Appendix A1 - The 2021/22 Draft Housing Revenue Account Budget and 5 yr Capital Programme 2021/22 – 2025/26

1. Executive Summary

The Housing Revenue Account (HRA) is a separate ring-fenced account and covers all activities of BCC as landlord of circa 26.8k housing stock. In addition there are 1.7k leasehold properties which have been sold under RTB, but which are in blocks where the Council continues to maintain the common areas and the fabric of the building. The Council has a duty to develop a balanced HRA budget for the next financial year, as well as a sustainable long term business plan, which takes into account both the capital investment needs of its stock and the revenue costs of managing and maintaining it. This paper presents the proposed 2021/22 revenue budget and the 2021/22 – 2025/26 Capital Programme for approval.

2. One year budget

The one year budget focuses on three main areas of activity:

- repairing, maintaining and improving existing stock;
- providing services for council tenants and leaseholders; and
- continuation of provision of new affordable homes programme to maintain existing levels of stock

3. Assumptions for Budget 2021/22

The assumptions in setting the budget for 2021/22 are tabled below

Table 1 – Assumptions in the proposed budget for 2021/22

Item	Assumption	Impact
Rent Increase (Dwellings)	0%	£1.7m rental income foregone in 2021-22 vs. Rent Policy guidance.
Rent Increase (Non-dwellings)	0%	£0.03m rental income foregone in 2021-22 vs. Rent Policy guidance.
5% flexibility on formula rents and 10% flexibility on supported housing	To continue to uplift on relets as per the Rent Policy	Rent flexibility can potentially generate an additional £0.11m per year
Bad Debt Provision	£1.8m (1.5% of gross rental income)	A 10% increase in bad debts (to 1.65%) would increase losses by £0.18m
Void Rate	£1.2m 1.06%	A 10% increase in voids (to 1.17%) would increase losses by £0.12m
Service Charges	Average £4.94 per week for tenants, Average £14.11 per week for Leaseholders	Service charges income is driven by service costs, any increase in costs would result in a matching increase in income
Average Stock Figure for 2021/22	26,898	Takes into account assumed right to buys and additional units
Right to Buy's (RTB's)	Estimated number of housing units lost through RTB - 150 (0.6% of stock)	The level of RTB are projected to have a downward trend in future years
Additional units - new build & acquisitions	projected 182 units delivered in 2021/22	Each new build unit provides a minimum rental yield of circa £3,000 per annum to the business plan
New development/acquisitions	Each scheme will be appraised for viability and impact on overall business plan	There is an expectation that any new schemes will deliver a positive NPV

HRA revenue balances from 2020/21 to be transferred to reserves at year end	£3m projected underspend	This is based on forecast outturn position as at P8
HRA Debt	£250m	For every £1m of additional borrowing, there would be an increase in interest cost of £0.02m per year.
Average cost of capital	4.47%	Existing loans are currently all on a fixed rate, fixed term basis and are not subject to interest rate risk.
Debt Repayment	No provision made for repayment of debt	All debt is currently fixed rate / fixed term debt. Any early repayment would attract a penalty/premia in excess of any future interest cost savings
Interest on balances	0.10%	investment income would reduce by £0.01m for every basis point reduction
Use of reserves to fund capital programme	For 2021/22 there will be no additional borrowing	Each £1m of borrowing would cost £0.02m per year compared to utilising reserve.

4. Proposed Revenue Budget 2021/22

Table 2 shows the proposed draft HRA income and expenditure budget for 2020/21 against the forecast at P8 and the budget for 2021/22

Table 2

DRAFT HOUSING REVENUE ACCOUNT	2020/21	2020/21	2021/22	
HRA Income and Expenditure	**BUDGET £000**	**FORECAST P8**	**BUDGET £'000**	**MVMENT £'000**
Income				
Dwelling rents	(113.3)	(115.1)	(113.5)	(0.2)
Voids	1.2	1.1	1.2	0.0
Non-dwelling rents	(0.9)	(0.9)	(0.9)	0.0
Charges for services and facilities	(8.5)	(8.7)	(8.9)	(0.4)
Other Income	(0.0)	(0.0)	(0.0)	0.0
Total Income	**(121.4)**	**(123.5)**	**(122.1)**	**(0.7)**
Expenditure				
Repairs & Maintenance	32.5	30.3	33.9	1.3
Supervision & Management	31.2	30.3	31.8	0.6
Special Services	9.7	9.6	9.8	0.1
Rents, rates, taxes and other charges	1.2	1.2	1.2	(0.0)
Depreciation, Revenue Funded Capital, Interest Payable and Bad Debt Provision	46.8	48.8	45.5	(1.3)
Total Expenditure	**121.4**	**120.2**	**122.1**	**0.7**
(Surplus) / Deficit on the HRA	**0.0**	**(3.3)**	**0.0**	**0.0**
Opening balance on the HRA	**(87.5)**	**(87.5)**	**(90.4)**	**(2.9)**
(increase)/ decrease	0.0	(3.3)	0.0	0.0
Closing balance on the HRA	**(87.5)**	**(90.8)**	**(90.4)**	**(2.9)**

