

<b>DECISION-MAKER:</b>	CABINET COUNCIL
<b>SUBJECT:</b>	The HRA Budget 2025/26 and Capital Programme 2024/25 to 2029/30
<b>DATE OF DECISION:</b>	25 FEBRUARY 2025 26 FEBRUARY 2025
<b>REPORT OF:</b>	<b>COUNCILLOR A FRAMPTON</b> <b>CABINET MEMBER FOR HOUSING</b>

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<b>STATEMENT OF CONFIDENTIALITY</b>
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.

<b>BRIEF SUMMARY</b>
<p>This report details the Housing Revenue Account (HRA) budget for 2025/26, Capital Programme 2024/25 to 2029/30 and a 40-year business plan.</p> <p>It provides detail to inform Council in setting rents, service charges and Landlord Controlled Heating charges for 2025/26. The report also sets out the Capital Programme for the Housing Revenue Account (HRA) for the period 2024/25 to 2029/30. The report identifies how the 2025/26 HRA budget has been balanced, and the current iteration of the 40-year financial plan.</p> <p>The report recommends a rent and service charge increase of 2.7% and a 10% reduction in landlord-controlled heating due to reductions in energy costs.</p> <p>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.</p> <p>There is currently significant activity underway on improving the HRA including reviewing the strategic direction, ensuring proposed investment meets identified priorities and provides appropriate value for money, implementing changes through the Housing Improvement Plan, along with transformational activity under the 'Good Landlord' project. As this work progresses it is likely</p>

to have a significant impact on the 40 year business plan. This is however not quantifiable at this stage. As a result the business plan presented in this report is based on the present position of the HRA with updated assumptions to reflect current financial conditions. The business plan will continue to be developed over the next 12 months as improvements emerge and more fundamental changes are likely to be incorporated into the 2026/27 version.

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 2025/26

Appendix 3 – HRA Major repairs

Appendix 4 – HRA 2025-26 Budget and medium term projection

Appendix 5 - HRA Capital Programme 2024/25 to 2029/30

Confidential Appendix 6 – HRA Capital programme confidential extract

**RECOMMENDATIONS:**

**Cabinet is recommended to:**

	(i)	Recommend to Council that from 1 April 2025, an average rent increase will be applied to dwelling rents of 2.7% in line with the rent increase guidance set by Government, as detailed in paragraph 16, equivalent to an average increase of £2.70 per week in the current average weekly dwelling rent figure of £99.90 for Social rent, and £4.40 per week in the current average weekly rent for affordable rent of £162.80. Rents for Shared Ownership rents will also increase by 2.7%.
	(iii)	Recommend to Council that weekly service charges will increase 2.7% from 1 April 2025, as detailed in paragraph 22, pending further work on service charges in 2025/26.
	(iv)	Recommend to Council the Housing Revenue Account revenue estimates as set out in Appendix 4.
	(v)	Recommend to Council the 40 year Business Plan for revenue and capital expenditure set out in Appendix 1, Appendix 5 confidential Appendix 6 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance increasing from £2.59M brought forward into 2024/25 to £7.00M 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.
	(vi)	Recommend to Council a decrease in landlord-controlled heating charges of 10% as set out in paragraph 26.
	(vii)	Recommend to Council the revised Housing Revenue Account (HRA) Capital Programme, which totals £312.92M (as detailed in paragraph 55 & 56 and the associated use of resources.
	(viii)	Recommend to Council the continuation of the current policy to increase the HRA working balance from the forecast £3.09M as at the end of 2024/25 to £7M by 2027/28.

