DECISION-MAKER:	CABINET COUNCIL
SUBJECT:	The HRA Budget 2024/25 and Capital Programme 2023/24 to 2028/29
DATE OF DECISION:	20 FEBRUARY 2024 21 FEBRUARY 2024
REPORT OF:	**COUNCILLOR A FRAMPTON** **CABINET MEMBER FOR HOUSING**

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STATEMENT OF CONFIDENTIALITY
Appendix 6 (Capital Programme detail) is exempt from publication by virtue of category 3 of rule 10.4 of the Council's Access to Information Procedure Rules i.e. information relating to the financial or business affairs of any particular person. It is not in the public interest to disclose this information due to an ongoing commercial dispute which is subject to a protected alternative dispute resolution procedure. If the information was disclosed then the Council's financial position would be available to other parties to the dispute and prejudice the Council's ability to achieve best value

BRIEF SUMMARY
This report details the Housing Revenue Account (HRA) budget for 2024/25, capital programme 2023/24 to 2028/29 and 40 year business plan. It provides detail to inform full Council in setting rents, service charges and landlord controlled heating charges for 2024/25. The report also sets out the HRA capital programme HRA for the period 2023/24 to 2028/29, and identifies how the 2024/25 HRA budget has been balanced. The report contains the outcome of the formal consultation on proposals for rent and landlord controlled heating charges. Following this consultation the report recommends a rent increase of 7.7% and to continue the previously agreed charges for the landlord controlled heating in order to bring the account back into balance. The importance of the services provided by Southampton City Council to our tenants continues to be very evident. The council's HRA budget setting process therefore centres around the key objectives of being a good landlord and ensuring resources are directed towards agreed priorities.

Details of the HRA budget and HRA capital programme are set out in this report and in the following appendices:

Appendix 1 - HRA 40 year operating account

Appendix 2 – Heating charges 2024/25

Appendix 3 – HRA major repairs

Appendix 4 – HRA 2024/25 budget and 5 year projection

Confidential Appendix 5 – HRA capital programme 2023/24 to 2028/29

RECOMMENDATIONS:

Cabinet is recommended to:

	(i)	Propose to Council from 1 April 2024, an average rent increase will be applied to dwelling rents of 7.7% in line with the rent increase guidance set by Government, as detailed in paragraph 14, equivalent to an average increase of £7.15 per week in the current average weekly dwelling rent figure of £92.75 for Social rent, and £10.58 per week in the current average weekly rent for affordable rent of £151.16. Rents for Shared Ownership rents will also increase by 7.7%.
	(ii)	Propose to Council that there will be no increase in weekly service charges applied from 1 April 2024, as detailed in paragraph 21, pending further work on service charges in 2024/25.
	(iii)	Propose to Council the Housing Revenue Account revenue estimates as set out in Appendix 4.
	(iv)	Propose to Council the 40 year Business Plan for revenue and capital expenditure set out in Appendix 1 and confidential Appendix 5 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance increasing from £2.0M in 2023/24 to £7.0M by 2027/28, following a review of policy undertaken in 2023/24 for future budgets to provide a sufficient and necessary buffer against financial risks.
	(v)	Propose to Council the increase in landlord controlled heating charges set out in paragraph 25, which represent a 5% increase (reduced from the 10% increase previously anticipated in the MTFS update in July 2023)
	(vi)	Propose to Council the revised Housing Revenue Account (HRA) capital programme, which totals £280.01M (as detailed in paragraph 60 & 61 and the associated use of resources.
	(vii)	Propose to Council the capital projections in the HRA Capital Programme for 2023/24 to 2028/29 as detailed from paragraph 60, and that spend between 2023/24 and 2027/28 has been increased following the decision of Cabinet on 6 February 2024 on the future delivery of Plots 2,9 and 10 Townhill Park, to deliver plots 2 and 9 through the Affordable Homes Framework, and adjusted for known slippages at Quarter 3.
	(viii)	Propose to Council an increase in the HRA working balance from the current £2m, to £7m by 2027/28.

COUNCIL

Council is recommended to:

	(i)	Following consultation (paragraphs 14 to 25) approve that, from 1 April 2024, an average rent increase will be applied to dwelling rents of 7.7% in line with Government guidance, as detailed in paragraph 14, equivalent to an average

		increase of £7.15 per week in the current average weekly dwelling rent figure of £92.75 for Social rent, and £10.58 per week in the current average weekly rent for affordable rent of £151.16. Rents for Shared Ownership rents will also increase by 7.7%.
	(ii)	Approve that there is no increase in weekly service charges to be applied from 1 April 2024, pending further work as detailed in paragraph 21.
	(iii)	Approve the Housing Revenue Account revenue estimates as set out in Appendix xx.
	(iv)	Approve the 40 year business plan for revenue and capital expenditure set out in Appendix 1 and confidential appendix 5 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance increasing from £2.0M agreed for 2023/24 to £7M from 2027/28 in every financial year in line with current policy.
	(v)	Approve the increase in landlord controlled heating charges as detailed in paragraph 25. which represent a 5% increase (reduced from the 10% increase previously anticipated in the MTFS update in July 2023).
	(vi)	Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £280.01M (as detailed in paragraph 60 & 61 and the associated use of resources.
	(vii)	Approve the capital projections in the HRA Capital Programme for 2023/24 to 2028/29 as detailed from paragraph 60, and that spend between 2023/24 and 2027/28 has been increased following the decision of Cabinet on 6 February 2024 on the future delivery of Plots 2,9 and 10 Townhill Park,to deliver plots 2 and 9 through the Affordable Homes Framework, and adjusted for known slippages at Quarter 3.
	(viii)	Approve an increase in the HRA working balance from the current £2m, to £7m by 2027/28.