Minimum balance required	(21.0)	(21.0)	(21.0)	0.0
Available for capital financing	(66.5)	(69.8)	(69.4)	(2.9)
required for capital financing	18.5	0.4	8.2	(10.3)
Closing balance on the HRA after RCCO	**(69.0)**	**(90.4)**	**(82.2)**	**(13.2)**

Reasons for movement on the Revenue Budget between 2020/21 and 2021/22

Small variation on Dwelling rent is due to volume increases.

Net Service Charges: The 2021/22 budget is based on the planned expenditure on the properties.

Revenue repairs: The increase in budget for 2021/22 is partly due to the planned programmes in the HIP, particularly the paint programme and also the increased costs of the joinery shop.

Management costs: have increased due to increases in establishment which include the new Estate Regeneration team.

Depreciation: is the calculated level of basic re-investment needed to keep homes in reasonable repair (calculated using lifecycles / element costs as per our investment planning approach). This sets the minimum level of revenue funding to capital investment in homes to be applied in that year (or set aside in a separate reserve account to be invested in homes in the future). Depreciation is shown as an expenditure item in revenue, and an income item in capital.

5. Proposed HRA 5-Year Capital Programme 2021/22 – 2025/26

The assumptions in this 5-year capital programme are subject to change as a result of the planned review of the HRA to take place in 2021/22 and which will result an updated 30-year business plan.

The 5-year capital programme aims to deliver 571 new homes. Of these, 182 new homes (approximately 70:30 split between social rented and shared ownership homes) are proposed for completion in 2021/22, which will be financed by a mix of unapplied capital reserves, pooled RTB receipts, Homes England grant funding and income from the first tranche sale of Affordable Homes. Further details of the new build and acquisition programmes are set out in Appendix A3.

The proposed budget also incorporates the Housing Investment Plan (HIP). The full detail of which can be found in Appendix A2.

Table 3 shows the proposed draft HRA five year capital programme.

Table 3: Proposed Capital Programme 2021/22 to 2025/26

	Housing Revenue Account - DRAFT Capital Programme	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**	
		BUDGET £000	**BUDGET £000**	**BUDGET £000**	**BUDGET £000**	**BUDGET £000**	**TOTAL £000**
HRA 1	Planned Programme - Major Projects	30.4	33.7	29.9	23.1	19.0	136.1
HRA 2	New Build & Land Enabling	64.8	25.8	8.5	4.6	0.0	103.7
HRA 3	Building Maintenance & Improvement	14.9	16.6	16.1	16.2	16.1	79.9
HRA 4	HRA Infrastructure	0.5	0.5	0.5	0.5	0.5	2.5
	Total Capital Expenditure	110.6	76.6	55.0	44.4	35.7	322.3
	Financing						
	Unapplied Capital Receipts	34.9	0.0	0.0	0.0	0.0	34.9
	Capital Receipts & Grant Funding	23.9	10.6	3.1	1.7	0.0	39.3
	Major Repairs Allowance / Depreciation (MRA)	40.4	30.0	30.6	31.2	31.9	164.2
	RCCO (Revenue Contributions to Capital Outlay)	11.4	35.9	21.2	4.0	0.0	72.6
	Prudential Borrowing	0.0	0.0	0.0	7.4	3.8	11.3
	Total Capital Income	110.6	76.6	55.0	44.4	35.7	322.3
	NET HRA Capital Programme	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
	New units to be delivered	182	320	49	20	0	571

The proposed Capital Programme consists of the Housing Investment Programme for maintaining and improving the existing stock as set out in Appendix A2. This includes £2.3m to match fund income of £1.29m from the Social Housing Decarbonisation Demonstrator grant to deliver an energy efficiency pilot, testing a whole house retrofit scheme to 40 homes, to allow us to learn lessons, and potentially roll out the scheme to more homes as part of our commitment for all home to be net zero carbon by 2030 and more affordable to heat. The HRA Development Programme of delivering new council homes as set out in Appendix A3 and the HRA IT Infrastructure, which is for continuous improvement and maintenance of the HRA systems.

Capital receipts**:** These are from the sale of council homes under the Right to Buy (RTB) to sitting tenants at a discount. Sales for 2021/22 are forecast to be 150, with an average sale price after discount of £103k. The receipts will be reinvested to build new council homes, enabling a greater percentage to be retained.

