 per cent, general inflation on building materials costs, and fuel have also been built into the model.</p>
19.	<p>Some changes to key assumptions have been made to accommodate the rental freeze in the HRA model. Historically it has been common practise to utilise any surplus in the HRA to facilitate early repayment of borrowing where practical. This has the advantage of reducing long term interest costs and ensuring future affordability of the HRA programme. However, it is proposed to utilise any surplus in 2021/22 to support the pressures identified for 2022/23.</p>
20.	<p>A further change made to the business plan has been to revise the capital programme projection for 1,000 homes and asset acquisitions to include only the currently committed developments at plots 2,9 and 10 Townhill Park. This has significantly reduced the borrowing requirement within the business plan model. Final costs for the development at Townhill Park are not yet established, and the business plan will be updated when these become available.</p>
21.	<p>In addition to the above, debt profiling across the 40 year period has been reviewed and updated to ensure the working balance is suitably maintained. A reduction in bad debt provision has been factored in subject to further work to take place on reducing the current level of arrears.</p>
22.	<p>After the above actions have been taken, there is still a requirement to make savings of £1M per annum by 2027/28 to maintain a working balance at year 40 equivalent to that of 2021/22's business plan, ensuring all committed borrowing in the model is repayable. Options for achieving savings include reviewing non statutory service delivery and the extent of the Capital Programme, and options will be brought forward in due course.</p>
	<p><u>HRA Balances</u></p>
23.	<p>The HRA Business Plan revenue balances enable a longer-term repayment of debt to take place. Following recent cost pressures, and the removal of the debt cap leading to ongoing regeneration/new build borrowing, debt repayments are still taking place during the life of the Business Plan. The proposed model assumes repayment of all debt within the 40 year plan. This level of debt forecast in 40 years is prudent.</p>

24.	A significant risk to the long-term plan is that, if property works related inflation was to exceed general inflation over a prolonged period, this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. This risk becomes more significant in the light of the proposed rent freeze. Therefore, the forecast financial position is subject to annual review based on the prevailing economic factors and will also reflect the annual review of stock investment needs and estimated unit rates.																																
25.	The other significant risk is changes in Central Government rental policy in the future. The current guidance is for rents to increase over a period of the next 4 years by CPI + 1 per cent inflation. Policy thereafter is rent increases at CPI per annum.																																
26.	It will be necessary to regularly undertake sensitivity analysis to assess the impact of external influences such as building inflation and changes to CPI on the business plan so that the overall budget position can be maintained to support investment in services and properties to meet the expectations of tenants and our regulatory requirements.																																
27.	The HRA minimum balance will remain at £2.0M per year.																																
HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2021/22 TO 2026/27																																	
28.	The purpose of this section of the report is to update the HRA Capital Programme for the period of 2021/22 to 2026/27, highlighting the changes in the programme since the last reported position to Cabinet in November 2021. The Capital Programme has been subject to a review of each line, taking into account new legal and statutory requirements in relation to all of our compliance activity and the principles of the draft Housing Asset Management Strategy. Consideration has also been given to ensuring budget lines are realistic and achievable and take into account expected slippages from the 2021/22 financial year which has continued to be affected by COVID, where appropriate.																																
THE FORWARD CAPITAL PROGRAMME																																	
29.	Table 4 shows a comparison of the latest capital expenditure for the period 2021/22 to 2025/26 compared to the previously reported programme.																																
