

### APPENDIX 3

<b>THE HRA REVENUE BUDGET 2020/21 AND CAPITAL PROGRAMME 2019/20 TO 2024/25</b>	
	<b><u>HOUSING REVENUE ACCOUNT (HRA)</u></b>
	<b><u>Context</u></b>
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 management, repairs and improvements, welfare advice, supported housing services, neighbourhood wardens, and capital spending on council properties.
	<b><u>2019/20 Forecast Outturn</u></b>
2.	The HRA year-end forecast position for 2019/20 shows a favourable variance of £1.89M compared to a budget of £74.24M. Further details are provided in Appendix 1 to the report on financial monitoring for the period to the end of December 2019 to be considered by Cabinet at its meeting on the 25 <sup>th</sup> February 2020.
	<b><u>HRA Medium Term Financial Position</u></b>
3.	This report sets out the HRA revenue budgets for 2020/21 and the 40 year HRA business plan covering the period 2020/21 to 2059/60. The proposed changes to rents and other charges are an integral part of the revenue estimates for 2020/21.
4.	Following the Chancellor's announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous Southampton City Council HRA debt cap of £199.60M has been removed, and there is now greater emphasis for councils to plan their new build strategy and financing at a local level. The process for identifying priorities and sites for new build developments is now taking place as part of the "1,000 homes" project, delivering quality, affordable council owned homes. The financial and business case work for this is ongoing, with over a quarter of the target already in the business plan. The remaining 1000 homes will be seeking financial approval in due course.
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"> <li>• All HRA debt is sustainable on a yearly basis.</li> <li>• Investment in existing HRA stock can be achieved within the Government's previously set borrowing limit of £199.6M. Borrowing in excess of this limit has been included in the HRA Business Plan for additional stock investment and regeneration.</li> <li>• The capital spending plans include provision to maintain and improve all existing dwellings and is based on a Housing stock capital strategy that is in the process of being developed and enhanced.</li> <li>• A provision of £231.4M is set aside for stock replacement over the next 40 years. This provision has been phased between year 3 and year 40 of the Plan. This amount allows for the provision of 18 new dwellings each year. This is consistent with previous years' HRA Business Plans, and is subject to change once the 1,000 homes financial appraisal and business case are submitted.</li> <li>• The revenue budget protects the minimum balances of £2.0M per year over the life of the Plan.</li> </ul>

## APPENDIX 3

6.	The HRA Business Plan has, at points, shown 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.
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 Strategy.
<b><u>Rent &amp; Service Charge Increases</u></b>	
8.	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 tenant rent is currently covering some of the costs associated with these areas. Due to this, an element of funding is diverted away from management, maintenance and replacement of stock which has a longer term effect on the delivery of an effective HRA that meets residents and organisation objectives and expectations.
9.	Increases in service charges are proposed for 2020/21 for areas that existing service charges have been underfunding and these were communicated as part of the 2019/20 budget consultation, which covered both years. It is proposed that during 2020 a working group will continue to analyse all service charge related areas in the HRA and from there a service charge strategy be delivered for later discussion and/or approval. Supported Accommodation and Garages and Parking sites should be included within this process.
10.	In line with Central Government guidelines HRA rents will be increased by the Consumer Price Index (CPI) as at the previous September (2019) plus 1%. This amounts to an increase of 2.7% in total. 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% 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.
11.	<p>In accordance with the decision made on two year service charge levels at the Council meeting in February last year, the charges to be levied for next year are shown below:</p> <p><b><u>General Service Charges</u></b></p> <ul style="list-style-type: none"> <li>• Digital TV £0.43 (no increase from 2019/20)</li> <li>• Concierge monitoring £2.73 (£0.55 increase from 2019/20)</li> <li>• Door Entry System £0.22 (no increase from 2019/20)</li> <li>• Tower Block Warden £5.12 (no increase from 2019/20)</li> <li>• Walk-Up Block Wardens £1.45 (£0.91 increase from 2019/20)</li> <li>• Emergency Lighting Testing/Repairs £0.27 (no increase from 2019/20)</li> <li>• Cleaning service in walk-up blocks £0.72 (no increase from 2019/20)</li> <li>• Garden/Ground Maintenance – Tower &amp; Walk Up Blocks £0.22 (no increase from 2019/20)</li> </ul> <p><b><u>Supported Accommodation</u></b></p> <ul style="list-style-type: none"> <li>• Call Monitoring Charge - £1.29 (no increase from 2019/20)</li> <li>• Careline Silver - £3.09 (no increase from 2019/20)</li> <li>• Careline Gold - £4.38 (no increase from 2019/20)</li> </ul>