REASONS FOR REPORT RECOMMENDATIONS	
1.	The Constitution requires the Executive to recommend its HRA budget proposals for the forthcoming year to Full Council. The recommendations contained in this report set out the various elements of the budget that need to be considered and addressed by the Cabinet in preparing the final papers that will be presented to Full Council. The recommendations set out in this report help to ensure we are continuing to provise statutory services and improving the quality of life for residents, which maintaining a balanced 40 year business plan. The 40 year business plan is also set out in the report which demonstrates a balanced position.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
2.	Alternative options for HRA revenue spending and assumptions form an integral part of the development of the overall HRA budget and capital programme that will be considered at the Council meeting on 21 February 2024.
3.	This report sets out the HRA revenue budget for 2024/25 and the 40-year HRA business plan covering the period 2024/25 to 2063/64. The increases to rents, service charges and heating charges are an integral part of the revenue estimates for 2024/25. The alternative proposal would not be to increase rent or heating charges and this was rejected on the basis that business plan objectives, particularly for increasing standards of homes would not be met, and that the Council would continue with a deficit on the heating account, for which there is a legal duty to recover.

DETAIL (Including consultation carried out)	
4.	The HRA is set in the context of a 40 year business plan and is subject to a comprehensive review as part of the budget process each year, and subsequently monitored over the course of the financial year. As the landlord account, the HRA is specifically ring fenced for 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. These services are those specific to housing, including but not limited to • housing and estate management, • repairs, • improvements, • statutory compliance activity; • welfare advice, • 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, and • capital spending on council properties.
5.	The level of resources available to invest in the housing stock is dependent on overall income to the HRA. The key source of income is the rent received from tenants, which is utilised to pay for every-day services and to support borrowing costs associated with investment in the housing stock. The current approach to rent setting is set nationally and is in the context of rent reductions of 1% per annum between 2016/17 and 2019/20, and a rental freeze agreed by full Council for 2022/23, both of which have significantly reduced HRA resources over the course of the business plan.
6.	As part of the annual review of the HRA, both internal and external influences on the HRA are reviewed to assess the impact of those factors on housing services and determine the financial strategy for the HRA and the framework for the 40 year financial model.
	<u>2023/24 Forecast Outturn</u>
7.	The HRA year-end forecast position as at the end of December 2023 shows an overall favourable position, with an anticipated increase in working balance of £0.59M. However, this is in the context of pressures on the HRA, driven by a number of factors including: • losses on rental income and increased empty property charges resulting from high levels of voids • Increase in borrowing costs due to increases in interest rates during 2023 • Increasing cost of disrepair claims arising from deteriorating stock condition • Non-achievement of anticipated saving in respect of housing management restructuring in 2023/24. • Pay inflation higher than assumed for 2023/24 These pressures are being offset by • A reduction in employer's pension contributions from 18.2% to 16.8% • Service charge income slightly favourable to business plan estimate • A reduction in expected revenue contributions to the capital programme in order to maintain a balanced position in year, albeit at the cost of slightly higher long term borrowing costs.
	<u>HRA Medium Term Financial Position</u>
8.	This report sets out the HRA revenue budget for 2024/25 and the 40 year HRA business plan , covering the period 2024/25 to 2063/64. The current forecast on the HRA and

	proposed budget are summarised in the table below. More detail can be found in appendix 4.

HOUSING REVENUE ACCOUNT

Expenditure	Forecast 2023/24 £M	Proposed budget 2024/25 £M
Responsive & Repairs	15.72	18.05
Cyclical Maintenance	6.48	6.99
Rents Payable	0.48	0.45
Debt Management	0.09	0.09
Supervision & Management	26.42	29.76
Interest & Principal Repayments	6.46	6.46
Depreciation	21.50	22.35
Direct Revenue Financing of Capital	2.14	0.54
Gross Expenditure	**79.29**	**84.69**
Income		
Dwelling Rents	(74.94)	(80.29)
Other Rents	(1.20)	(1.21)
Service Charge Income	(2.52)	(2.53)
Leaseholder Service Charges	(1.05)	(1.05)
Interest Received	(0.08)	(0.11)
Total Income	**(79.79)**	**(85.19)**
Balances		
Working Balance B/Fwd	(2.00)	(2.50)
(Surplus)/deficit for year	**(0.50)**	**(0.50)**
Working Balance C/Fwd	(2.50)	(3.00)

9. The HRA business plan draws from and supports a number of council strategies, including the MediumTerm Financial Strategy, to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The core HRA financial planning assumptions are:

- All HRA debt is sustainable on a yearly basis over the period of the plan since restrictions to HRA borrowing were lifted in 2018.
- The capital spending plans must include increased provision to maintain and improve all existing dwellings and is based on a housing stock capital strategy that continues to be developed and enhanced.
- Future development will be on the basis of a model of working with Registered Providers, utilising land disposals and future Right to Buy receipts to support stock replacement, replacing the existing acquisitions assumption. The first phase of this programme was approved by Cabinet in December 2022 in its report titled ‘Delivery of Affordable Housing on Council Land through the Council Framework’ and subsequently reflected as a policy change in the 2023/24 HRA budget report.. In addition, £7M is set aside for direct delivery for Plot 10 Townhill Park following the Cabinet decision on 6 February 2024 (Future delivery of Plots 2,9 and 10 Townhill Park)The minimum balance will be increased from the current working balance of £2.0M per year to a minimum balance of £7M, broadly equivalent to 5% of average

	capital programme investment and revenue expenditure, over the following three years, recognising the increased risk to the HRA of high inflation, and ensure sufficient and robust provision for unexpected pressures.
10.	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, estimated unit income and expenditure, as well as the prevailing external economic factors of the time.
	HRA Priorities
11.	The overarching priority for the HRA is to 'Be a Good Landlord'. We will do this by providing safe and good quality homes; ensuring our residents have choice and protection and are able to hold us to account. Key priorities to achieving this objective include: • Improving the quality of our homes • Meeting the consumer standards as set out by the social housing regulator • Providing safe places to live, promoting social, environmental and economic wellbeing
	External Factors
	Inflation:
12.	The base rate of inflation used to drive expenditure assumptions in the HRA financial forecasts is generally the Consumer Price Index (CPI), and other measures such as the RICS (Royal Institution of Chartered Surveyors) Building Cost Information Service (BCIS) for building materials prices are also considered. The last 12 months has seen continuing high inflation with CPI inflation rates of 10.1% in January 2023, with a reduction through the year to 6.7% in September 2023. The HRA has been aligned to the council's MTFS assumptions on CPI. These are set out in Table 1 rates of: • 3.2% for 2024/25 • 2.1% for 2025/26 **2% for 2026 onwards,** with RPI assumed to be 1% higher than CPI for certain categories of expenditure.
	Interest Rates:
13.	The HRA receives a proportion of interest earned on cash balances invested by the council , notably on the HRA's working balances. The rate of interest assumed for 2023/24 was assumed to be in line with General Fund treasury returns, based on investments with minimal risk. The Bank of England base rate has increased from 4.25% in March 2023 to 5.25% as at December 2023. The actual average rate of interest earned on investments that benefited the HRA for 2022/23 was 2.9%. So far in 2023/24 the average rate earned on investments has increased and is expected to be 5.25% for the year. The business plan assumption for 2023/24 has assumed lower interest receivable at 3%, based on performance in 2022/23. Current base rate forecasts advised to the Council by Treasury Management advisors set an expectation that base rate will start to decrease in 2024, to 4.25%, and remain at this level until 2025 before falling back to 3.25%. As a result of this anticipated decrease in the base rate, the HRA retains the assumption that 3% can be earned on investments from April 2024 onwards. The interest rate assumptions are reflected in the Council's wider Treasury Management Strategy. In respect of existing HRA borrowing, the self-financing loan portfolio with the Public Works Loans Board of £166M at 1 April 2024 remains, peaking at £351M in 2033, with rates of between 1.12% and 4.94% for existing borrowing, and 5.5% assumed for borrowing undertaken in 2024/25.

	The HRA business plan assumes all borrowing is fully repaid by the financial year 2063/64. The profiling across the 40 year period has been optimised as part of the business planning process.
	HRA Priorities
	Rent & Service Charge Increases
14.	Under current Government guidance the council can increase rent by a maximum of CPI plus 1 per cent based on the September CPI data; the September data release confirmed CPI at 6.7%, allowing a maximum increase of 7.7%. The council is also required to set charges for communal heating in certain properties. Following significant wholesale energy price increases in 2022/23, it is necessary to increase heating charges in order to bring cost under control in 2023/24. The proposal for rent and service charge increases is as follows: • 7.7% increase in Rent for dwellings, garages and parking spaces • No increase in Service Charges pending further review in 2024/25 • No increase in Supported Accommodation Service Charges pending further review in 2024/25 • Heating charge increase of 6.5%
15.	It is proposed that rents are increased by CPI + 1% in 2024/25, in line with Central Government guidelines for HRA rents issued within the current rent standard. Rental policy beyond 2025/26 will be subject to a forthcoming government consultation, which was committed as part of the rent cap proposals during 2023. However, given the uncertainty of the outcome of any consultation, the business plan assumes increases in line with target CPI from 2025/26 and thereafter.
16.	The proposal to increase rent by CPI + 1% also extends to shared ownership properties, garages & parking spaces and supported housing properties.
	Consultation Feedback
17.	Consultation feedback on increasing housing rents: • 65% of respondents agreed with the proposal and 19% felt the proposal could have a positive impact on them, their family, their business or the wider community. • 21% of respondents disagreed with the proposal and 30% felt that the proposal could have a negative impact. • Of tenants of a council-owned home, 39% agreed with the proposal and 50% disagreed. 17% felt that the impact of the proposals could be positive, and 70% felt that the proposal could have a negative impact on them, their family, their business or the wider community. Consultation feedback on increasing landlord controlled heating charges: • 64% of respondents agreed with the proposal and 19% felt the proposal could have a positive impact on them, their family, their business or the wider community. • 21% of respondents disagreed with the proposal and 28% felt that the proposal could have a negative impact. • Of tenants or leaseholders of a council-owned property with landlord controlled heating, 14% agreed with the proposal and 76% disagreed. 12% felt that the impact of the proposals could be positive, and 82% felt that the proposal could have a negative impact on them, their family, their business or the wider community. A full analysis of the public engagement exercise will be included with the council tax setting report.
	Rent Arrears

