Committee name: Cabinet

Committee date: 13/12/2023

Report title: Housing Revenue Account (HRA) Business Plan and HRA Budget 2024/25

Portfolio: Councillor Jones, Deputy leader and cabinet member for housing and community safety

Report from: Executive director of community services

Wards: All wards

OPEN PUBLIC ITEM

KEY DECISION

Purpose

To provide an update on the 2024/25 Housing Revenue Account (HRA) Business Plan. It includes proposals to:

- Deliver improvements to our tenants' homes to make sure they continue to be well maintained and deliver improvements to our property and building maintenance services.
- Deliver on plans to ensure Norwich City Council homes reach Energy Performance Certificate (EPC) level C as soon as possible and by 2030 at the latest and deliver plans by April 2024 which will set out the roadmap to ensure Norwich City Council homes achieve net-zero carbon emissions as soon as possible and by 2050 at the latest.
- Continue to invest in health and safety compliance measures to ensure our council homes comply with the new, emerging building safety legislative environment.
- Expand this area of work to include the systematic tackling of damp and mould issues.
- Deliver programmes to build and acquire more council homes.
- Deliver improvements to frontline neighbourhood housing services.
- Deliver year on year targets to achieve reductions in management cost by £1.6m by 2028/29 through a review of our delivery model.
- Implement and embed the requirements of the Social Housing (Regulation) Act

Recommendation:

It is recommended that the HRA Business Plan report for 2024/25 is approved by Cabinet, subject to approval of the HRA Revenue Account Budget 2024/25 at Council in February 2024.

Policy framework

The council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the following corporate priorities:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.

This report addresses the following priority in the Corporate Plan:

Make the best use of our Housing Revenue Account assets and resources, maximizing our income and spending wisely to provide easy to access, high quality services and support for our tenants and leaseholders.

Report details

1. This report provides the 2024/25 update of the Housing Revenue Account (HRA) 30-year Business Plan and supports the 2024/25 revenue and capital budget for the HRA. The information in this report is dependent on the approval of the HRA budget by Council in February 2024.

2. In 2022/23 a comprehensive review of the financial elements of the Business Plan was undertaken. This report is the first annual update which has reviewed and updated assumptions with projections accordingly particularly around the cost of investment to meet carbon reduction targets. The review aligns the investment priorities in the Business Plan with our Housing Strategy ‘Fit for the Future’ 2020 – 2026 which has four goals:

   • Meeting housing need - delivering new homes

   • Maintaining and improving condition of existing housing

   • Improving the use and management of our existing stock

   • Improving our neighbourhoods

3. The HRA Business Plan 2024/25 update, reflects and underpins the goals we have set in the Housing Strategy.

4. In 2019 the Council declared a Climate Emergency, and in response committed to achieving net zero emissions, from its own operations, by 2030. Recognising that decarbonisation of its homes would require significant investment and a longer timescale the Government target of 2050 was adopted.

Background

5. The HRA is the financial account of the Council as landlord. It is ring-fenced in law for income and expenditure in respect of council housing and housing land and certain activities in connection with the provision of council housing only. Other council services are funded through council tax and central government support which benefits all citizens of Norwich regardless of tenure.

6. The HRA 30 - year Business Plan sets out how all aspects of council housing will be funded from income (predominately rents) that the local authority is able to generate in its capacity as landlord.

7. There is no legal requirement to produce a HRA business plan, but it is considered best practice to develop and regularly review the plan. It is an early warning system which tells us what may happen in the future based on the available data and set of assumptions. It supports us in understanding investment capacity and to make informed decisions about investment priorities.

8. The HRA operates within a national political context; therefore, any changes within national housing policy can have a significant impact on the HRA Business Plan.

9. Each year the HRA Business Plan is reviewed and updated to set budgets and charges for the year ahead and to provide an updated 30-year affordability profile.

Context

10. The city council owns, lets, and manages approximately 14,500 homes across the city, and provides services to approximately 3,500 leaseholders who own

homes within its buildings. We are a large local authority landlord and like many others our stock is ageing and in need of significant investment.

11. Demand for the services we provide for our most vulnerable residents continues to increase. This increasing demand, compounded by the cost-of-living crisis is putting significant pressure on the services we provide and the demand for social housing.

12. The uncertain economic climate - high inflation and borrowing costs, high energy costs, supply chain issues and skills shortages - is crystalising a number of risks and testing the resilience of the housing sector. The challenge of income having not risen in line with costs, has created a gap in our capacity to invest in our tenants' homes. These factors coupled with the challenge of new social housing regulation and the decarbonisation of our homes means we inevitably face 'trade off's' in our investment decisions.

13. Over the duration of this plan, the legal, economic, and social environment will change and with it, the balance of competing priorities for investment will shift. As it does, the Council will update and test the assumptions, requirements, and strategic approach within the plan.

14. The Regulator for Social Housing published in November 2023 their sector risk profile the key these of which are set out below:

15. ***"Macroeconomic risk and viability -*** *Providers continue to face a difficult and uncertain economic environment. Persistently high-cost inflation, a tight labour market, and contractor failures and supply chain issues are delaying works and increasing costs for providers. An ongoing housing market downturn poses risks for development sales income. Rental income has been constrained by the 7% rent cap for 2023/24, while costs for stock investment programmes have continued to rise. Interest rates have risen markedly in response to high inflation, resulting in materially increased provider borrowing costs. These economic factors have weakened the sector's financial position and reduced its capacity to manage downside risk.*

16. ***Stock decency*** *- Effective management of stock requires a detailed knowledge of stock condition, and providers need to ensure this is underpinned by accurate, up-to-date, and robust data from stock condition surveys that adequately assess all four criteria of the Decent Homes Standard.*

17. ***Tenant Safety*** *- Keeping tenants safe is a fundamental responsibility for any landlord. Boards must ensure that they comply with all statutory health and safety legislation. The regulator's review of damp and mould following the tragic death of Awaab Ishak highlighted the importance of providers holding accurate, up-to-date, and robust stock data in ensuring tenant safety. The view of the regulator is that providers must ensure that risks to tenant safety are identified and mitigated, including stock surveys that are sufficiently robust to assess the presence of category 1 hazards under the Housing Health and Safety Rating System.*

18. ***Service delivery and accountability*** *- The provision of good quality housing services to their tenants is core to the role of a provider. They urge providers to ensure that strong governance is in place to oversee service delivery and maintain compliance with consumer standards. In particular, they must ensure*

that the organisation has robust and accurate data on performance, including tenant satisfaction measure data for 2023/24."