## APPENDIX 3

	<b><u>Other Key Assumptions</u></b>																
12.	Rent arrears have continued to rise in the current financial year, 2019/20, linked to the impact of Welfare Reform. Although there is a short term impact on the Business Plan, with bad debt provision temporarily rising by 0.5% over the next 4 years, it is expected that in the longer term, the debt position will stabilise in line with national policies and internal debt collection processes.																
	<b><u>HRA Balances</u></b>																
13.	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 of £3.0M per year, debt repayments are still taking place during the life of the Business Plan, but there remains an outstanding debt of £13.4M at the end of the 40 year plan. This level of debt forecast in 40 years is prudent.																
14.	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. 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.																
15.	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 5 years by CPI + 1% inflation. Policy thereafter is rent increases at CPI per annum.																
16.	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.																
17.	The HRA minimum balance will remain at £2.0M per year.																
	<b>HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2019/20 TO 2024/25</b>																
18.	The purpose of this report is to update the HRA Capital Programme for the period of 2019/20 to 2024/25, highlighting the changes in the programme since the last reported position to Cabinet in February 2019. The net result of the changes since the previous report is that the programme has increased by £73.71M.																
19.	The increased investment allows for a full 5 year capital programme from 2020/21, giving greater certainty to planning projects and accounts for the medium term needs of the Council's residents and their housing requirements.																
	<b>THE FORWARD CAPITAL PROGRAMME</b>																
20.	Table 1 shows a comparison of the latest capital expenditure for the period 2019/20 to 2024/25 compared to the previously reported programme.																
21.	<p><b><u>Table 1 – Programme Comparison</u></b></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Reported Programme</th> <th style="text-align: center;">2019/20 £M</th> <th style="text-align: center;">2020/21 £M</th> <th style="text-align: center;">2021/22 £M</th> <th style="text-align: center;">2022/23 £M</th> <th style="text-align: center;">2023/24 £M</th> <th style="text-align: center;">2024/25 £M</th> <th style="text-align: center;">Total £M</th> </tr> </thead> <tbody> <tr> <td style="text-align: left;">Latest</td> <td style="text-align: center;">47.35</td> <td style="text-align: center;">48.05</td> <td style="text-align: center;">47.04</td> <td style="text-align: center;">42.02</td> <td style="text-align: center;">36.86</td> <td style="text-align: center;">30.64</td> <td style="text-align: center;">251.97</td> </tr> </tbody> </table>	Reported Programme	2019/20 £M	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	Total £M	Latest	47.35	48.05	47.04	42.02	36.86	30.64	251.97