**COUNCIL**

**Council is recommended to:**

	i)	Approve that, from 1 April 2025, an average rent increase will be applied to dwelling rents of 2.7% in line with Government guidance, as detailed in paragraph 16, equivalent to an average increase of £2.70 per week in the current average weekly dwelling rent figure of £99.90 for Social rent, and £4.40 per week in the current average weekly rent for affordable rent of £162.80. Rents for Shared Ownership rents will also increase by 2.7%.
	ii)	Approve a 2.7% increase in weekly service charges to be applied from 1 April 2025, but that this is pending further work as detailed in paragraph 22.
	iii)	Approve the Housing Revenue Account revenue estimates as set out in Appendix 4.
	iv)	Approve the 40 year Business Plan for revenue and capital expenditure set out in Appendix 1, Appendix 5 and confidential appendix 6 respectively, that based on current assumptions are sustainable, maintaining a minimum HRA balance increasing from £3M agreed for 2024/25 to £7M from 2027/28 in every financial year in line with current policy.
	v)	Approve a decrease in landlord-controlled heating charges of 10% and approve the charges as detailed in paragraph 26.
	vi)	Approve the revised Housing Revenue Account (HRA) Capital Programme, which totals £312.92M (as detailed in paragraph 55 & 56 and the associated use of resources.
	vii)	Approve the continuation of the current policy to increase the HRA working balance from the forecast £3.01M as at the end of 2024/25 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.
2.	The recommendations set out in this report help to ensure we are continuing to provide statutory services, and help improve the quality of life for residents through a financially sustainable Housing Revenue Account. The recommendations enable a balance budget for 2025/26 and the 40-year business plan is also set out in the report which demonstrates longer-term financial viability.

### **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3.	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 26 February 2025.
4.	This report sets out the HRA revenue budget for 2025/26 and the 40-year HRA business plan covering the period 2025/26 to 2064/65. Rental income, service charges and heating charges are an integral part of the revenue estimates for 2025/26. The alternative proposal would not be to increase rent and this was rejected on the basis that business plan objectives, particularly for increasing standards of homes would not be met.

### **DETAIL (Including consultation carried out)**

5.	The Housing Revenue Account (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
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	<p>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</p> <ul style="list-style-type: none"> <li>• housing and estate management;</li> <li>• repairs;</li> <li>• improvements;</li> <li>• statutory compliance activity;</li> <li>• welfare advice;</li> <li>• support to address anti-social behaviour;</li> <li>• support for the victims of domestic abuse;</li> <li>• supported housing services for older people and those with extra care needs and</li> <li>• capital spending on council properties.</li> </ul>
6.	<p>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 specific to those tenants 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 the Council for 2022/23, both of which have significantly reduced HRA resources over the course of the business plan.</p>
7.	<p>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 determines the financial strategy for the HRA and the framework for the 40 year financial model.</p>
8.	<p>There is currently significant activity underway on improving the HRA including reviewing the strategic direction, ensuring proposed investment meets identified priorities and provides appropriate value for money, implementing changes through the Housing Improvement Plan, along with transformational activity under the 'Good Landlord' project. As these elements progress they are likely to have a significant impact on the 40 year business plan that is not possible to quantify at this stage. Therefore, the business plan set out in this report is based on the present position of the HRA with updated assumptions to reflect current financial conditions. The business plan will continue to be developed over the next 12 months as improvements emerge and more fundamental changes are likely to be incorporated into the 2026/27 version.</p>
	<p><b><u>2024/25 Forecast Outturn</u></b></p>
9.	<p>The HRA year-end forecast position as at the end of January 2025 for 2024/25 shows an overall favourable position, with an anticipated increase in working balance of £0.50M. However, this is in the context of pressures on the HRA, driven by several factors including:</p> <ul style="list-style-type: none"> <li>• losses on rental income and increased empty property charges resulting from high levels of voids;</li> <li>• one off expenditure on strategic and transformational activity; and</li> <li>• an increase in the expected revenue contributions to the Capital Programme in order to maintain a balanced position in year, albeit with a slight beneficial impact on lower long term borrowing costs</li> </ul> <p>These pressures are being offset by</p> <ul style="list-style-type: none"> <li>• Staffing vacancies against some of the additional investment in repairs;</li> <li>• Service charge income slightly favourable to business plan estimate; and</li> <li>• A reduction in the level of depreciation required to be charged in 2024/25 following a decrease in asset values as part of the 2023/24 Statement of Accounts.</li> </ul>