18. Rent arrears have continued to rise in the current financial year, 2023/24. Arrears have increased significantly since 2020/21, linked to the impact of Welfare Reform, the lasting impact of suspension of recovery action during COVID times and exacerbated by the impact of increasing cost of living during 2022/23 and 2023/24. The bad debt provision contribution was increased significantly in the 2023/24 business plan and there are currently no plans to reduce the contribution.

19. As part of the Council's debt recovery action plan, measures have already been taken to reduce the arrears position, including additional direct debit days, increasing use of alternative payment arrangements and increasing the level of support to tenants., as at November 2023, current tenant arrears stood at £8.44M, and former tenant arrears at £3.4M.

20. The Business Plan for 2024/25 continues to recognise the risk of increasing arrears and is trialling the use of specialist debt collection agency utilising their expertise on former tenant arears recovery. This will support the work of the Customer Payments and Debt team, and correlates with the wider debt management project across the Council to improve debt recovery performance, and the impact of this approach will be reviewed during 2024/25.

Service Charges

21. Service charges are not proposed to increase in 2024/25, pending a review of the existing contribution basis currently in place and proposals to move towards a cost recovery model in future years. The benefit of this will be to build capacity in the HRA business plan to increase investment in decent homes projects. Future years service charges are assumed to increase at inflation pending further work around cost recovery (see para 40).

22. The weekly charges remain static and those to be levied for next year are shown in Tables 2 and 3 below.

<u>Table 2 – General Service Charges</u>

	23/24	**24/25**
Concierge monitoring	£3.02	£3.02
Walk-Up Block Wardens	£1.60	£1.60
Cleaning service in walk-up blocks	£0.80	£0.80
Door Entry System	£0.24	£0.24
Emergency Lighting Testing	£0.29	£0.29
Garden/Ground Maintenance	£0.24	£0.24
Tower Block Wardens	£5.67	£5.67

23. **<u>Table 3 – Supported Accommodation</u>**

	23/24	**24/25**
Community Alarm	£1.42	£1.42
Support	£3.01	£3.01
Management	£5.59	£5.59

Careline Charges

24. The Careline service is provided to both tenants within and outside of the HRA. The charges have not increased significantly for a number of years, and it is proposed that these charges remain static at :

	2023/24 Charge	2024/25 Charge
Monitoring (weekly)	£3.85	£3.85
Responding (weekly)	£5.50	£5.50
Installation (one-off)	£27.50	£27.50
Key safe (one-off)	£44.00	£44.00

Heating Charges

25. The landlord controlled heating (LCH) account was significantly adversely impacted by increasing energy costs during 2022/23, There was no decision made to increase LCH charges during 2022/23, with an increase of 100% applied form April 2022. The increase agreed was a compromise between cost recovery and minimising impact on tenants.

As a result, a deficit of £3.7M was forecast as at the end of 2022/23. The final position on the account was calculated during completion of the statement of accounts in April 2023 at £3.5M.

Cabinet and Council agreed to the principle of recovering the deficit over a period of 5 years at its meeting in July 2023. At that time, the estimated increase was anticipated to be approximately 10% per annum based on forecasts received in June 2023.

Revised energy cost forecasts were received in October 2023 and these estimates will be used to calculate the percentage increase in charges required to feed into the budget consultation in November 2023. A comparison of the energy cost forecasts received between June and October 2023, for the period from November 2023 to October 2024 are outlined below:

	June 2023	Oct 2023
Electricity		
Best case	+ 6.8%	- 3%
Mid case	+ 7.8 %	- 3%
Worst case	+ 33.9%	- 3%
Gas		
Best case	-12.8%	- 9.6%
Mid case	-11.9%	- 9.6%
Worst case	+ 14.8%	- 9.6%

The estimates provided in October 2023 are more favourable than those provided in June and are more certain due to the advance purchase of energy now having taken place for the forecast period.

	In calculating the impact on the LCH account, a number of assumptions are made as follows; 1) Inflation on energy costs has been assumed at 5% per annum from the second half of 2024/25 over the period of the forecast 2) Leaseholder contributions based on actual cost and 1 year in arrears 3) That the LCH account will contribute a sum to the HRA bad debt provision, recognising the risks associated with high charges and minimising the impact on tenants not in receipt of Landlord Controlled Heating The impact of the revised forecasts is an anticipated reduction in the LCH balance from £3.6M to £3.0M as at 31 March 2024. In order to recover the deficit it will still be necessary to increase charges. In order to recover this deficit over the next 5 years, the required increase is 6.5% in 2024, and estimated at 5% per annum in 2025/26 and 2026/27, returning to an inflationary increase in 2027/28 based on the assumptions outlined above. The revised charges are provided in the table 4 below.