19. The full document is available at [Sector risk profile 2023 (accessible version) - GOV.UK (www.gov.uk)](https://www.gov.uk).

20. The overriding message is that providers should have robust data on both their homes and their residents in order to provide safe, decent homes for their residents. Our priorities for the coming financial year have been informed by these four principles.

Key information

Continue to invest in health and safety compliance measures to ensure we move out of regulatory supervision and our council homes comply with the emerging building safety legislative environment.

21. Since Autumn 2021, the Council has been focused on addressing historic issues relating to health, safety, and compliance in our tenants' homes. We have continued to prioritise health and safety repairs and have worked successfully with the Regulator of Social Housing to achieve full compliance. with the outcome of the regulatory notice due imminently.

22. The Fire Safety Act 2021 received Royal Assent in April 2021 providing greater clarity over responsibility for fire safety in multi-occupation residential buildings and for all council owned flat and maisonette blocks. The Council's focus is on reducing the risk of fire for the structure, external walls and doors that open into communal areas.

23. The Building Safety Act received Royal Assent in April 2022 introducing wide ranging changes to the legal and regulatory framework governing the management of building safety during design, construction, and occupation. It introduces a new and much more stringent regulatory framework for higher-risk residential buildings, such as tower blocks, which has increased and defined the responsibilities of social housing landlords.

24. This new legislative landscape not only considers our buildings but equally important our tenants. The Building Safety Act means that residents in our high-rise buildings will have more say in how their building is kept safe and will be able to raise building safety concerns directly to an accountable person and we will listen.

25. This new stringent regulatory regime places legal responsibilities on us for managing structural and fire safety in higher-risk buildings when they are occupied. These requirements include the need to register our high-rise buildings, introduce a safety case approach to managing fire and structural safety during occupation, a duty to engage residents, on-going management of a digital 'golden thread' of information throughout the building lifecycle and the creation of mandatory occurrence reporting framework. The Council is working to implement the requirements of the new regulations and will ensure the investment capacity in the Business Plan and resources are in place to comply with the legislative requirements.

26. At the time of writing this report we are awaiting an update from the Regulator in relation to our Regulatory Notice.

27. Following on from the tragic death of Awaab Ishak in Rochdale, NCC, along with all social landlords, have strengthened its approach to damp and mould. Our key change of approach is to respond positively to reported incidences with immediate washdowns to remove any immediate risk of harm, which is then supported by a strengthened surveying and investigatory approach to ensure timely responses that improve the time taken for remediation and reduce the risk to our residents and

28. A new damp and mould dashboard has been developed and this will be rolled out fully in 2024 to strengthen the management and monitoring of cases. This dashboard will become part of the suite of compliance dashboards to be reported to the Health & Safety board.

Deliver improvements to our tenants' homes to make sure they continue to be well maintained and deliver improvements to our property and building maintenance services.

29. Following the Repairs and Maintenance Services transfer from Norwich Norse Building Ltd to Norwich City Services Ltd (NCSL) in April 2022, there have been a number of operational challenges impacting on the delivery of the service.

30. Following concerns regarding performance indicators, NCC commissioned an independent review of the service in December 2022, this report identified challenges necessitating attention. This report indicated an improvement timeline of 12 to 18 months for delivery and turnaround
A Repairs Improvement Consultant was engaged in July 2023 to build a turnaround plan which will be delivered to NCC in December 2023.

31. Both financial deficits and backlog of work have been concerns, and considerable activity from both NCSL and NCC has been and continues to be taken to successfully implement the turnaround plan.

32. After identified concerns, structural changes at the Board and Managing Director levels were implemented in July 2023, coinciding with the engagement of the repair's consultants. Immediate financial stabilisation measures, including accounting adjustments to incorporate assumed income, have been instrumental in achieving breakeven in the second quarter and yielding a target surplus for 2023/24.

33. A significant backlog of repairs and empty homes was outstanding at the beginning of April 2022. These were successfully completed by 3rd party contractors in the year 2022/23. Due to operational challenges a newly emerging backlog has been identified which is the paramount focus of both teams to remedy.

34. At the time of writing this report 1.48% of the stock is empty which maintains our position in the upper median quartile for Housemark, our benchmarking service, based on a median of 1.52% for local authorities with more than 10,000 properties for 2022/23. Of the 1.48%, 1.12% are attributed to NCSL

where a dedicated project group is in place to further improve performance in this area.

35. In relation to repairs a maintenance at the end of quarter 2 customer satisfaction has slipped from 69% at the of 2022/23 to 67.5% and is part of the reason the Council took the decision to step in and address issues with NCSL. That being said, based on the midyear data on new Tenant Satisfaction Measure data, provided by Housemark, this is the median performance for providers with more than 10,000 properties. The Council are not satisfied with being mediocre and has asked NCSL to focus particular attention in its turnaround plan and it new business plan for improvement measures in the repairs and maintenance services to the Council's tenants.