The forecast for useable receipts to be applied to fund the 2021/22 capital programme is £11.5m of 'additional 1-4-1 receipts', used to fund 30% of the eligible costs from the new build programme in 2021/22. The remaining receipts will be added to balances and carried forward to help support the capital programme in future years.

In 2018 the Government removed the HRA borrowing cap (a Government set limit determining how much money could be borrowed). With the removal of the headroom cap on local authorities, has opened up the possibility of an accelerated development programme. As part of the creation of a new 30-year business plan for the HRA an evaluation will determine the optimum borrowing capacity that the Business Plan can support. This work will inform the 2022/23 budgeting process.

6. Risks

The following risks, in Table 5, have been identified in relation to the proposed HRA budget for 2021/22.

Table 5 Risks with potential impact and mitigation

Risk	Potential impact	Mitigation
0% Rent increase	Delivering the exisiting level of service may require additional borrowing in future years	Service efficiencies; review of HRA and creation of new 30-year business plan
Recruitment and retention of staff	Unable to deliver planned programme, potential additional costs of outsourcing work	Review of market pay for key roles, to be funded by efficiencies if required.
Pay award higher than assumed 0% increase	Every additional 1% equates to additional £359K cost	Cost control to ensure budget remains within the resource envelope available
New contracts cost more than assumed inflation	Reduced capacity to deliver services, new homes, and maintain current stock to the required standard	Robust contract management
Failure of contractors	Impact on cost and delivery of planned programme	Effective contract management and procurement framework
Bad debt higher than budget assumed and impact of Universal Credit	A 10% increase in Bad Debts (to 1.65%) would increase losses by £0.18m. If tenants have reduction in benefits may affect ability to pay rent	Early intervention on rising arrears
Interest on debt repayments	Only applicable to non-hedged debt (currently £NIL)	Minimum amount of hedging of debt should be determined
Cost of retro fitting zero carbon	Lack of capacity resulting in either failure to hit target, or inability to fund required	Robust business cases and procurement to ensure the option delivering the best Value for Money is selected

	repairs/maintenance	
Delays in delivering new units	Reduced rental income. Reputational risk of failing to deliver target number of units	Robust management of development partners to ensure adherence to timescales. Penalty clauses within development agreements to compensate for late/non-delivery
Repayment of right to buy receipts due to level of development required and limited time to use receipts	Loss of income to subsidise delivery of new homes	Forward planning to match 1-4-1 receipts against development programmes
Government policy changes	Not anticipated for 2021/22, but may impact on 30 year business plan	Business plan continually to be reviewed
Zero Carbon	No detailed costs available at present	Options appraisal and strategy development. Need to identify funding source from Government
Brexit	Increased costs, arrears and bad debts	Stringent budget setting/ management, Value For Money Reviews of services, robust procurement and contract management, early intervention on rising arrears

Reserves **–** As at the beginning of 2020/21 the HRA General Reserve balance was £87.5m (including the balance on the CCTV reserve of £419K) the Capital Receipts Unapplied Reserves balance was £50.5m and a balance of £3.6m was held on the Major Repairs Reserve (MRR).

Based on the forecast outturn position for 2020/21 as at P8, it is anticipated that a positive net movement of £2.9m on the HRA General Reserve (which includes £3.2m contribution from 2020/21 forecast underspend), will increase the balance to £90.4m and a negative net movement of £15.6m on the Capital Receipts Unapplied Reserve will decrease the balance to £34.9m and a positive net movement on the Major Repairs Reserve of £7.3m will increase the balance on the MRR to £10.9m.

The 2021/22 budget proposal assumes that £8.2m of the General HRA reserve, £34.9m from the Capital Receipts Unapplied Reserve and the £10.9m form the MRR will be utilised in 2021/22 in order to fund the Capital Programme. This would leave a balance on the General Reserve of £82.2m and £0m on the Capital Receipts Unapplied Reserve and £0m on the MRR at 31st March 2022. The HRA will maintain a minimum level on the HRA general reserves at £21m being the equivalent of 3 months cashflow. The application and use of reserves supports the achievement of service delivery and improvements to housing stock.

Table 6 shows the movement on the HRA general reserve across the 5 year capital programme.

Table 6

HRA General Reserve	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Balance on the HRA Reserve	(90.4)	(82.2)	(46.3)	(25.0)	(21.0)
Available for capital financing	(69.4)	(61.2)	(25.3)	(4.0)	0.0
required for capital financing	8.2	35.9	21.2	4.0	0.0
Minimum Balance required on HRA	(21.0)	(21.0)	(21.0)	(21.0)	(21.0)
Closing balance on the HRA after RCCO	**(82.2)**	**(46.3)**	**(25.0)**	**(21.0)**	**(21.0)**