	<b><u>HRA Medium Term Financial Position</u></b>																																																																													
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	<p><b>HOUSING REVENUE ACCOUNT</b></p> <table> <thead> <tr> <th></th> <th><b>Current Budget 2024/25</b></th> <th><b>Proposed Budget 2025/26</b></th> </tr> <tr> <th><b>Income</b></th> <th><b>£M</b></th> <th><b>£M</b></th> </tr> </thead> <tbody> <tr> <td>Dwelling Rents</td> <td>(80.29)</td> <td>(83.19)</td> </tr> <tr> <td>Other Rents</td> <td>(1.21)</td> <td>(1.24)</td> </tr> <tr> <td>Service Charge Income</td> <td>(2.53)</td> <td>(2.60)</td> </tr> <tr> <td>Leaseholder Service Charges</td> <td>(1.14)</td> <td>(1.58)</td> </tr> <tr> <td>Interest Received</td> <td>(0.11)</td> <td>(0.16)</td> </tr> <tr> <td><b>Total Income</b></td> <td><b>(85.27)</b></td> <td><b>(88.78)</b></td> </tr> <tr> <td colspan="3"><b>Expenditure</b></td> </tr> <tr> <td>Responsive &amp; Repairs</td> <td>18.10</td> <td>18.80</td> </tr> <tr> <td>Cyclical Maintenance</td> <td>6.99</td> <td>9.12</td> </tr> <tr> <td>Rents Payable</td> <td>0.45</td> <td>0.62</td> </tr> <tr> <td>Debt Management</td> <td>0.09</td> <td>0.10</td> </tr> <tr> <td>Supervision &amp; Management</td> <td>29.80</td> <td>30.87</td> </tr> <tr> <td><b>Operational Expenditure</b></td> <td><b>55.43</b></td> <td><b>59.51</b></td> </tr> <tr> <td colspan="3"><b>Capital Financing</b></td> </tr> <tr> <td>Interest &amp; Principal Repayments</td> <td>6.46</td> <td>8.08</td> </tr> <tr> <td>Depreciation</td> <td>22.35</td> <td>18.40</td> </tr> <tr> <td>Direct Revenue Financing of Capital</td> <td>0.54</td> <td>1.88</td> </tr> <tr> <td><b>Capital Financing</b></td> <td><b>29.35</b></td> <td><b>28.36</b></td> </tr> <tr> <td><b>Gross Expenditure</b></td> <td><b>84.78</b></td> <td><b>87.86</b></td> </tr> <tr> <td colspan="3"><b>Balances</b></td> </tr> <tr> <td>Working Balance B/Fwd</td> <td>(2.59)</td> <td>(3.09)</td> </tr> <tr> <td><b>(Surplus)/deficit for year</b></td> <td><b>(0.50)</b></td> <td><b>(0.91)</b></td> </tr> <tr> <td>Working Balance C/Fwd</td> <td>(3.09)</td> <td>(4.00)</td> </tr> </tbody> </table>				<b>Current Budget 2024/25</b>	<b>Proposed Budget 2025/26</b>	<b>Income</b>	<b>£M</b>	<b>£M</b>	Dwelling Rents	(80.29)	(83.19)	Other Rents	(1.21)	(1.24)	Service Charge Income	(2.53)	(2.60)	Leaseholder Service Charges	(1.14)	(1.58)	Interest Received	(0.11)	(0.16)	<b>Total Income</b>	<b>(85.27)</b>	<b>(88.78)</b>	<b>Expenditure</b>			Responsive & Repairs	18.10	18.80	Cyclical Maintenance	6.99	9.12	Rents Payable	0.45	0.62	Debt Management	0.09	0.10	Supervision & Management	29.80	30.87	<b>Operational Expenditure</b>	<b>55.43</b>	<b>59.51</b>	<b>Capital Financing</b>			Interest & Principal Repayments	6.46	8.08	Depreciation	22.35	18.40	Direct Revenue Financing of Capital	0.54	1.88	<b>Capital Financing</b>	<b>29.35</b>	<b>28.36</b>	<b>Gross Expenditure</b>	<b>84.78</b>	<b>87.86</b>	<b>Balances</b>			Working Balance B/Fwd	(2.59)	(3.09)	<b>(Surplus)/deficit for year</b>	<b>(0.50)</b>	<b>(0.91)</b>	Working Balance C/Fwd	(3.09)	(4.00)
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11.	<p>The HRA business plan draws from and supports several council strategies, including the Medium-Term Financial Strategy (MTFS), to ensure plans are affordable and budgets are aligned to the assumptions detailed in those strategies. The core HRA financial planning assumptions are:</p> <ul style="list-style-type: none"> <li>• All HRA debt is sustainable on a yearly basis and over the period of the plan since restrictions to HRA borrowing were lifted in 2018.</li> <li>• The capital spending plans include increased provision to maintain and improve all existing dwellings and is based on a Housing stock capital strategy that continues to be developed.</li> </ul>																																																																													