36. The 5-year HRA investment programme will continue to prioritise work that keeps people safe and will deliver improvements to people's homes (fire safety, electrical upgrades, kitchens, bathrooms, windows, doors, roofs, insulating homes etc.) to make sure they continue to be well maintained. Over £90m will be invested over the next 5 years to make these improvements. Moving forward the programme of stock condition surveys that are be carried out at present, once validate, and verified will assist in shaping the programme in future years.

37. A stock condition survey has been commissioned this year, which will provide up-to-date information and data about the condition of our housing stock. This information will be used to plan the investment programme more accurately. We are also reviewing our strategic approach to commissioning and managing capital works on housing to ensure best value for residents.

38. The work which is planned to maintain and improve our existing homes is based on meeting the 'Norwich Standard.' The national Decent Homes standard is currently under review. The Council will in turn review its own 'Norwich Standard', to ensure it is compliant with legislative requirements and meets the needs of our tenants.

Deliver programmes to build and acquire more council homes.

39. Over 4,300 households are registered with the Council, waiting for a home. The cost-of-living crisis is increasing demand for council homes with more people struggling to afford to live in their private rented and owned homes with mortgages. Typically, each year the Council loses approximately 140 council homes lost through Right to Buy (RTB) sales. The loss of homes, through RTB means that over the life of the 30-year Business Plan, just over £19m is lost in rental income alone. One of the benefits of the economic situation is that house sales and the right to buy have slowed down nationally to the extent that year to date only 45 sales have taken place, which lead to a projection for the year of 60 sales.

40. The Business Plan secures investment for three new home programmes, described in the table below. In total 258 new homes are planned by 2027/28 with planned delivery of 71 during 2023/24, which would potentially mean a net gain for the council.

Scheme	Number of homes
Three Score (Phase 3)	76
Argyle Street	14

Mile Cross	168
Total	**258**

41. Due to the current economic climate, schemes will be subject to further viability assessment as the detailed proposal comes forward. This links to Regulators findings that development programmes by social landlords have slowed significantly due to the high cost of borrowing and the increases in the costs of building materials.

42. Further opportunities will also be considered and will be assessed thoroughly to ensure that they are financially viable within the Business Plan. A range of funding options will be considered including HRA funds, housing grant and one-for-one Right to Buy receipts.

Deliver on plans to ensure Norwich City Council homes reach Energy Performance Certificate (EPC) level C as soon as possible and by 2030 at the latest. Deliver a 'Roadmap to Decarbonisation' to ensure Norwich City Council homes reach net-zero carbon emissions as soon as possible and by 2050 at the latest.

43. Along with many other social landlords the Council is evaluating how it can fund and maximise the pace of delivery to zero carbon. To this end a Retrofitting Task and Finish Group consisting of members and officers has been created to produce a report on how the council can achieve the desired aims. There are significant challenges because of the number of homes we own, and the age and composition of our homes. For example, solid wall homes and tower blocks will present significant challenges.

44. The Council has currently estimated that investment of approximately £321m is required to meet EPC level C by 2030 and reach net-zero carbon emissions by 2050. This sum has increased as we have obtained better retrofit cost information and changes in build cost interest rates. These costs in meeting carbon reduction targets are included in the HRA Business Plan.

45. In the report in 2023/24 the Councill aimed to produce a 'Roadmap for decarbonisation' prompted by the Council's decisions to factor in the cost of achieving net carbon zero. In light of the complexity and associated costs it was determined that a comprehensive stock condition survey of all the council properties was required to enable this plan to be developed in a reliable way. The stock condition data should be fully collated by the end of this financial year and this data will form the basis for stock investment decisions and enable us to develop 'Roadmap to Decarbonisation' during 2024/25.

46. The Council continues to work with Government, submitting funding bids for green grants when they become available to reduce costs. Within the Business Plan we have included third party funding of £13m between 2024/25 and 2028/29 and identified that we will need 10% funding from Government, or other sources to support us to achieve net zero. Availability of funding is crucial - this will enable us to do more, faster.

47. The Council successfully bid for funding through the Social Housing Decarbonisation Fund and received £985k for 2022/23. This accelerated the delivery of improvements, such as loft and wall insulation, to 50 homes. A further bid for £2m of SHDF was made for 2024/25 to benefit 930 homes,

unfortunately this was unsuccessful, and we are exploring further funding opportunities.

48. In addition, £66m to improve energy efficiency and carbon reduction measures is included within the first five years of the business plan (2024/29). This work is crucial in making homes warmer and more affordable for our tenants. The focus will be on a ‘fabric first’ approach, installing cavity, loft and wall insulation, draught proofing, and improvements to heating systems. Solar PV systems will also be installed where most effective. In 2024/25 further works will be ongoing to explore further improvements works identified through the stock condition surveys due to be completed by April 2024.

49. Additionally, a whole house and work packaging approach which will look at the most cost-effective time and methodology to upgrade, for example by installing solar and roof insulation at the same time as undertaking a planned roof replacement or wall insulation at the same time as replacing windows.

Deliver improvements to frontline housing neighbourhood services.

50. A new housing management strategy was adopted by Cabinet on the 8th of March 2023. The key aims and priorities of the housing management strategy are as follows:

• Balance the Councils role of sustaining tenancies, alongside the need to manage the homes and estates effectively.

• Provide a framework from which activity can move forward; a framework that also allows for partners to be included and integrated into our work

• Provide the opportunity to empower tenants, other stakeholders, and staff to transform the way we work and really target support where it is most needed

• Balance the twin priorities of excellence in customer service whilst seeking efficiency in delivering value for money, at the heart of everything we do

• Enable on-line and digital interactions in a simple way and build insight in how people are living, to develop the right support for those in need.

51. A new Tenant Engagement Strategy was developed and approved by Cabinet in March 2023. Two projects are progressing towards implementation of community pages and tenant estate inspections, which will both offer a digital opportunity for tenants to engage with us. The community pages will make use of an online platform for tenants to actively engage with us and each other on topics that matter to them. The same online platform will be used to engage with tenants to assess the cleanliness, maintenance, and safety of the communal areas, as part of a new estate inspection process.