Table 4 Landlord Heating Charges

Band	2023/24 Charge	2024/2025 Proposed Charge
A	**1,106.96**	**1,178.91**
B	**1,329.06**	**1,415.45**
C	**1551.16**	**1,651.99**
D	**1773.26**	**1,888.52**
E	**1,995.36**	**2,125.06**
F	**2,232.76**	**2,377.89**
G	**2,473.56**	**2,634.34**
H	**2,717.76**	**2,894.41**
J	**384.46**	**409.45**

This table (and Appendix 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.

This increase (and future annual increases in line with energy inflation) are designed to strike a balance between cost recovery and a fair increase in price for tenants.

	<u>Identified pressures built into the Business Plan:</u>
26.	**<u>Increased cost of disrepair claims</u>** The number of claims has increased significantly since 2020 and is expected to continue to increase in the short term to medium term. The current budget cover has been increased to £0.25M, based on a current caseload of approximately 200 claims and will continue to be monitored.
27.	**<u>Voids and rent loss</u>** The business plan model assumes void losses of 3%, equivalent to £2.5M, in 2024/25, reducing to 2.5% in 2027/28 based on current capital expenditure. In addition, council tax charges and empty properties are assumed at £0.45M per annum. This is an area of focus and measures are being taken to reduce voids, in order to both improve income collection and also bring homes back into circulation, as outlined at paragraph 35.

28.	**Cost of borrowing** The HRA business plan assumes average interest rates of 5.5% in the short term, reducing to 4% in the medium to long term. This is a significant increase over and above the rates seen prior to 2022/23.
29.	**Depot rent increase** Rental charges for Nursling depot increased during 2023/24 by £0.04M per annum. This has been factored into the business plan model going forward. A historic backdated increase was accounted for in 2022/23.
30.	**Disposal of waste** Changes to regulations around the disposal of Persistent Organic Pollutants (POPs) is expected to increase disposal costs for items such as sofas. A pressure of £0.05M per annum is reflected in the business plan.
31.	**Inadequate working balance** The working balance was set historically at £2M. This is inadequate against the current level of annual expenditure and the current capital programme. The business plan assumes an increase to £3M in 2024/25, £4M in 2025/26 and £7M form 2026/27.
32.	**Tenancy fraud additional resourcing** Counter fraud measures are key to minimising losses due to fraud, particularly in relation to tenancy fraud and right to buy fraud. Additional counter fraud resources have been built in to the business plan model as part of the Housing Management restructure. Tenancy fraud is key to cost avoidance in the HRA. As at Q3 8 properties have been returned with a cost avoidance of £0.4M housing management associated in respect of tenancy fraud. In addition, a further £2.3m in respect of right to buy sales has also been prevented.
33.	**Corporate Landlord – additional Building Safety Managers** In recognition of increased landlord responsibilities under the Building Safety Act, two additional building safety managers have been budgeted within the 202425 HRA. Workloads and effectiveness to be reviewed during 2024/25. At a cost of £XX
34.	**Additional regulatory cost** On 7 September 2023, the Regulator of Social Housing (RSH) proposed to start charging councils with large social housing portfolios for the costs of regulation. For councils with more than 1,000 social housing units, the RSH proposed to start charging an annual fee of £7- £8 per unit. Councils with fewer than 1,000 units will continue not to be charged. The flat fee for smaller associations would increase from £300 to £600-£700 annually. The fee for housing associations with more than 1,000 units would increase from £5.40 to £9-£10 per unit. The increases willapply from 1 July 2024, and the cost to the HRA is estimated at £0.13M per annum.
35.	**Housing Operations** The housing operations budgets reflect immediate mitigations proposed to address voids, including reallocation of long standing vacant posts to increase logistics resource to manage additional workload, additional plasterers, roofers and gas fitters, alongside additional resource to address training needs. Overall budget for reactive and void repairs within the HRA revenue account now stands at £17.35M (an increase of £2.23M from 2022/23) and capital budget for major repairs within the capital programme is now £2M per year for the next 5 years (an increase of £1.2M per annum).
36.	**Inflationary pressures** A cost of living pay award assumption of 3% has been built in to the HRA business plan model, and wider inflationary pressure has been built in line with the assumptions outlined in this report.
	Savings proposals