	<ul style="list-style-type: none"> <li>• An acquisition programme based on the right to buy flexibilities announced in 2024/25 that allows the use of Right to Buy receipts to fund the full cost of acquisitions.</li> <li>• The minimum balance will be increased from the brought forward working balance of £2.59M in 2024/25 to a minimum balance of £7M, broadly equivalent to 5% of the current average capital programme investment and revenue expenditure, over the following three years, recognising the increased risk to the HRA of inflation, and ensure sufficient and robust provision for unexpected pressures.</li> </ul>
12.	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.
	<b><u>HRA Priorities</u></b>
13.	<p>The overarching priority for the HRA is to ‘Be a Good Landlord’.</p> <p>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.</p> <p>Key priorities to achieving this objective include:</p> <ul style="list-style-type: none"> <li>• Improving the quality of our homes;</li> <li>• Meeting the consumer standards as set out by the social housing regulator; and</li> <li>• Providing safe places to live, promoting social, environmental and economic wellbeing</li> </ul>
	<b><u>Inflation:</u></b>
14.	<p>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 inflation fall significantly from the high rates experienced in 2022 and 2023 with CPI inflation down to 1.7% in September 2024. Under the social housing rent standard the September CPI rate is used as the basis for rental increases and therefore the rate is used as a key inflation measure in the HRA business plan.</p> <p>The HRA business assumes CPI of 1.7% in 2025/26 rising to 2% from 2026/27. RPI is assumed to be 1% higher than CPI for certain categories of expenditure.</p>
	<b><u>Interest Rates:</u></b>
15.	<p>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 2024/25 was assumed to be in line with General Fund treasury returns, based on investments with minimal risk. The Bank of England base rate has decreased from 5.25% in March 2024 to 4.50% as at February 2025.</p> <p>The actual average rate of interest earned on investments for the HRA was 4.89% between April and September 2024.</p> <p>Current base rate forecasts advised to the Council by Treasury Management advisors set an expectation that base rate will continue to decrease in 2025, to 3.75%, and remain at this level until 2027. The interest rate assumptions are reflected in the Council’s wider Treasury Management Strategy.</p>

	<p>In respect of existing HRA borrowing, the self-financing loan portfolio with the Public Works Loans Board was £198M at 31 December 2024, following £24M of new borrowing in 2024/25. In the 40-year business plan borrowing peaks at £435M in 2040/41, with rates of between 1.12% and 4.94% for existing borrowing. Future borrowing rates have been assumed at 4.40% in 2025/26, which is based on the HRA concessionary rate of a discount of a 60 basis points (0.60%) reduction on usual PWLB borrowing rates. The concessionary rate ends March 2026 and borrowing after this date in the MTFs period and over the longer term has been included in the business plan at 5%.</p>
	<p><b><u>Rent &amp; Service Charge Increases</u></b></p>
16.	<p>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 1.7%, allowing a maximum increase of 2.7%. CPI inflation as at December 2024 is running at 2.5%.</p> <p>The Council is also required to set charges for heating in certain properties. The proposal for rent and service charge increases is as follows:</p> <ul style="list-style-type: none"> <li>• 2.7% increase in rent for dwellings, garages and parking spaces</li> <li>• 2.7% increase in Service Charges pending further review in 2025/26</li> <li>• No increase in Supported Accommodation Service Charges pending further review in 2025/26</li> <li>• 10% decrease in heating charges</li> </ul>
17.	<p>It is proposed that rents are increased by CPI + 1% in 2025/26, in line with Central Government guidelines for HRA rents issued within the current rent standard. Rental policy beyond 2025/26 is subject to the results of a government consultation, launched as part of the 2024 Autumn Statement which ended in December 2024. The consultation proposed rents increases of CPI +1% for 5 years. The financial plan assumes increases of CPI +1% from 2025/26.</p>
18.	<p>The proposal to increase rent by CPI + 1% also extends to shared ownership properties, garages &amp; parking spaces and supported housing properties.</p>
	<p><b><u>Rent Arrears</u></b></p>
19.	<p>Rent arrears have continued to remain high in the current financial year. Arrears increased significantly after 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.</p>
20.	<p>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, increased use of alternative payment arrangements and increased the level of support to tenants. Along with operational improvement in the debt recovery team to enhance collection rates.</p> <p>As at January 2025, current tenant arrears stood at £7.6M, and former tenant arrears at £3.8M. Current tenant arrears have fallen by around £1M from the position at the end of 2023 but the more difficult to collect former tenant arrears have increase by around £0.4M.</p>
21.	<p>The Business Plan for 2025/26 continues to recognise the risk of increasing arrears through a planned contribution to the allowance for doubtful debt.</p>
	<p><b><u>Service Charges</u></b></p>
22.	<p>Service charges are proposed to increase by CPI + 1% in line with rent increases in 2025/26, 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 financial plan to increase investment in decent homes projects.</p>

23.