52. There have been a number of digital improvements that have been trialled, tested, and commissioned such as:

- Estate app digitally recording communal areas are clean, safe from hazards, free from access obstacles – enabling increased frequency from 1500 inspections to capacity over 6000 per annum

- Full digitally enabled formal consultation on new tenancy conditions, tenancy policy and tenancy agreement over 8 weeks. The has resulted in significant costs savings, better direct feedback from over 500+ tenants, and carbon savings requiring only 90 paper copies to be sent (out of 14,000).

- Assisted digital automation to contact tenants in arrears directly with landing pages and prompts for easy payment and support icons - 85% delivered, 65% viewed, and 49% responded.

- Pilot is being trialled for digitally signed up garage licences which will simplify contract agreement and account set up for advanced payment.

- NEC developed to automate and escalate garage arrears – increased staff resources to support current rent collections and budgeting and money advice during cost-of-living pressures.

The collective aim of these initiatives has been to:

- Increase the productivity and efficiency of the services we provide.
- Improve the opportunities for residents to self-serve.
- Widen the opportunities for customers to engage in developing the way services are delivered.
- Using data to inform service development.

53. An example of the detailed impact of the changes by the income collection team is that over the past year we have reviewed our income recovery process, seeking to increase automation managing our garage rents, focussing activity on case management through analytics and enabling customers to set up direct debits with contact centre staff. At the present time the impact of these changes is to see an increase in rent collection of 0.5%, resulting in approximately £3.7m more income than the previous year.

54. It should be noted that these improvements are an extension to the existing ways in which customers can access services. The aim at this point is to enable customers to self-serve where they wish to whilst maintaining all other communications, ranging from personal visits at home, through the phone or appointments at city hall.

Deliver year on year targets to achieve a reduction in management cost by £1.6m by 2028/29.

55. The drive for efficiency means that the business plan reflects our goal of reducing our net management costs by £1.6m over the next five years. We will seek to use the NEC system to achieve some of this saving, but we will also look at the way in which we deliver services, ensuring that we focus on those that relate to delivering a right-first time experience to our tenants, ensuring statutory compliance is met, whilst seeking to improve the overall performance of the service.

56. In 2022 we insourced our property services activities from Norse Property Services. Through 2023/24 we have undertaken a restructure within the property services team to align them with the new operating environment for

delivering the repairs, maintenance, and capital investment for our housing revenue account properties. The model has been created to drive greater value from the management of delivery which will flow through as part of the efficiency savings up to 2028/29,

57. Over the next 12 months we will continue to modernise and invest in the services that we provide to tenants. A new senior management team will be appointed in housing to increase the skills and capacity of the senior leadership to manage the range on complexities of functions which are the responsibility of an effective social landlord. Once in place they will be tasked with further improving the performance of housing services, inevitably reviewing the the existing service provision, engaging tenants to understand what it is they want with a view to providing efficient and effective service which the tenants value.

Implement and embed the requirements of the Social Housing (Regulation) Act

58. The Social Housing (Regulation) Act received Royal Assent in July 2023. This drives forward significant change in holding housing providers to account and places the needs of tenants at the heart of Government reforms to improve the quality of life for those living in social housing. Alongside strengthening the regulatory requirements and the powers of the Regulator of Social Housing, the Housing Ombudsman's complaint handling code will also be put on a statutory footing to ensure complaints are dealt with fairly and effectively.

59. The Council is preparing to meet these strengthened regulatory requirements which are expected to be implemented from April 2024. The regulator will be commencing a programme of inspections of all housing providers to check compliance with the new standards. Collecting new nationally defined Tenant Satisfaction Measures is already underway and a self-assessment in anticipation of the regulators new standards has commenced. We will ensure the investment capacity in the Business Plan and resources are in place to comply with these requirements, including an expectation for Local Authority housing providers to pay an annual fee to the regulator for the first time.

60. A new Tenant Engagement Strategy was developed and approved by Cabinet in March 2023. The strategy aims to give all our tenants the opportunity to scrutinise, influence and shape services for the next three years. The strategy is a first step in ensuring we meet the regulator's new consumer standards, which will set out the expectation for all social housing providers to engage meaningfully with their tenants.

61. Through 2023/24 we have implemented three new engagement initiatives to broaden the way NCC works with its tenants.

62. **Giving a voice to residents on our estates** - To encourage tenant engagement by trialling community pages for 3 of our housing estates. This project scope includes utilising the "Get Talking Norwich" social media platforms, consulting with the tenant population, creation, and promotion of the Community pages, through to administration and maintenance of the pages. It also includes using the information posted by the tenants on these pages to improve services, resolve issues and communicate initiatives resulting from their engagement.

63. **Tenants setting standards for their estates** - To encourage tenant engagement by trialling a new routine regular tenant estate inspection programme on one housing estate. This project scope involves consultation with stakeholders and tenants, agreeing the new standard, agreeing the new inspection process, and agreeing the scorecard, through to training of officers and involved tenants and undertaking a trial of the process. It also includes reporting any issues discovered during the audit, ensuring that these are remedied and re-inspecting the estate. The results of this work have been fed to the project team for the estates app for use in tenant estate inspections.

64. **Getting effective feedback from tenants** - To undertake a review of all housing surveys to determine the % of tenant population being surveyed, whether there is a tangible and measurable impact as an outcome of the surveys and to identify and survey those tenants who are not being captured by the current surveys. This information will then be used to develop more effective surveys whose results become integral to the way services are developed, and a recent example of the effectiveness in the change in approach is the level of feedback received on the consultation on our tenancy agreements.

Consultation

65. The Tenant Involvement Panel will be consulted on the priorities in the Business Plan in December 2023. Their comments and views will be incorporated in the budget consultation element of the HRA budget approval in February.

