

THE HRA REVENUE BUDGET 2021/22 AND CAPITAL PROGRAMME 2020/21 TO 2025/26																																							
<u>HOUSING REVENUE ACCOUNT (HRA) BUDGET 2021/22</u>																																							
<u>Context</u>																																							
1.	<p>The HRA is a £75 million ringfenced revenue account, which exists to provide landlord services and support to approximately 50,000 people within Southampton, with nearly 16,000 homes for tenants and over 2,000 leaseholders. Southampton City Council's Housing Strategy 2016-2025, and the Corporate Plan 2020-2025 outline the ambitions to support residents in all types of housing and tenure and to ensure the availability of good quality affordable housing in the city. As the largest landlord in the city SCC has a significant opportunity to influence this, through engagement and support of tenants, how we maintain properties, improve neighbourhoods, and address local housing need. The development of a sustainable Housing Revenue Account budget is therefore key to supporting these aims, and ambitions to develop a Greener, Fairer and Healthier City for everyone.</p>																																						
2.	<p>The HRA records all the income and expenditure associated with the provision and management of council owned homes in the City.</p> <p>The number of homes within the HRA is as follows (subject to movement due to Right to Buy losses and additions of new homes built or purchased):</p> <table border="1"> <thead> <tr> <th>Bedrooms</th> <th>House</th> <th>Flat</th> <th>Total</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-</td> <td>612</td> <td>612</td> </tr> <tr> <td>1</td> <td>155</td> <td>5,097</td> <td>5,252</td> </tr> <tr> <td>2</td> <td>765</td> <td>4,676</td> <td>5,441</td> </tr> <tr> <td>3</td> <td>3,738</td> <td>524</td> <td>4,262</td> </tr> <tr> <td>4</td> <td>295</td> <td>26</td> <td>321</td> </tr> <tr> <td>5</td> <td>6</td> <td>-</td> <td>6</td> </tr> <tr> <td>6</td> <td>1</td> <td>-</td> <td>1</td> </tr> <tr> <td>Total</td> <td>4,960</td> <td>10,935</td> <td>15,895</td> </tr> </tbody> </table> <p>In addition to a significant annual revenue account, the HRA records all capital expenditure.</p>			Bedrooms	House	Flat	Total	0	-	612	612	1	155	5,097	5,252	2	765	4,676	5,441	3	3,738	524	4,262	4	295	26	321	5	6	-	6	6	1	-	1	Total	4,960	10,935	15,895
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<u>2020/21 Forecast Outturn</u>																																							
3.	<p>The HRA year-end forecast position for 2020/21 shows a favourable variance of £0.18M compared to a budget of £75.60M, with an additional overspend of £1.29M forecast in relation to the COVID-19 response.</p> <p>Further details are supplied in the stand alone Quarter 3 monitoring report, details are provided in Annex 1.6 to the report on financial monitoring for the period to the end of December 2020 to be considered by Cabinet at its meeting on the 23 February 2021.</p>																																						

	<u>HRA Medium Term Financial Position</u>
4.	This report sets out the HRA revenue budgets for 2021/22 and the 40 year HRA business plan covering the period 2021/22 to 2060/61. The proposed changes to rents and other charges included in this report are an integral part of the revenue budget for 2021/22.
5.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted, and there is now greater flexibility and emphasis for councils to be able plan their new build strategy and financing at a local level. As a result, the "1,000 Homes" project was approved in July 2020, delivering quality, affordable council homes. This project is now contained within the 40 year HRA Business Plan, with detailed financial and business development overseen by a dedicated Programme Board as the programme develops.
6.	<p>The HRA Business Plan supports a number of council strategies, including the Medium Term Financial Forecast, 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 over the life of the 40 year Business Plan. • 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. • A provision of £409M is set aside for stock replacement over the next 40 years. This includes approved projects such as 1,000 homes and with an additional number of 26 houses per year thereafter. • The revenue budget protects the minimum balances of £2.0M per year over the life of the Plan.
7.	A 40 year HRA Business Plan has been prepared and the summary for the revenue and capital budgets is set out in Annexes 3.1 and 3.2. To ensure all council plans are aligned these reflect the key planning assumptions set out in the Medium Term Financial Forecast.
	<u>Rent & Service Charge Increases</u>
8.	<p>The summary of key rent and service charge increases is as follows :</p> <ul style="list-style-type: none"> • An average Rent increase of 1.33% • A General Service Charge increase of 1.50% • A Supported Accommodation Service Charge increase of 1.50% • A Heating charge increase of 2.50%
	<u>Rents</u>
9.	<p>It is proposed that in line with Central Government guidelines HRA rents will be increased by the September 2020 Consumer Price Index (CPI), of 0.5%, plus 1% 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. This means the increase applied will therefore be either 1.5% or 0.5%. This amounts to an average increase of 1.33%.</p> <p>The latest guidance from the Ministry of Housing, Communities and Local Government is that rents will be allowed to increase by up to CPI+1% (subject to the formula rent proviso above) for the years 2020/21 to 2024/25, and after that by up to CPI. These assumptions have been built into the HRA Business Plan.</p>

Whilst the proposed rental increases are expected to raise around £1.042M in additional income for 2021/22, the majority of this will be used to offset expected inflation increases with costs over this time. This increase will not compensate the HRA following the year on year rent reductions of 1% imposed by Government between 2015/16 and 2020/21, with an estimated cumulative loss of income of £33.7M by 31 March 2021.