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



**Table 2 – General Service Charges**

	<b>24/25</b>	<b>25/26</b>
Concierge monitoring	£3.02	£3.10
Walk-Up Block Wardens	£1.60	£1.64
Cleaning service in walk-up blocks	£0.80	£0.82
Door Entry System	£0.24	£0.25
Emergency Lighting Testing	£0.29	£0.30
Garden/Ground Maintenance	£0.24	£0.25
Tower Block Wardens	£5.67	£5.82

24.

**Table 3 – Supported Accommodation**

	<b>24/25</b>	<b>25/26</b>
Community Alarm	£1.42	£1.46
Support	£3.01	£3.09
Management	£5.59	£5.74

**Careline Charges**

25.

The Careline service is provided to both tenants within and outside of the HRA. and it is proposed that these charges are:

	<b>2024/25 Charge</b>	<b>2025/26 Charge</b>
Ongoing provision of service (per week)	£4.25	£5.00
Optional response service (per week)	£2.00	£2.50
Installation (one-off)	£26.00	£27.00

**Heating Charges**

26.

The Landlord Controlled Heating (LCH) account was significantly adversely impacted by increasing energy costs during 2022/23. No increases were made to charges during the year and as a result, the account had a deficit of £3.5M as at the end of 2022/23.

An increase in charges of 100% applied from April 2023. The increase agreed was a compromise between cost recovery and minimising impact on tenants.

Cabinet agreed to the principle of recovering the deficit over a period of 5 years at its meeting in July 2023 and the budget approved in February 2024 included a further increase of 6.5%.

The estimated heating costs for the period October 2024 to September 2025 are more favourable than recent years and an element of certainty can be attributed to the estimates

due to the advance purchase of energy having taken place for part of the new financial year.

In calculating the impact on the Landlord controlled heating account, a number of assumptions are made as follows;

- 1) Energy costs have fallen in the second half of 2024/25 and will continue at the lower rate over the first half of 2025/26
- 2) An inflationary increase has been assumed for the second half of 2025/26
- 3) Leaseholder contributions based on actual cost and 1 year in arrears

The impact of the revised forecasts is an anticipated reduction in the LCH deficit balance from £2.35M at the beginning of 2024/25 to £0.69M by the end of the financial year.

This reduction in the forecast deficit presents an opportunity to reduce the heating charges to tenants and whilst continuing to recover the remaining deficit in 2025/26.

It is proposed that the heating charges will reduce by 10% in 2025/26.

The revised charges are provided in the table below.

<b>Band</b>	<b>2024/25 Charge</b>	<b>2025/2026 Proposed Charge</b>
	£	£
<b>A</b>	1,178.91	1,061.02
<b>B</b>	1,415.45	1,273.90
<b>C</b>	1,651.99	1,486.79
<b>D</b>	1,888.52	1,699.67
<b>E</b>	2,125.06	1,912.55
<b>F</b>	2,377.89	2,140.10
<b>G</b>	2,634.34	2,370.91
<b>H</b>	2,894.41	2,604.97
<b>J</b>	409.45	368.50

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.

The 2025/26 changes are designed to strike a balance between cost recovery, recovery of the deficit and a fair price for tenants.

**Identified pressures built into the Financial Plan:**

27. **Increased cost of disrepair claims:** of £0.42M per annum from 2025/26. 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 is based on a current caseload of approximately 200 claims and will continue to be closely monitored. Resources have been appointed to appropriately manage and consider claims to ensure that the potential liability minimised.