Implications

Financial and resources

66. Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council’s stated priorities, as set out in its Corporate Plan 2022-26 and budget.

67. The HRA 30-year Business Plan creates a framework by which affordability of our investment and operational plans can be evaluated. Anticipated future revenue and capital budget requirements have been factored into the Business Plan.

68. The Business Plan is based on a set of key assumptions to help us mitigate risks or changes that may occur in the coming years. The projections form part of the Council’s early warning system for monitoring the financial health of the HRA – it should not therefore be considered, a budget, a strategy/policy document, or an absolute prediction of the future.

69. It is good practice to update and test the projections regularly to ensure that emerging risks and opportunities are identified and to help the Council plan any actions that are needed. We have committed to reviewing the projections within the Business Plan annually.

Key Financial Assumptions

70. A schedule of the key assumptions made within the HRA Business Plan model are described below:

- Consumer price index was 6.7% in September 2023 this has been applied for 2024/25. For following years of the plan, the Government's standard inflation rate of 2% p/a has been assumed.

- The rent increase for 2024/25 has been modelled at CPI +1%, which equated to 7.7% and is consistent with current government policy, which indicated CPI +1% rent increases until 2024/25 (before introduction of the rent cap for 2023/24). From 2025/26 the projections assume annual rent increases at CPI only.

- New lettings and relets will have rents based at the formula rent, set in line with government policy, + 5% rent flexibility which will form part of the recommendations for the rent increase in 2024/25.

- The cost of some services that are not provided to all tenants to be un-pooled from rent to separate service charges to ensure full cost recovery.

- 10% of the cost of decarbonisation works to be funded from government grant. This is a notional allowance at this stage, which the Council will need to secure through the available government programmes.

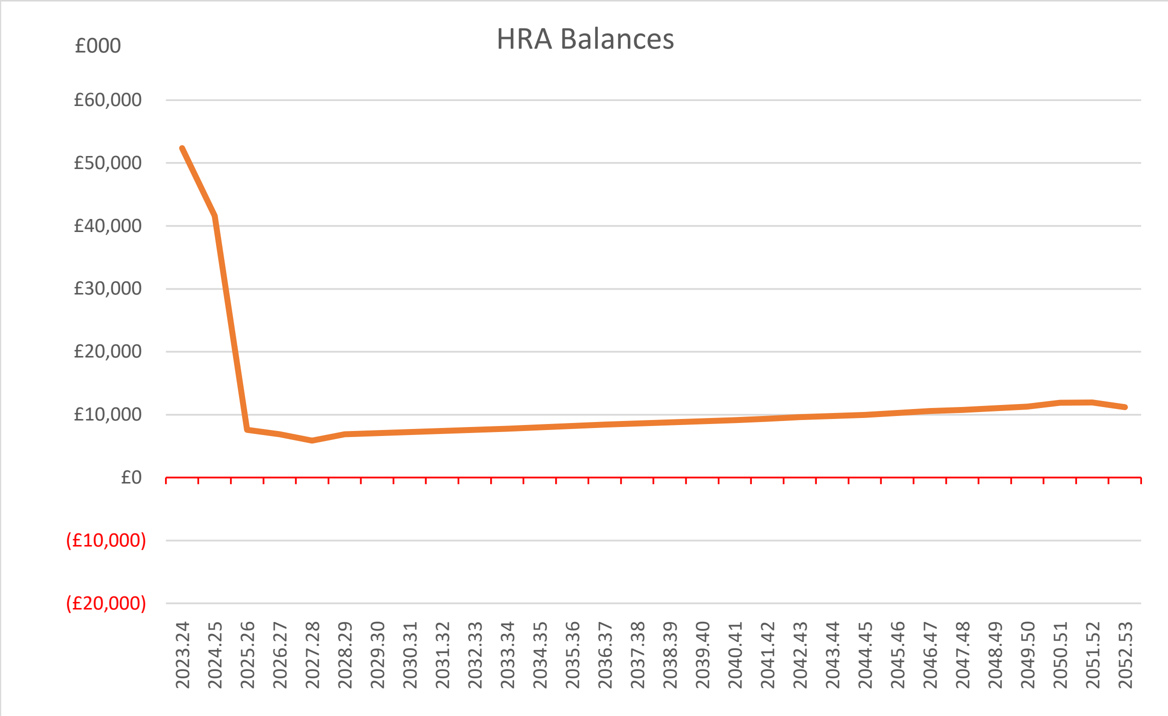
- Interest rates for existing borrowing reflect the actual individual rates at which the loans were secured. Interest rates against all new borrowing have been applied at 3.7% throughout the plan.

71. The charts included below demonstrate that the investment proposals set out within this report and included in the HRA 30-year Business Plan are affordable. Any annual revenue surpluses on the account will continue to support the 30-year business plan.

72. The HRA capital investment programme, including the new homes programme will require further borrowing as allowed under the current Government guidelines. Any borrowing will continue to be reviewed and developed in accordance with the Council's treasury management policy.