37	All expenditure within the HRA is currently subject to ongoing review under cost control criteria. This approach will continue into 2024/25. Savings proposals for 2024/25 include:
38.	**<u>A restructuring to Housing Management</u>** **<u>This</u>** is currently being implemented, which will provide a more streamlined staffing structure. This will produce an estimated saving of £0.23M from 2024/25.
39.	**<u>Ensuring cost neutrality on the provision of food within supported housing complexes</u>**. The contract with City Catering will be terminated in 2023/24. This was running at a net loss of £158k in 2022/23. Alternative options for the provision of catering are currently being mobilised within the boundaries of cost neutrality.
	<u>Improvement Projects</u>
40.	**<u>Trialling the use of debt collection agency resources to recover former tenant arrears</u>**. The performance of this trial will be reviewed in 2024/25, and aligns to a wider review of debt recovery across the Council.
41.	**Service Charge Review** A project to review of service charges to move from a contribution model to a cost recovery model is planned in 2024/25, with a view to implementation from 2025/26.
42.	**<u>Technical calculations have been reviewed to ensure they are reasonable in the context of the current business plan.</u>** The depreciation calculation methodology has been reviewed to ensure it remains reasonable in the context of the overall HRA budget, and internal overheads between the HRA and General Fund have been reviewed for reasonableness.
43.	Following a review of the delivery of plots 2,9 and 10 Townhill Park, Cabinet, on 6 February 2024, have recommended to Council to transfer plots 2 and 9 into the Affordable Homes Framework. Plots 2 and 9 were not cost neutral to the HRA. This decision has reduced future revenue pressure on the HRA through reduced borrowing costs, and allowed scope to increase in investment into Decent Homes projects in the Capital Programme.
44.	**<u>Housing Operations and Voids</u>** Housing operations teams have been reprioritised to focus on void work with a view to containing and reducing the number of outstanding void properties. A more fundamental change to working practise is required and allowance has been made in the capital programme for increased focus on void repairs, following reprofiling of fire safety spend to prioritise void repair. The impact of this will be monitored in 2024/25 and future business plan assumptions updated in line with improvements identified. The benefit of this reprioritisation will be to reduce void levels by 300 properties in 2024/25, and a further 50 in 2025/26, with consequent improvement in income from 2025/26 and beyond.
	<u>HRA Balances</u>
45.	The HRA business plan enables a longer-term repayment of debt to take place. Despite recent cost pressures, and the removal of the debt cap leading to ongoing regeneration andnew build borrowing, debt repayments take place during the life of the business plan, with model assuming repayment of all debt within the 40 year plan. This ensures the level of debt forecast in 40 years is prudent.
46.	A significant risk to the long-term plan is the risk that the capital investment requirements significantly increase over time. The impact of this could have a significant adverse impact on HRA balances as property costs would begin to exceed rental income. This risk is more significant because of the rent freeze in 2022/23 and proposed rent caps in 2023/24. This

	is exasperated by materials costs inflation and repair demand as the stock ages 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.
47.	The other significant risk is changes in central government rental policy in the future. The current guidance extends as far as 2024/25. The business plan model assumes a CPI+1% increase in 2025/26 and rent increases equivalent to CPI from 2026/27 onwards pending the outcome of future consultation on rent increases.
48.	It is 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. A 1% increase in inflation has a £20m adverse impact across the 40 year term of the business plan if rent cannot also be increased by an equivalent amount.
49.	The HRA minimum balance since 2017 has been maintained at £2.0M per year. However, in recognition of the level of risk associated with the rent cap and continuing high inflation, it is proposed that the minimum balance is increased to £3M from April 2024/ The current closing working balance in 2023/24 is estimated at £2.59M and it is recommended a more fundamental review of working balance is undertaken in 2024/25.
	HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2023/24 TO 2028/29
50.	The capital programme has been subject to a review of each line, taking into account legal and statutory requirements in relation to all of our compliance activity and the principles of the Housing Asset Management Strategy. Consideration has also been given to ensuring budget lines are realistic, affordable and achievable and take into account expected slippages from the 2022/23 financial year where appropriate.
	THECAPITAL PROGRAMME 2023/24 to 2028/29
51.	Table X in paragraph 60 provides a summary of the latest capital expenditure for the period 2023/24 to 2028/29 compared to the previously reported programme.
52.	**<u>Headline Capital Programme Summary</u>** The following table outlines the headline category of budgeted spend between 2023/24 and the five years to 2028/29:

	2023/24 Forecast £M	2024/25 Budget £M	2025/26 Budget £M	2026/27 Budget £M	2027/28 Budget £M	2028/29 Budget £M	Total £M
Improving Quality of Homes	10.89	13.23	14.93	12.33	12.40	12.40	**76.17**
Improving Energy Efficiency	5.93	19.19	19.80	8.17	9.40	9.40	**71.90**
Impriving Safety of Homes	13.98	15.51	12.67	9.09	8.80	7.80	**67.85**
Regeneration	3.88	3.60	6.24	3.57	-	-	**17.29**
Supporting Communities	3.91	1.82	1.67	1.57	1.57	1.57	**12.11**
Supporting Independent Living	3.38	5.38	3.84	3.00	3.00	3.00	**21.60**
Inflation allowance			2.01	2.56	3.75	4.78	**13.09**
	41.98	**58.73**	**61.16**	**40.30**	**38.91**	**38.94**	**280.01**

53.	**<u>Capital Programme Financing</u>** The following table outlines how the capital programme from 2023/24 through to 2028/29 will be financed:

Financed by:	2023/24 £M	2024/25 £M	2025/26 £M	2026/27 £M	2027/28 £M	2028/29 £M	Total £M
Use of Capital Receipts (including RTB)	1.95	3.93	2.17	2.25	2.63	1.89	**14.81**
Major repairs reserve	21.49	22.35	22.84	23.40	23.79	24.20	**138.08**
DRF Contribution	1.29	0.54	0.16	0.45	0.55	0.93	**3.92**
Grants (HNES, Canberra, LAHF1)	2.28	1.85	0.00	1.40	0.00	0.00	**5.53**
Borrowing	14.97	30.05	35.99	12.80	11.94	11.92	**117.67**
	41.98	**58.73**	**61.16**	**40.30**	**38.91**	**38.94**	**280.01**

54. The Council agreed a Housing Asset Management Strategy in March 2022. The strategy has been created to ensure that robust, long term strategic capital investment plans are produced whilst ensuring that the requirements of the housing stock are affordable within the context of the HRA Business Plan. The production of a 5 year capital plan is set in the context of the strategy's objective to undertake as much work as possible in a pre-planned way to reduce future reactive repair costs.