28. **Void and rent loss:** The business plan model assumes void losses of 2.7%, equivalent to £2.3M, in 2025/26, reducing to 2% by 2027/28 based on current capital expenditure. In addition, council tax charges on empty properties are assumed at £0.65M per annum, an increase of £0.20M from the 2024/25 budget based on forecast spend. 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.
29.	<b><u>Employer's National Insurance Contributions:</u></b> The employer's national insurance contribution rate is increasing from 2025/26 from 13.8% to 15%. The salary threshold also decreases from £9,100 to £5,000. This increases the level of earnings that the employer is liable for NI contributions on. The impact on the HRA is estimated at £0.80M per year. The impact of the increase on local government has been partly compensated in the finance settlement. The cost of the increase has been included in the relevant staffing budgets from 2025/26 onwards.
30.	<b><u>Staffing budgets:</u></b> There is a proposed restructure of the senior leadership team to progress the improvements and transformation required to ensure the long-term sustainability of the HRA. The budget includes provision for the new posts required to deliver this change.
31.	<b><u>Asbestos survey management:</u></b> An additional revenue budget allocation of £1.40M from 2025/26 is required to the HRA cyclical maintenance revenue budget for asbestos surveying. This will be used to fund a long-term asbestos surveying, sampling, testing & analysis service to meet regulatory requirements as part of asbestos management statutory obligations:
32.	<b><u>Working balance:</u></b> The working balance was set historically at £2M. This is inadequate against the current level of annual expenditure, financial risk, and the current capital programme. This is explained further in paragraph 45. The business plan therefore assumes an increase from £2.59M to £3.09M in 2024/25, £4M in 2025/26 and £7M from 2026/27.
33.	<b><u>Cyclical maintenance programme:</u></b> Additional budget of £0.40M is required for increased statutory compliance activity from 2025/26.
34.	<b><u>Transformation:</u></b> A budget of £0.50M has been included to support transformation activity in 2025/26. This will be used to support the delivery of required improvements in the HRA.
35.	<b><u>Housing Operations:</u></b> The Housing Operations budgets incorporates continued investment to address voids, including additional resources such as additional plasterers, roofers and gas fitters, alongside budget allocations to address training needs. Overall budget for reactive and void repairs within the HRA revenue account now stands at £18.80M and maintains the additional investment allocated as part of the business plan last year. The capital budget for major repairs within the Capital programme is now £3M in 2025/26.
36.	<b><u>Inflationary pressures:</u></b> A cost of living pay award assumption of 3% has been built into the HRA business plan model for 2025/26 with future costs increasing in line with CPI inflation as part of the business plan assumptions. Wider inflationary pressure has been built in to the budget in line with the assumptions outlined in this report.
	<b><u>Savings proposals</u></b>
	.
38.	<b><u>Depreciation:</u></b> The estimated annual depreciation charge has reduced significantly since 2024/25 budget setting. This is due to the HRA asset valuations undertaken as part of year-end activity in 2024 reducing asset values which the depreciation charge is based on.
39.	<b><u>Transformation savings:</u></b> As part of the corporate Adapt   Grow   Thrive programme the HRA has a saving target of £1M under the Good Landlord project. This is based on increasing efficiencies in the repairs and voids process to increase performance and

	delivery. The savings generated will effectively be reinvested back into the process to reduce outstanding repairs and voids.
40.	A review of service charges to move from a contribution model to a cost recovery model is planned in 2025/26, with a view to implementation from 2026/27.
41.	In addition to the above, debt profiling across the 40 year period has been reviewed and updated to ensure the appropriate balance between minimising interest cost and ensuring working balance is suitably maintained.
	<b><u>HRA Balances</u></b>
42.	The HRA Business Plan revenue balances enable a longer-term repayment of debt to take place. Despite recent cost pressures, and the removal of the debt cap leading to ongoing regeneration/new build borrowing, debt repayments take place during the life of the Business Plan. The proposed model currently assumes repayment of all debt within the 40 year plan. The level of debt forecast in 40 years is prudent.
43.	A significant risk to the long-term plan is the risk that the capital investment requirement significantly increases 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 proposed rent cap for the next 5 years. This is exasperated by materials costs inflation and repair demand as the stock ages. Therefore, the long-term investment in stock will need be based on financial viability and value for money. This could lead to elements of portfolio being disposed of in the longer term where the cost of maintaining the property is greater than the benefit provided.
44.	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.
45.	The HRA minimum balance was maintained £2.0M per year from 2017 until 2023/24. However, in recognition of the level of risk associated with operating the HRA, in terms of potential future changes in costs and other unforeseen events. It was proposed in the 2024/25 business plan that the minimum balance was increased to £3M in 2024/25 and £7M by 2027/28. The business plan for 2025/26 continues with the principle of increasing the working balances and is based on achieving a working balance of £4M by the end of 2025/26.
	<b>HOUSING REVENUE ACCOUNT CAPITAL PROGRAMME 2024/25 TO 2029/30</b>
46.	The purpose of this section of the report is to update the HRA Capital Programme for the period of 2024/25 to 2029/30, highlighting the changes in the programme since the last reported position to Cabinet. 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 2024/25 financial year where appropriate.
	<b>THE FORWARD CAPITAL PROGRAMME</b>
47.	The table in paragraph 54 provides a summary of the latest capital expenditure for the period 2024/25 to 2029/30 compared to the previously reported programme.
48.	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.