HRA 30-year Business Plan Charts

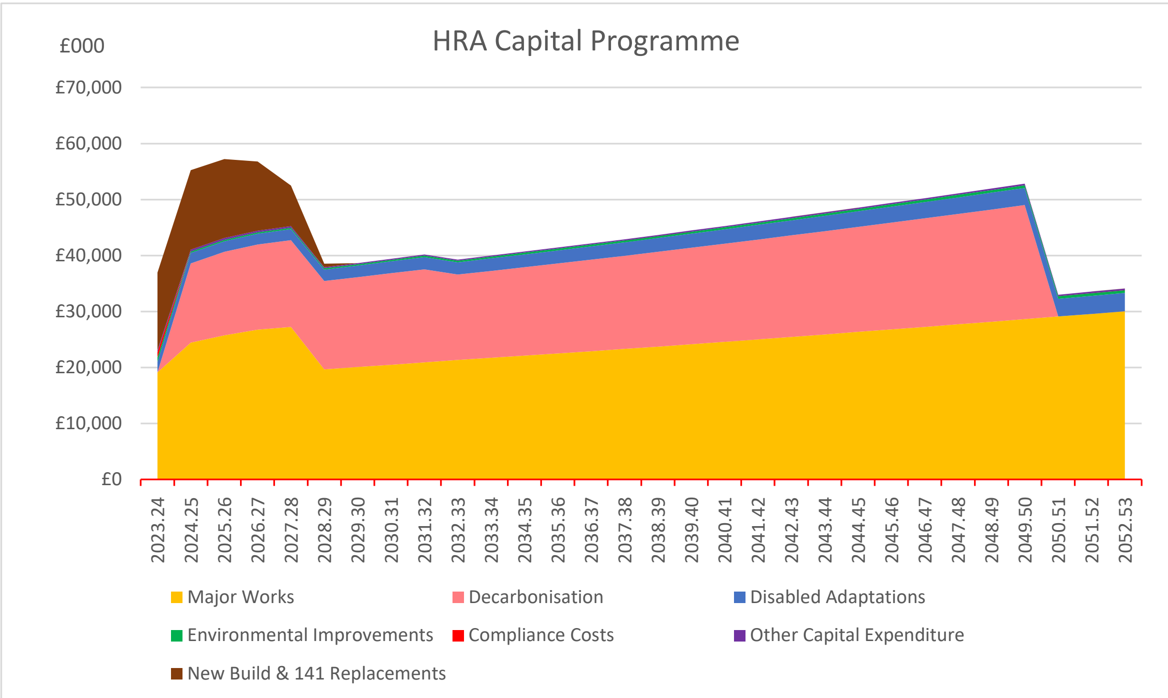
73. The HRA Business Plan provides a long-term projection of the income, expenditure, investment, and funding for the Council's housing service, based on current information and expectations. It helps the authority to assess the financial health of its HRA from a number of perspectives. The first of these is the ability of the HRA to maintain a minimum revenue balance, which is shown in the following chart:



74. This chart shows the Council utilising revenue balances during 2024/25 and 2025/26 to help finance its HRA capital programme and repay debt. Thereafter the HRA maintains a minimum HRA balance of approximately £409 per dwelling, plus inflation.

Summary Position -HRA Capital Programme and Financing

75. The chart below shows the projected HRA capital programme for the business planning period:



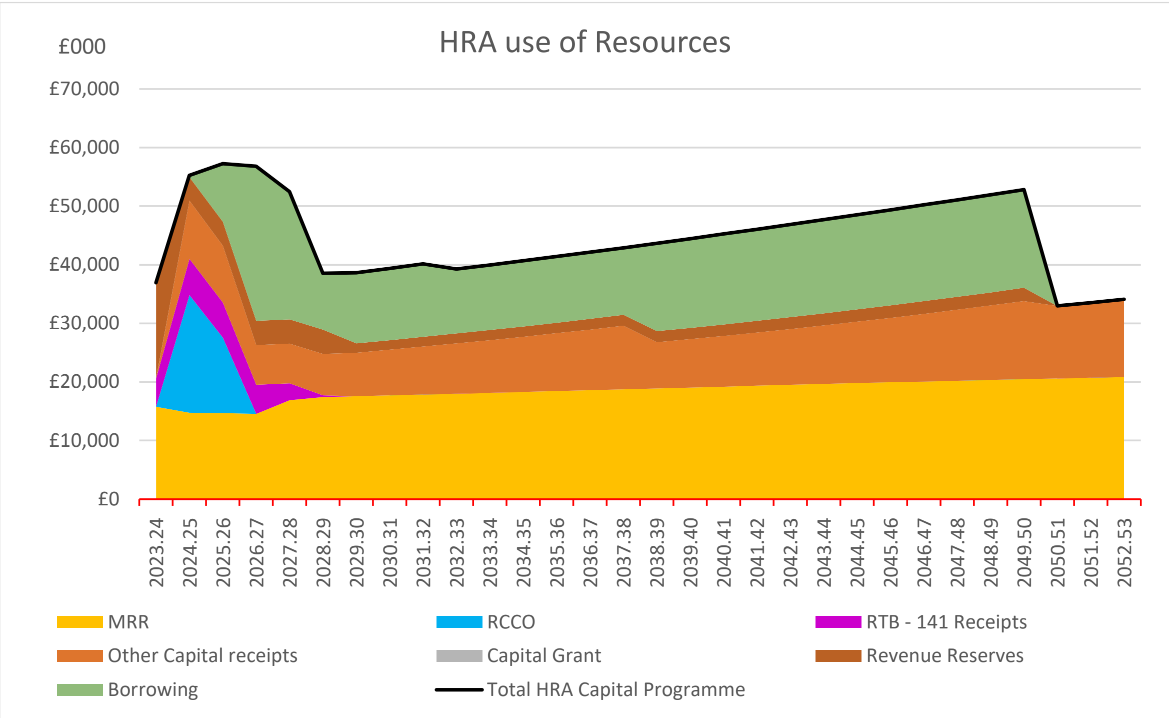
76. The different colours in this chart represent different parts of the capital programme. The amber area represents continuing investment in the

authority's existing stock, through its planned programme of component replacements and other major works. The pink area provides an indication of the investment that may be required to improve energy efficiency levels for existing homes. The blue area allows for the authority to continue providing adaptations at current levels. The brown area covers the provision of 276 new homes by 2027/28, through the authority's current programme of development and acquisitions.

This includes the 258 new homes stated in paragraph 26, and the following properties which relate to assumptions for the delivery of units that are additional to the three schemes in paragraph 26: -

- 8 dwellings delivered using the Opportunities Fund by 2026/27, and,
- 10 affordable rent units to be delivered using RTB 141 receipts by 2027/28.