30.	<p><u>Table 4 – Programme Summary</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Reported Programme</th> <th style="text-align: right;">2021/22 £M</th> <th style="text-align: right;">2022/23 £M</th> <th style="text-align: right;">2023/24 £M</th> <th style="text-align: right;">2024/25 £M</th> <th style="text-align: right;">2025/26 £M</th> <th style="text-align: right;">2026/27 £M</th> <th style="text-align: right;">Total £M</th> </tr> </thead> <tbody> <tr> <td>Latest</td> <td style="text-align: right;">37.94</td> <td style="text-align: right;">52.66</td> <td style="text-align: right;">86.70</td> <td style="text-align: right;">58.73</td> <td style="text-align: right;">32.87</td> <td style="text-align: right;">32.44</td> <td style="text-align: right;">301.34</td> </tr> <tr> <td>Previous</td> <td style="text-align: right;">38.59</td> <td style="text-align: right;">101.88</td> <td style="text-align: right;">100.93</td> <td style="text-align: right;">69.95</td> <td style="text-align: right;">30.42</td> <td style="text-align: right;">29.62</td> <td style="text-align: right;">371.39</td> </tr> <tr> <td>Variance</td> <td style="text-align: right;">(0.65)</td> <td style="text-align: right;">(49.22)</td> <td style="text-align: right;">(14.23)</td> <td style="text-align: right;">(11.22)</td> <td style="text-align: right;">2.45</td> <td style="text-align: right;">2.82</td> <td style="text-align: right;">(70.05)</td> </tr> </tbody> </table> <p style="text-align: center; font-size: small;">NB: Table includes rounded figures</p>	Reported Programme	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	Total £M	Latest	37.94	52.66	86.70	58.73	32.87	32.44	301.34	Previous	38.59	101.88	100.93	69.95	30.42	29.62	371.39	Variance	(0.65)	(49.22)	(14.23)	(11.22)	2.45	2.82	(70.05)
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Variance	(0.65)	(49.22)	(14.23)	(11.22)	2.45	2.82	(70.05)																										
31.	There is an overall reduction in the HRA capital programme over this period of £70.05M to £301.34M, predominantly as a result of changes to the regeneration capital budgets. The revised programme is shown by major project in table 5 below and detailed in paragraphs 33-39. A full breakdown by project is provided in Appendix 5 (confidential).																																
32.	<u>Table 5 – Major Schemes by Major Project</u>																																

	Financial Years							Totals
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27		
Improving Quality of Homes	£ 8,549,000	£ 9,257,453	£ 9,073,212	£ 9,172,000	£ 9,102,000	£ 9,102,000	£ 54,255,665	
Making Homes Energy Efficient	£ 1,441,100	£ 7,755,333	£ 11,510,000	£ 11,622,000	£ 6,672,000	£ 6,672,000	£ 45,672,433	
Passive fire safety	£ 400,000	£ 5,200,000	£ 8,507,000	£ 48,000	£ 431,000	£ -	£ 14,586,000	
Making Homes Safe	£ 14,922,000	£ 11,550,000	£ 13,871,215	£ 10,360,000	£ 9,460,000	£ 9,460,000	£ 69,623,215	
Supporting Communities	£ 2,196,000	£ 6,707,000	£ 1,879,000	£ 2,121,000	£ 1,921,000	£ 1,921,000	£ 16,745,000	
Supporting Independent Living	£ 2,351,000	£ 3,203,500	£ 3,303,500	£ 3,303,500	£ 3,303,500	£ 3,303,500	£ 18,768,500	
Estate regeneration / New-build	£ 8,085,000	£ 8,990,000	£ 38,551,138	£ 22,100,862	£ 1,985,000	£ 1,985,000	£ 81,697,000	
Totals	£ 37,944,100	£ 52,663,286	£ 86,695,065	£ 58,727,362	£ 32,874,500	£ 32,443,500	£ 301,347,813	
MAJOR PROGRAMME CHANGES								
33.	<p>Improving the Quality of Homes This category focuses on the major replacement, asset refurbishment and modernisation of the assets through component investment within properties. This includes communal areas as well as within occupied homes. The impact of investment will be reflected in such KPIs as the Council's ability to reduce void turnaround times and reduce the average cost of reactive repairs. Key changes include the introduction of an annual budget for reclassification of major reactive works identified in year, and budget for balcony rectification works, and a revised medium term estimate for lift refurbishment work.</p>							
34.	<p>Making Homes Energy Efficient This category groups spend that improves the thermal efficiency of assets and introduces efficient heating appliances into homes. These measures help tackle social issues such as fuel poverty and targets the provision of a comfortable home. The impact of such investment is reflected in improved asset SAP (Standard Asset Procedure) rating. This category also directly targets the Council's Carbon Neutrality commitment. The main reductions in this line, relate to; Thornhill, a project scheduled for closure in 2022/23 for which an ongoing budget had been erroneously assumed; a more realistic estimate for annual spend on external door and window upgrades, and removal of budgets for which feasibility work has not yet been undertaken. The Energy Efficiency capital programme will be subject to further work in early 2022/23 to develop a plan to meet the stated ambition to achieve zero carbon commitments by 2040 and this will be built into the capital programme following this exercise.</p>							