49.	The number of properties that meet the decent homes standard 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.
50.	The 2025/26 capital programme approved as part of budget setting last year includes several projects that have been reviewed again to determine whether they are still priorities going forward and to identify if further funding can be allocated to projects that will have a positive impact on the Council's Decent Homes performance. This has resulted in a number of changes to achieve the Council's strategic objective of accelerating improvement of Decent Homes performance, in line with the Regulator's Safety & Quality Standard. The key priority for the capital programme has therefore been to increase resources to address this issue through increased investment in 2025/26 in doors, windows, bathrooms, roofs and heating. There is a £10.23M increased funding against the previous 2025/26 baseline which is estimated to result in a favourable 8.2% increase in Decent Homes, by the end of the 2025/26 financial year.
51.	This additional investment in decent homes is being funded by pausing, stopping or using alternative delivery methods to existing projects in the capital programme such as Millbank House, Albion Towers, Canberra Towers and Plot 10 Townhill Park. The budget and funding for these schemes has, where possible, been reallocated to projects that will be able to deliver improvements in the Decent Homes standard. Plot 10 Townhill Park will be considered for delivery through the Affordable Homes Framework. Whilst the future investment in the other assets will continue to be considered as part of the Housing Asset Management Strategy.
52.	The setting of the capital programme is an iterative process and the budget presented for approval aligns to the most up to date position. The capital programme, alongside the wider HRA business plan, will continue to be developed over the next 12 months as the HRA undergoes transformative reviews.
	<b>New Build</b>
53.	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. The framework is being used to progress delivery of the redevelopment of Townhill Park. A partner has been appointed for plots 4,5 & 6 through the framework and other 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.
54.	Cabinet have subsequently reviewed the delivery of plots 2, 9 and 10 and, at its meeting on 7 February 2024 recommended to Council that plots 2 and 9 will move to the Affordable Homes Framework. At the time a budget for the direct delivery of plot 10 was maintained in the capital programme however as part of this budget update, the borrowing earmarked for the scheme has been reallocated into improving the decent homes standard and the earmarked Right to Buy receipts into the acquisitions programme.