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	Previous	47.35	45.96	42.30	42.37	0.28	0.00	178.26
	<b>Variance</b>	<b>0.00</b>	<b>2.09</b>	<b>4.74</b>	<b>(0.35)</b>	<b>36.58</b>	<b>30.64</b>	<b>73.71</b>
NB: Table included rounded figures								
22.	There is an overall increase in the HRA capital programme of £73.71M to £251.97M, the changes are shown by major project in table 2 below and detailed in paragraphs 24-30. A full breakdown by project is provided in Annex 3.3.							
23.	<b>Table 2 – Major Schemes by Programme</b>							
	<b>Programme</b>	<b>Major Project</b>	<b>2019/20 £M</b>	<b>2020/21 £M</b>	<b>2021/22 £M</b>	<b>2022/23 £M</b>	<b>2023/24 £M</b>	<b>2024/25 £M</b>
	Communities, culture & homes	Improving Quality of Homes	4.21	7.29	6.84	6.25	7.47	7.39
		Making Homes Energy Efficient	3.72	7.35	15.46	16.03	12.68	12.68
		Making Homes Safe	16.33	11.78	8.96	5.81	6.09	1.28
		Estate Regeneration	19.03	17.19	11.65	9.50	6.63	5.05
		Supporting Communities	0.86	1.62	2.01	2.41	1.97	2.22
		Supporting Independent Living	3.20	2.82	2.12	2.02	2.02	2.02
		<b>TOTAL</b>	<b>47.35</b>	<b>48.05</b>	<b>47.04</b>	<b>42.02</b>	<b>36.86</b>	<b>30.64</b>
<b>MAJOR PROGRAMME CHANGES</b>								
24.	<p>Improving the Quality of Homes (£9.54M addition)</p> <p>This focuses on modernisation, upgrade and improvement of common areas, and work inside tenants' homes. In particular the Block Modernisation Programme is a package of work targeting fire safety, energy efficient lighting, replacement flooring, communal decorations, and flat front door replacements.</p>							
25.	<p>Making Homes Safe (£9.83M addition)</p> <p>This consolidates works done as part of the Block Modernisation programme, with a focus on fire safety to ensure that Southampton City Council's residents remain safe. The majority of the works address the Hackett report post Grenfell, including dealing with high priority Fire Risk Assessment remedial works. Included in this category are structural repair works and water quality testing remedial works.</p>							
26.	<p>Making Homes Energy Efficient (£32.42M addition)</p> <p>This is focused on improving the thermal quality of residents' homes by reducing their U-value, which assists residents in reducing energy spend and in turn helps tackle fuel poverty. The Warmer Homes Programme is a budget developed with our 'hard to treat' pre cast concrete homes in mind, where we know our residents experience most condensation mould problems. This category also deals with the Council's on-going green city commitment by undertaking large scale energy efficiency works to the Canberra, Redbridge and Millbrook tower blocks</p>							
27.	<p>Supporting Independent Living (£5.16M addition)</p> <p>This supports Sheltered Accommodation schemes and residents requiring adaptations as a means of assisting residents to continue to live independently in their homes. This invests mainly in disabled adaptation work and upgrades to warden alarm systems.</p>							
28.	Supporting Communities (£1.80M addition)							