Service Charges

10. The current charging mechanism for service charges in the HRA does not currently recover the full costs applicable to that service charge. This means that income from tenants' rent is currently covering some of the costs associated with these areas, and in part to address this and rising inflation it is proposed to increase charges in line with rental increases at CPI+1% for the 2021/22 financial year. Following previous consultation with residents work is ongoing to review the remaining extent of the 'gap' between costs and income and recommendations around this will be made following that review.

11. In accordance with inflation rising in line with rental increases, the weekly charges to be levied for next year are shown below, with general charges increasing by £0.15 in total and supported accommodation by £0.26 in total:

General Service Charges

	21/22	20/21
Concierge monitoring	£2.77	£2.73
Walk-Up Block Wardens	£1.47	£1.45
Cleaning service in walk-up blocks	£0.73	£0.72
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	£5.12
Digital TV	£0.12	£0.43

*de minimis for 1.5% increase

Supported Accommodation

	21/22	20/21
Cleaning	£0.65	£0.64
Floating support	£1.29	£1.27
Community Alarm	£1.31	£1.29
Support	£2.76	£2.72
Management	£5.13	£5.05
Careline Silver	£3.14	£3.09
Careline Gold	£4.45	£4.38
Digital TV	£0.12	£0.43

Garages and Parking space charges are to increase by 1.5%.

Heating Charges

12. In previous years, heating charge increases have been applied mid financial year in October. To accommodate improved and clearer communication with tenants, the increase has been moved to the 1st April. This ensures that all changes are incorporated in one annual notification to tenants and leaseholders. A decision for heating charges is

	<p>therefore required alongside the usual rent and service charge increases. There is an expected saving for the HRA due on print and postage, which for around 5,400 customers amounts to £5,000.</p> <p>The annual review of the Landlord-Controlled Heating (LCH) account shows a surplus of £0.488M (compared to a forecast of £0.500M in the previous report). However, the latest information on forecast price changes indicate increases of 2.44% for electricity, and 5.36% for gas in 2021/22. As 90% of the energy used by LCH is electricity, it is proposed that the charges to tenants for 2021/22 will increase by 2.5%. Annex 3.3 shows the weekly and annual changes by area band.</p> <p>This increase (and future annual increases in line with energy inflation) should gradually reduce the surplus on the account to zero over the next five years, giving this benefit to our residents, and also avoiding the large deficit / surplus swings of the past.</p>
	<p><u>Other Key Assumptions</u></p>
13.	<p>Rent arrears have continued to rise in the current financial year, 2020/21, linked to the impact of the welfare reforms and potentially exacerbated by the economic impact of the pandemic. There also remains an ongoing risk of increased financial hardship after the ending of the furlough scheme, planned to be on the 30th April 2021 at the time of writing, and the potential and significant risk of increasing unemployment within the City.</p> <p>In some of the most deprived wards, there has already been significant increases in the number of universal credit claims during the last few months. Although there is a short term impact on the Business Plan, with bad debt provision temporarily rising by 3% in 2021/22, it is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes. The plan also continues to support the funding of dedicated employment and skills officers to work with tenants needing support at this challenging time.</p>
	<p><u>HRA Balances</u></p>
14.	<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, however there remains a residual debt of £4.45M at the end of the 40 year plan. However, as stated in paragraph 6, all HRA debt is sustainable over the life of the 40 year Business Plan.</p>
15.	<p>A 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. Consequently, 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.</p>
16.	<p>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% inflation. Policy thereafter is rent increases at CPI per annum. Other policy and legislative changes, such as those associated with Building Safety; Tenants Rights and Shared ownership, could also place additional pressures on revenue budgets and will be kept under review.</p>