55.	<p><b><u>Capital Programme Summary</u></b></p> <p>The following table outlines the headline category of budgeted spend between 2024/25 and 2029/30:</p> <table border="1" data-bbox="319 331 1516 728"> <thead> <tr> <th></th> <th>2024/25</th> <th>2025/26</th> <th>2026/27</th> <th>2027/28</th> <th>2028/29</th> <th>2029/30</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Improving Quality of Homes</td> <td>13.63</td> <td>23.92</td> <td>11.98</td> <td>11.78</td> <td>15.48</td> <td>16.48</td> </tr> <tr> <td>Making Homes Energy Efficient</td> <td>17.78</td> <td>18.38</td> <td>16.50</td> <td>15.80</td> <td>8.90</td> <td>9.30</td> </tr> <tr> <td>Making Homes Safe</td> <td>15.76</td> <td>13.57</td> <td>7.18</td> <td>6.74</td> <td>7.44</td> <td>7.40</td> </tr> <tr> <td>Regeneration Total</td> <td>9.06</td> <td>17.88</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> <td>0.00</td> </tr> <tr> <td>Supporting Communities</td> <td>1.95</td> <td>2.00</td> <td>1.12</td> <td>1.12</td> <td>1.95</td> <td>1.95</td> </tr> <tr> <td>Supporting Independent Living</td> <td>3.08</td> <td>5.84</td> <td>2.50</td> <td>2.50</td> <td>3.00</td> <td>3.00</td> </tr> <tr> <td>Inflation Allowance</td> <td>0.00</td> <td>1.85</td> <td>2.27</td> <td>3.40</td> <td>4.49</td> <td>5.94</td> </tr> <tr> <td></td> <td>61.25</td> <td>83.45</td> <td>41.55</td> <td>41.34</td> <td>41.26</td> <td>44.07</td> </tr> </tbody> </table>		2024/25	2025/26	2026/27	2027/28	2028/29	2029/30		£M	£M	£M	£M	£M	£M	Improving Quality of Homes	13.63	23.92	11.98	11.78	15.48	16.48	Making Homes Energy Efficient	17.78	18.38	16.50	15.80	8.90	9.30	Making Homes Safe	15.76	13.57	7.18	6.74	7.44	7.40	Regeneration Total	9.06	17.88	0.00	0.00	0.00	0.00	Supporting Communities	1.95	2.00	1.12	1.12	1.95	1.95	Supporting Independent Living	3.08	5.84	2.50	2.50	3.00	3.00	Inflation Allowance	0.00	1.85	2.27	3.40	4.49	5.94		61.25	83.45	41.55	41.34	41.26	44.07
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57.	<p><b>Improving the Quality of Homes</b></p> <p>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. Increasing investment in these projects has a significant impact on the decent homes standard along with reducing void turnaround times and helping reduce the average cost of reactive repairs. The proposed budget includes a net increase in investment in these projects by £6.88M in 2025/26 including £3.45M on roofing, £1.50M on new kitchens and £1.50M on heating upgrades on the Holyrood Estate, £0.50M on new bathroom. Along with other net changes resulting in a reduction of £0.07M.</p>																																																																						
58.	<p><b>Making Homes Energy Efficient</b></p> <p>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. The proposed budget for 2025/26 includes a small net reduction in energy efficient projects overall from the baseline 2025/26 budget of £1.43M, however, it does include increases in the new windows programme of £2.50M and £1.58M in the</p>																																																																						

	gas boiler replacement programme. This additional investment through these schemes will have a positive impact on the number of decent homes. There is also a new scheme included for replacing gas line infrastructure in Orpen Road of £2.30M. There is a proposed reduction to energy efficiency schemes for Canberra and Albion Towers and Millbank House of £7.91M in 2025/26. There are other net changes of £0.10M.
59.	<p><b>Making Homes Safe</b></p> <p>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. Key changes including £1.50M being added for Fire Safety upgrades at Wyndham Court, along with Hevellyn Road £0.60M, Redbridge and Millbrook Towers £0.40M. Along with additional budget for capital works to remove asbestos of £0.60M. There are corresponding reductions on fire doors and fire stopping projects in low and medium rise buildings of £1.99M, along with a reduction in other fire safety projects of £0.60M.</p>
60.	<p><b>Supporting Communities</b></p> <p>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. Changes for 2025/26 includes and additional £0.33M predominately for a refurbishment of Cambridge Road which is a recently acquired property from the NHS.</p>
61.	<p><b>Supporting Independent Living</b></p> <p>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 key change for 2025/26 to the budgets is reduction of £0.30M in the disabled adaptations budget through better targeting of funding.</p>
62.	<p><b>Estate Regeneration/New Build/Acquisitions</b></p> <p>Capital budgets for Estate Regeneration and the provision on new houses in the HRA. The key changes for 2025/26 include the addition of the acquisitions programme approved at cabinet and council in 2024/25 to utilise the available right to buys receipts and make use of government flexibilities in their usage, along with the reallocation of the borrowing earmarked for Plot 10 at Townhill Park to other projects that support the improvement of the decent homes standard.</p>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
63.	The capital and revenue implications are fully detailed within the report.
<b><u>Property/Other</u></b>	
64.	Any property implications in respect of the HRA Capital programme are fully detailed in the body of the report.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
65.	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.

66.	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.
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### **RISK MANAGEMENT IMPLICATIONS**

67.	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.
68.	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**

69.	The HRA Budget is a key part of the Policy Framework of the Council and an HRA budget and rents for 2025/26 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.
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#### **KEY DECISION?**

**No**

#### **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 medium term projection
5.	HRA Capital Programme 2024/25 to 2029/30
6.	Confidential - HRA Capital Programme Scheme Details

#### **Documents In Members' Rooms**

1.	
2.	

#### **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**



<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>		<b>No</b>
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>	
1.	MTFS Update October 2024	
2.	Use of Right to Buy Receipts October 2024	