55. The number of properties that meet the decent homes standard has moved adversely from 61% in 2018 to 46% in 2023. This is due to historic and current under investment in homes, partly because of budget constraints following rent reductions from 2016 to 2020, and partly due to insufficient capacity to deliver. The Housing Asset Management Strategy in 2022 stated that £175M was needed over a period of 5 years, and the rate of underinvestment is an average of £15M per year over the last 5 years.

The key priority for the capital programme has therefore been to seek to increase the resources required to address this issue. Plans are being progressed to set up a planned delivery works contract from April 2024 to support the work of the in-house team and speed up delivery of the capital programme. Combined with the investment in housing operations for voids, the benefits would seek to:

- Stabilise disrepair claims during 2024/25, and reduce the total claim value by 30% in 2025/26;
- Increase repairs completed on time and first callout from 41% currently to 80% by end of 2024/25, and up to 90% in 2025/26;
- To stabilise the number of complaints in 2024/25, and reduce complaints by 25% in 2025/26;
- To reduce waiting times for repairs in 2024/25 from 32 days to 25 days and further to 20 days in 2026/27;
- reduction in backlog of repairs from 5,000 currently to 4,000 in 2024/25 and 3,000 by 2025/26 (which represents the normal buffer for optimal working);
- Reduced calls and repeat calls through the customer service centre and
- Reduction in average repair cost.

56. Energy Performance

Work is continuing on improving the energy efficiency of the housing stock, working towards the government's target of all social housing achieving an Energy Performance Certificate (EPC) rating of C by 2030 for fuel poor homes, and 2035 for the remainder (where reasonably practicable to do so). As at December 2023 (December 2022 in brackets), 5,360 (5,166) properties are rated 'C' or above, 4,971 (4,251) properties are rated as D, and 2,428 (3,195) at E or below.

The Asset Management Team continues to complete EPC surveys to improve the accuracy of the energy performance data held. The EPC surveys have shown that the energy performance of the property estate is better than previously reported. Currently, 12,759

	properties have an EPC certificate held on the Government's central register; this equates to 68% of properties within the housing stock. The Authority continues to seek external funding to support energy efficiency works. SCC has been successful in gaining grant funding via the Green Homes Grant Local Authority Delivery Scheme (Phase 2 Energy Project), replacing existing Night Storage Heaters with significantly more efficient High Retention Storage Heaters, and has secured funding towards energy efficiency works at Canberra Towers.
57.	Stock Condition – Damp & Mould The council continues to review its processes around damp & mould, including the scope of any future investment needs as part of a more proactive approach to reducing damp. Outputs of ongoing review will need to be factored into quarterly capital monitoring reviews and the budget setting process for 2025/26..
	New Build
58.	**<u>Affordable Homes Framework</u>** Approval was given at Cabinet on 14 March 2022 to establish a framework of affordable housing providers to deliver affordable housing throughout the city utilising council owned land. A framework is now in place ith a number of providers appointed. Several plots of council owned land have been identified as being suitable for the development of affordable housing using the framework partners. Approval was given for the first tranche of sites to be transferred using the framework by Cabinet on 20 December 2022 and the HRA business plan takes account of this decision.
59.	**<u>Townhill Park</u>** Cabinet have reviewed the delivery of plots 2, 9 and 10 and, at its meeting on 7 February 2024 have recommended to Council that plots 2 and 9 will move to the Affordable Homes Framework. This has been reflected in the revised capital programme with a retention of £7M for plot 10 delivery across 2025/26 and 2026/27, and a subsequent increase in decent Homes capital expenditure from 2025/26. In summary, additional spend has been prioritised as per table X : Table X Decent homes capital expenditure

Decent homes spend category	Additional resource
Roofs	£1.3M
Bathrooms	£1M
Kitchens	£1M
Electrical space heating	£0.5M
Doors & windows	£1M
Major repairs	£1.8M

	MAJOR PROGRAMME CHANGES
60.	**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 key Performance Indicators (KPIs) for example the council's ability to reduce void turnaround times and reduce the average cost of reactive repairs. Key changes for 2024/25 include: an additional £3.99M on quality of homes projects, including an increase to the Major Reactive Repairs line of £1M, investment in telemeter electrical upgrades of £1.1M, and