35.	<p>Making Homes Safe This category focuses on expenditure relating to the safety of the assets themselves including fire safety, structural works, asbestos removal, and investment related to statutory building compliance. The impact of such investment would be reflected in the Council's ability to robustly deliver its related statutory obligations, demonstrated by performance reporting. The main changes to the capital programme relate to the inclusion of budgets for fire detection upgrades and increasing existing budgets for fire safety remedial works and sprinkler installations over the 5 year period.</p>							
36.	<p>Supporting Communities This category relates to investment in the neighbourhoods of existing Council estates and encourages engagement with local communities to develop positive outcomes within the locality. The main change to the budget relates to the inclusion of the 1,000 parking spaces programme for 2022/23, of which a number will be within HRA estates, and removal of discretionary budgets no longer required.</p>							
37.	<p>Supporting Independent Living This investment addresses the accessibility of homes to support people living independently through the delivery of adaptations or the investment facilities within the Supported housing element of the housing portfolio. The impact of such investment is demonstrated by KPIs reporting how long disabled tenants must wait for adaptations to their homes. The main change to budget relates to an increase to the disabled adaptations budgets in line with current levels of demand.</p>							
38.	<p>Estate Regeneration/New Build (£88.21M Reduction over 5 years)</p>							

<p>Capital budget for Estate Regeneration was intended to cover the cost of acquisitions and new build housing. This has been reduced to reflect the Councils stated priority for working in partnership with other Registered Providers to deliver future regeneration, as opposed to in-house delivery. The remaining investment predominantly relates to the completion costs at Starboard Way and build costs for plots 2,9 and 10 at Townhill Park, currently estimated at £60m over the next five years. Any further Capital spend on regeneration and acquisitions beyond this has been removed from the capital programme.</p>
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39.	Council is asked to approve the above changes, representing an overall £70.05M reduction to the HRA programme with approval to spend as detailed above. Additions are to be funded through a combination of capital receipts, the Major Repairs Allowance, direct revenue financing and council resources.																																																																
40	<p>Table 6 – HRA Capital Programme Resourcing</p> <table border="1"> <thead> <tr> <th></th> <th>2021/22 £M</th> <th>2022/23 £M</th> <th>2023/24 £M</th> <th>2024/25 £M</th> <th>2025/26 £M</th> <th>2026/27 £M</th> <th>Total £M</th> </tr> </thead> <tbody> <tr> <td>HRA Programme</td> <td>£37.94</td> <td>£52.66</td> <td>£86.70</td> <td>£58.73</td> <td>£32.87</td> <td>£32.44</td> <td>£301.34</td> </tr> <tr> <td>*CR - Borrowing</td> <td>(7.22)</td> <td>(19.22)</td> <td>(53.50)</td> <td>(28.49)</td> <td>(4.26)</td> <td>(3.82)</td> <td>(116.51)</td> </tr> <tr> <td>Right to Buy & Capital Receipts</td> <td>(5.63)</td> <td>(6.89)</td> <td>(8.22)</td> <td>(4.82)</td> <td>(2.56)</td> <td>(2.56)</td> <td>(30.68)</td> </tr> <tr> <td>Grants</td> <td>(0.25)</td> <td>(0.45)</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>(0.70)</td> </tr> <tr> <td>Revenue Financing</td> <td>(3.92)</td> <td>(2.54)</td> <td>(0.08)</td> <td>(0.05)</td> <td>(0.05)</td> <td>(0.05)</td> <td>(6.69)</td> </tr> <tr> <td>MRA</td> <td>(20.92)</td> <td>(23.56)</td> <td>(24.90)</td> <td>(25.36)</td> <td>(26.01)</td> <td>(26.01)</td> <td>(146.76)</td> </tr> <tr> <td>Total Financing</td> <td>(37.94)</td> <td>(52.66)</td> <td>(86.70)</td> <td>(58.73)</td> <td>(32.87)</td> <td>(32.44)</td> <td>(301.34)</td> </tr> </tbody> </table>		2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	Total £M	HRA Programme	£37.94	£52.66	£86.70	£58.73	£32.87	£32.44	£301.34	*CR - Borrowing	(7.22)	(19.22)	(53.50)	(28.49)	(4.26)	(3.82)	(116.51)	Right to Buy & Capital Receipts	(5.63)	(6.89)	(8.22)	(4.82)	(2.56)	(2.56)	(30.68)	Grants	(0.25)	(0.45)	0	0	0	0	(0.70)	Revenue Financing	(3.92)	(2.54)	(0.08)	(0.05)	(0.05)	(0.05)	(6.69)	MRA	(20.92)	(23.56)	(24.90)	(25.36)	(26.01)	(26.01)	(146.76)	Total Financing	(37.94)	(52.66)	(86.70)	(58.73)	(32.87)	(32.44)	(301.34)
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