## APPENDIX 3

	Budgets within this category support the Decent Neighbourhoods work which has a huge impact on local community engagement. It includes Estate Improvement programmes of works, which have been developed in conjunction with Housing & Neighbourhood teams.																																																																								
29.	HRA Miscellaneous (£14.96M addition) This is investment in existing council estates, encourages the engagement of local communities to develop new build estate such as Potters Court and Townhill Park.																																																																								
30.	Council is asked to approve the above additions, totalling £73.71M, 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.																																																																								
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31.	<p>Tables 3 shows the HRA capital expenditure and the use of resources to finance the programme up to and including 2024/25.</p> <p><u>Table 3 – Capital Expenditure &amp; Use of Resources</u></p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th></th> <th style="text-align: center;">2019/20£ M</th> <th style="text-align: center;">2020/21 £M</th> <th style="text-align: center;">2021/22 £M</th> <th style="text-align: center;">2022/23 £M</th> <th style="text-align: center;">2023/24 £M</th> <th style="text-align: center;">2024/25 £M</th> <th style="text-align: center;">Total £M</th> </tr> </thead> <tbody> <tr> <td><b>HRA Programme</b></td> <td style="text-align: right;"><b>47.35</b></td> <td style="text-align: right;"><b>48.05</b></td> <td style="text-align: right;"><b>47.04</b></td> <td style="text-align: right;"><b>42.02</b></td> <td style="text-align: right;"><b>36.86</b></td> <td style="text-align: right;"><b>30.64</b></td> <td style="text-align: right;"><b>251.97</b></td> </tr> <tr> <td>*CR - Borrowing</td> <td style="text-align: right;">(13.40)</td> <td style="text-align: right;">(10.98)</td> <td style="text-align: right;">(13.39)</td> <td style="text-align: right;">(7.76)</td> <td style="text-align: right;">(2.71)</td> <td style="text-align: right;">(1.23)</td> <td style="text-align: right;">(49.47)</td> </tr> <tr> <td>Capital Receipts</td> <td style="text-align: right;">(5.60)</td> <td style="text-align: right;">(7.80)</td> <td style="text-align: right;">(5.94)</td> <td style="text-align: right;">(5.10)</td> <td style="text-align: right;">(4.03)</td> <td style="text-align: right;">(3.33)</td> <td style="text-align: right;">(31.79)</td> </tr> <tr> <td>Contributions</td> <td style="text-align: right;">(0.26)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.26)</td> </tr> <tr> <td>Capital Grants</td> <td style="text-align: right;">(0.19)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.00)</td> <td style="text-align: right;">(0.19)</td> </tr> <tr> <td>Revenue Financing</td> <td style="text-align: right;">(7.94)</td> <td style="text-align: right;">(8.81)</td> <td style="text-align: right;">(6.81)</td> <td style="text-align: right;">(7.63)</td> <td style="text-align: right;">(8.07)</td> <td style="text-align: right;">(3.50)</td> <td style="text-align: right;">(42.75)</td> </tr> <tr> <td>MRA</td> <td style="text-align: right;">(19.97)</td> <td style="text-align: right;">(20.47)</td> <td style="text-align: right;">(20.90)</td> <td style="text-align: right;">(21.53)</td> <td style="text-align: right;">(22.06)</td> <td style="text-align: right;">(22.59)</td> <td style="text-align: right;">(127.51)</td> </tr> <tr> <td><b>Total Financing</b></td> <td style="text-align: right;"><b>(47.35)</b></td> <td style="text-align: right;"><b>(48.05)</b></td> <td style="text-align: right;"><b>(47.04)</b></td> <td style="text-align: right;"><b>(42.02)</b></td> <td style="text-align: right;"><b>(36.86)</b></td> <td style="text-align: right;"><b>(30.64)</b></td> <td style="text-align: right;"><b>(251.97)</b></td> </tr> </tbody> </table> <p>*CR – Council Resources <span style="float: right;">NB: Table contains rounded figures</span></p>		2019/20£ M	2020/21 £M	2021/22 £M	2022/23 £M	2023/24 £M	2024/25 £M	Total £M	<b>HRA Programme</b>	<b>47.35</b>	<b>48.05</b>	<b>47.04</b>	<b>42.02</b>	<b>36.86</b>	<b>30.64</b>	<b>251.97</b>	*CR - Borrowing	(13.40)	(10.98)	(13.39)	(7.76)	(2.71)	(1.23)	(49.47)	Capital Receipts	(5.60)	(7.80)	(5.94)	(5.10)	(4.03)	(3.33)	(31.79)	Contributions	(0.26)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.26)	Capital Grants	(0.19)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.19)	Revenue Financing	(7.94)	(8.81)	(6.81)	(7.63)	(8.07)	(3.50)	(42.75)	MRA	(19.97)	(20.47)	(20.90)	(21.53)	(22.06)	(22.59)	(127.51)	<b>Total Financing</b>	<b>(47.35)</b>	<b>(48.05)</b>	<b>(47.04)</b>	<b>(42.02)</b>	<b>(36.86)</b>	<b>(30.64)</b>	<b>(251.97)</b>
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