	£0.8M for heating upgrades at Holyrood house, alongside minor increases in roofing, kitchens and bathrooms replacements budgets. For 2025/26, the telemeter project is assumed to complete, and increased investment in kitchens (£1.1M), bathrooms (£1.1M), roofing (£1.2M) and major reactive repairs (£2.8M) have been built in, with an overall increase in the 2025/26 budget of £4.8M. This level of expenditure is then assumed to continue from 2026/27 into 2028/29.
61.	**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, as well as contributing to zero carbon ambitions and meeting central Government target for all social housing to reach EPC 'C' by 2030. review of the capital programme identified a total investment need of £84.8M between 2023/24 and 2026/27 including energy efficiency works on specific tower blocks, full insulation programme, replacement of gas and electric heating systems. Energy efficiency works for Millbank Towers and Redbridge Towers are currently assumed to take place after 2027/28, and other programmes of works have been profiled according to the capacity of the organisation to deliver works. The key changes to energy efficiency budgets are a reprofiling of spend between 2024/25 and 2025/26 for Canberra Towers energy efficiency work, and an increase in annual budget for window replacements of £1.1M and insulation of £0.2M from 2025/26.
62.	**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.. Key changes to this aspect of the capital programme include: • reprofiling of spend from 2023/24 to 2024/25; funding bid for £0.6M for cladding work; deletion of fire alarm upgrade budgets where detection systems are now installed in circulation areas forming part of escape routes. • new budgets to support projects for asbestos removal in walkway ceilings (£1.2M), • compartmentation work at Castle House (£0.75M) • Cladding assessments (£0.6M) and contingency for reactive fire safety works (£0.4M). • Budgets for sprinklers and fire door replacements have been reprofiled across future years to allow an increase in void repairs capital in the short term.
63.	**Supporting Communities** Investment is proposed in the neighbourhoods of existing council estates and encouraging engagement with local communities to develop positive outcomes within the locality. Investment proposed for 2024/25 includes £0.15M for CCTV replacements, £0.17M for HRA shops and £0.1M for tower block end of life planning.
64.	**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, which should demonstrate an improvement in waiting times as a result of capital investment.. The key change to the budgets is an additional £0.2M in 2024/25 for telecare upgrades in preparation for full digitisation of the service in 2025/26.
65.	**Estate Regeneration/New Build**

	The capital budget for estate regeneration provides for the direct delivery of new build council houses. This has been reprofiled according to estimated timelines for new build for plot 10 based on an estimated build cost of £7M with assumed construction period between 2025/26 and 2026/27. This estimate will need to be refined as work progresses. Further work will take place and be reported back to the New Homes Board during Q1 and Q2 of 2024/25.
RESOURCE IMPLICATIONS	
Capital/Revenue	
66.	The capital and revenue implications are fully detailed within the report.
Property/Other	
67.	Any property implications in respect of the HRA capital programme are fully detailed in the body of the report. The property team is resourced to deliver on existing commitments and procurement for contractor support to ensure delivery of the capital programme is ongoing.
LEGAL IMPLICATIONS	
Statutory power to undertake proposals in the report:	
68.	Unless otherwise stated the proposals within this report are authorised by virtue of S.1 Localism Act 2011 or the relevant statutory power relating to the function referred to within the budget proposal. The proposals within this report relating to Housing Service Charges are subject to additional legal considerations set out below.
69.	In relation to the Housing Revenue Account Service Charges, the Council can make a charge for services it provides to council tenants in addition to a charge for rent pursuant to the Housing Act 1985 and also in compliance with paragraph 2 of the Council's standard tenancy agreement. The Council is permitted to introduce new charges and vary existing charges so long as it follows the procedure set out in the Housing Act 1985 and complies with the Rent Standard and Guidance produced by Homes England. In particular any service charges must be reasonable and transparent and are limited to covering the actual cost for providing the services.
RISK MANAGEMENT IMPLICATIONS	
70.	The council maintains a financial risk register which details the key financial risks that face the council at a given point in time. This is updated on a quarterly basis and forms part of the Financial Monitoring Report included elsewhere on this agenda.
71.	Details of the risk assessment of the wider budget, which includes the HRA, will be given with the Chief Financial Officer's statement on the robustness of the budget estimates when the wider MTFS is presented. The key risks to the business plan include increased borrowing costs, inflation on certain categories of expenditure exceeding headline CPI figures, and the continuing impact on repair costs of historic underinvestment. In recognising this risk, the working balance has been proposed at a higher level in the recommendations to this report.
POLICY FRAMEWORK IMPLICATIONS	
72.	The HRA Budget is a key part of the Policy Framework of the Council and an HRA budget and rents for 2024/25 must be proposed by the Cabinet for consideration by the full Council under the Constitution. The update of the HRA Capital Programme forms part of the overall Budget Strategy of the Council.

KEY DECISION?	**Yes**
WARDS/COMMUNITIES AFFECTED:	All

SUPPORTING DOCUMENTATION		
Appendices		
1.	HRA 40 Year Business Plan – Operating Account	
2.	HRA heating charges	
3.	HRA 40 Year Business Plan – Major Repairs and Improvement Plan	
4.	HRA Revenue Budget and 5 year projection	
5.	HRA Capital Scheme Details	
6.	HRA Capital Programme - Confidential	

Documents In Members' Rooms

1.	None.

Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	**Yes**
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	**No**
Other Background Documents **Other Background documents available for inspection at:**	

Title of Background Paper(s)		**Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)**
1.	MTFS Update November 2023	
2.	MTFS Update October 2023	
3.	'Delivery of Affordable Housing on Council Land through the Council Framework' (Cabinet 22 December 2022)	
4.	Future delivery of Plots 2,9 and 10 Townhill Park (Cabinet 6th February 2024)	