17.	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.																																																								
18.	The HRA minimum balance will remain at £2.0M per year.																																																								
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19.	The purpose of this section of the report is to update the HRA Capital Programme for the period of 2020/21 to 2025/26, highlighting the changes in the programme since the last reported position to Cabinet in February 2020. The net result of the changes since the previous report is that the programme has increased by £164.34M, mainly due to the addition of the 1,000 homes project to the programme.																																																								
20.	The increased investment allows for a full 5 year capital programme from 2021/22, giving greater certainty to planning projects and accounts for the medium term needs of the Council's residents and their housing requirements.																																																								
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21.	Table 1 shows a comparison of the latest capital expenditure for the period 2020/21 to 2025/26 compared to the previously reported programme.																																																								
22.	<p><u>Table 1 – 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;">2020/21 £M</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;">Total £M</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Latest</td> <td style="text-align: right;">47.36</td> <td style="text-align: right;">61.94</td> <td style="text-align: right;">73.99</td> <td style="text-align: right;">98.05</td> <td style="text-align: right;">65.55</td> <td style="text-align: right;">29.62</td> <td style="text-align: right;">376.51</td> </tr> <tr> <td style="text-align: left;">Previous</td> <td style="text-align: right;">47.36</td> <td style="text-align: right;">54.98</td> <td style="text-align: right;">42.19</td> <td style="text-align: right;">36.93</td> <td style="text-align: right;">30.71</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">212.17</td> </tr> <tr> <td style="text-align: left;">Variance</td> <td style="text-align: right;">0.00</td> <td style="text-align: right;">6.96</td> <td style="text-align: right;">31.80</td> <td style="text-align: right;">61.12</td> <td style="text-align: right;">34.84</td> <td style="text-align: right;">29.62</td> <td style="text-align: right;">164.34</td> </tr> </tbody> </table> <p>NB: Table includes rounded figures</p>	Reported Programme	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Total £M	Latest	47.36	61.94	73.99	98.05	65.55	29.62	376.51	Previous	47.36	54.98	42.19	36.93	30.71	0.00	212.17	Variance	0.00	6.96	31.80	61.12	34.84	29.62	164.34																								
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23.	There is an overall increase in the HRA capital programme of £164.34M to £376.51M, the revised programme is shown by major project in table 2 below and detailed in paragraphs 26-32. A full breakdown by project is provided in Appendix 5 (confidential).																																																								
24.	<p><u>Table 2 – Major Schemes by Major Project</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: center;">Major Project</th> <th style="text-align: right;">2020/21 £M</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> </tr> </thead> <tbody> <tr> <td>Improving Quality of Homes</td> <td style="text-align: right;">4.83</td> <td style="text-align: right;">7.57</td> <td style="text-align: right;">6.25</td> <td style="text-align: right;">7.37</td> <td style="text-align: right;">7.73</td> <td style="text-align: right;">7.73</td> </tr> <tr> <td>Making Homes Energy Efficient</td> <td style="text-align: right;">5.89</td> <td style="text-align: right;">17.94</td> <td style="text-align: right;">22.84</td> <td style="text-align: right;">12.17</td> <td style="text-align: right;">13.11</td> <td style="text-align: right;">12.68</td> </tr> <tr> <td>Making Homes Safe</td> <td style="text-align: right;">13.14</td> <td style="text-align: right;">11.97</td> <td style="text-align: right;">5.98</td> <td style="text-align: right;">6.16</td> <td style="text-align: right;">1.35</td> <td style="text-align: right;">1.28</td> </tr> <tr> <td>Supporting Communities</td> <td style="text-align: right;">1.69</td> <td style="text-align: right;">2.51</td> <td style="text-align: right;">2.40</td> <td style="text-align: right;">1.98</td> <td style="text-align: right;">2.22</td> <td style="text-align: right;">2.22</td> </tr> <tr> <td>Supporting Independent Living</td> <td style="text-align: right;">2.11</td> <td style="text-align: right;">2.87</td> <td style="text-align: right;">2.02</td> <td style="text-align: right;">2.02</td> <td style="text-align: right;">2.02</td> <td style="text-align: right;">2.02</td> </tr> <tr> <td>Estate regeneration / new-build</td> <td style="text-align: right;">19.70</td> <td style="text-align: right;">19.09</td> <td style="text-align: right;">34.48</td> <td style="text-align: right;">68.35</td> <td style="text-align: right;">39.12</td> <td style="text-align: right;">3.68</td> </tr> <tr> <td>TOTAL</td> <td style="text-align: right;">47.36</td> <td style="text-align: right;">61.94</td> <td style="text-align: right;">73.99</td> <td style="text-align: right;">98.05</td> <td style="text-align: right;">65.55</td> <td style="text-align: right;">29.62</td> </tr> </tbody> </table>	Major Project	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	2025/26 £M	Improving Quality of Homes	4.83	7.57	6.25	7.37	7.73	7.73	Making Homes Energy Efficient	5.89	17.94	22.84	12.17	13.11	12.68	Making Homes Safe	13.14	11.97	5.98	6.16	1.35	1.28	Supporting Communities	1.69	2.51	2.40	1.98	2.22	2.22	Supporting Independent Living	2.11	2.87	2.02	2.02	2.02	2.02	Estate regeneration / new-build	19.70	19.09	34.48	68.35	39.12	3.68	TOTAL	47.36	61.94	73.99	98.05	65.55	29.62
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	Annexes
3.1	HRA 40 Year Business Plan Operating Account
3.2	HRA Major Repairs and Improvement Plan
3.3	HRA Heating Charges Summary