77. Our next chart shows how this capital programme might be financed, using the different types of resource that are available to the authority:



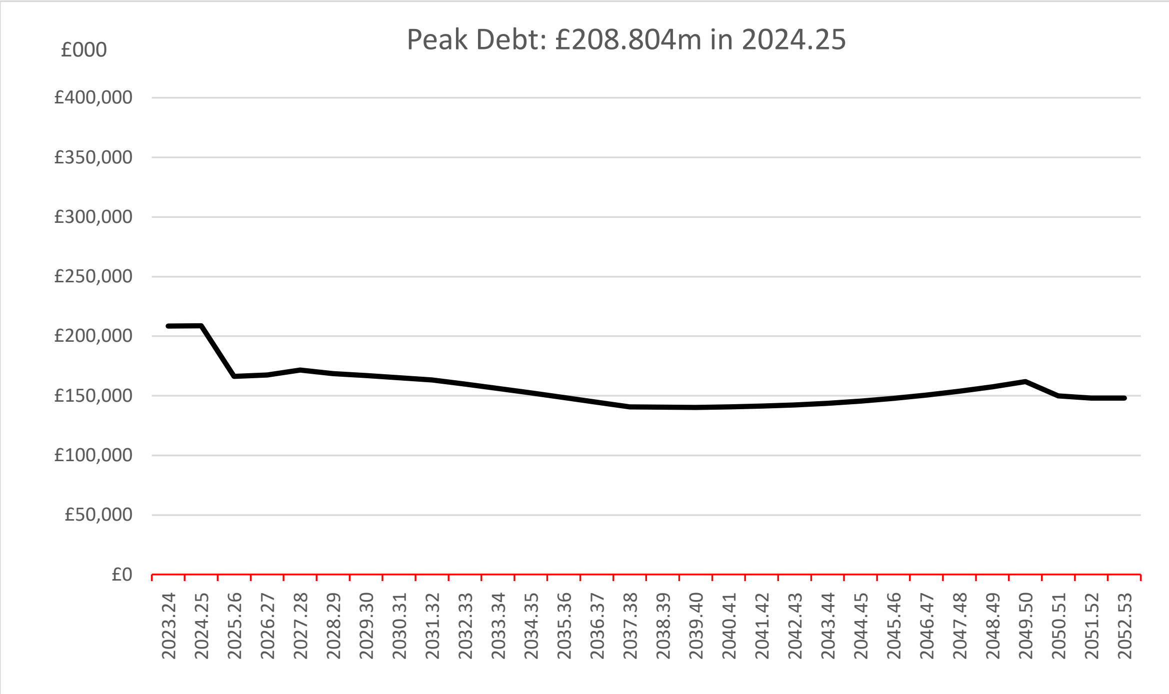
78. The colours in this chart represent different types of resource that would be available to finance the capital programme. The Amber area represents the Major Repairs Reserve, which is self-generated by the HRA from the depreciation charges for its homes. The blue area in 2024/25 and 2025/26 shows the use of HRA balances, which brings the HRA balance down to its minimum level (as shown in the HRA balances chart, earlier in this section). The pink and brick-coloured areas show the use of capital receipts generated from the sale of council dwellings under the right to buy, plus the disposal of other HRA assets on the open market. The brown area provides an allowance for grant and other external funding for the decarbonisation, while the green

area shows the level of borrowing required to deliver the programme, after all other available resources have been used.

79. It is clear that the authority needs to rely on the use of borrowing to deliver the projected capital programme, until the completing of decarbonisation works. Borrowing is the most expensive of the methods shown for financing the capital programme and (through the associated interest charges) increases the cost to the HRA. It is important that the Council delivers its plans for reducing costs and maximising income, so that it can continue to afford the cost of interest charges on additional borrowing.

Summary Position – HRA Debt

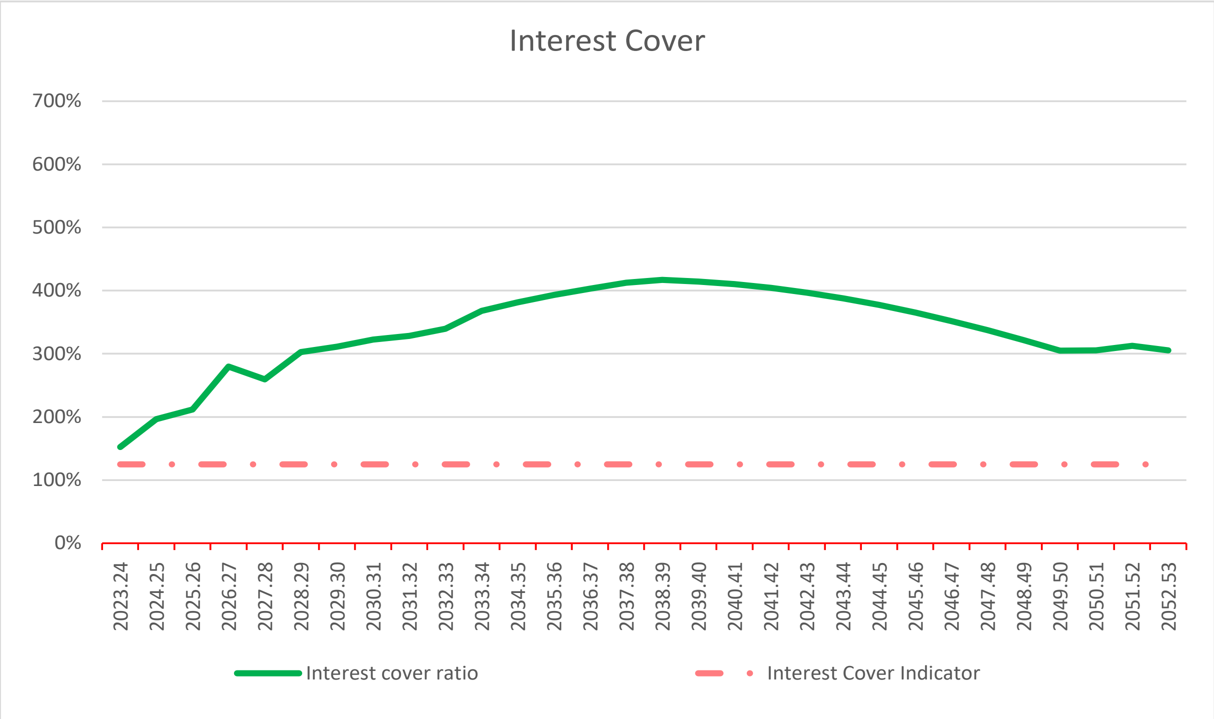
80. The following chart summarises the impact of the revenue and capital positions on the projected levels of borrowing for the HRA:



81. While the authority needs to borrow to deliver its projected capital programme, the surplus generated from its HRA is sufficient for it to continue repaying debt. This maintains downward pressure on overall debt until mid-plan, at which point the level of debt held stabilises.

Summary Position – Interest Cover

82. Interest cover represents the ability of the authority's HRA to afford the interest charges on the debt it needs to hold. The final chart summarises the affordability of debt levels throughout the projections:



83. The green line in this chart shows changes in the authority's interest cover performance. The pink line shows an indicative minimum performance level, at which the authority can afford to pay the cost of interest charges, plus an extra 25%.

84. Performance improves until mid-plan because corrective actions taken by the authority enable it to reduce overall debt levels during that period. Thereafter, debt levels remain static. However, costs continue to increase at a faster rate than income, causing affordability to drop for the second half of the projections. It is therefore important that the council delivers the actions that are planned to improve the financial performance over the medium term.

Summary Position – Key messages

85. The graphs tell us that**:**

- The Council faces higher costs as a result of inflation, the need to decarbonise its homes, maintain existing stock and continue to deliver new homes which will require the Council to borrow more in the future.

- Previous constraints on rent increases imposed by both the government and the council itself, mean that borrowing will be repaid over a longer period and debt levels will remain higher than would have been anticipated a few years ago.

- The plan assumes a number of mitigating actions, including maximising income, future savings in management and repair costs, plus an element of external funding to meet the costs of delivering the decarbonisation works.

- Based on the assumptions made, the business plan demonstrates that without mitigating actions, the affordability of the HRA starts to deteriorate over the longer term, but provided that the Council delivers its mitigating actions, not only are the proposals for investment sustainable, but there is some capacity to repay borrowing over the life of the plan, which will provide cover for further changes in interest rates.

86. There are underlying risks set out in the risk section that could affect the authority's ability to deliver its HRA in line with these projections. These risks should be mitigated by

- Incorporation of more up to date information on stock condition and requirements for delivering EPC-C/decarbonisation investment, when completed.
- Taking actions that continuously bear down on costs.
- Continuing to maximise the income available to the HRA.
- Rigorously assessing the financial impact of new projects, so that the Council can improve its ability to respond to other emerging risks and opportunities.
- Regularly updating and stress testing the authority's HRA projections. This can help to identify emerging risks at an early stage and enable plans to be developed and actions taken that mitigate or reduce their effects.

Legal

87. No specific legal advice has been sought in relation to the implementation of the proposals in the HRA Business Plan. Separate legal advice may be sought in relation to implementation of specific programmes and projects where necessary.

88. The HRA consists of expenditure on Council owned housing and there is a statutory requirement whereby the Council is obliged to keep its Housing Revenue Account (HRA) separate from other housing activities in accordance with the Local Government and Housing Act 1989 (as amended) ("the 1989 Act"). In addition, there is a requirement not to allow cross subsidy to or from the Council's General Fund resources.

89. The Localism Act 2011 contains provisions relating to Housing Finance in Sections 167 to 175. These provisions introduced a system of Council housing finance which ended the Housing Revenue Account subsidy system in England and replaced it with self-financing arrangements. Section 171 of the Localism Act 2011 empowered the Secretary of State to make provision relating to the level of indebtedness in relation to local housing authorities in England which keep a Housing Revenue Account.

90. On the 29th of October 2018, HRA borrowing cap was abolished with immediate effect. As a result, local authorities with a HRA are able to borrow against their expected rental income, however this must be in line with the CIPFA Prudential Code (for the purposes of this report, the Prudential Code 2021, the latest edition, has been used).

Statutory considerations

Consideration	**Details of any implications and proposed measures to address:**
Equality and diversity	No specific impacts
Health, social and economic impact	Maintaining homes to comply with Decent Homes Standards contributes to the health and well-being of our tenants
Crime and disorder	No specific impacts
Children and adults safeguarding	No specific impacts
Environmental impact	The HRA Business Plan will significantly contribute to the Net Zero Carbon emissions target for 2050.

Risk management

91. Since 2012 the HRA has operated on a 'self-financing' basis with local authorities funding council housing from the income generated from rents and other charges. Although 'self-financing' has provided the Council with more flexibility, it has also brought additional risk. Risks are collated and monitored via a directorate and corporate risk register. These risks are reviewed and regularly updated.

92. The key risks to the HRA Business Plan are:

Risk	Controls required
Long term future rent uncertainty	We have seen the impact of the four-year rent freeze. Any cap or reduction below inflation will have an impact on the Business Plan.
Increase in cost of repairs and major works	The delivery of the repairs and maintenance service brings several inherent risks including fluctuations in the number of vacant properties, on-going stock deterioration rates, changes in government guidance and regulations and the transformation of the NCSL service. An improvement plan is being developed to tackle these impacts but the risk to the business plan remains. We have seen some significant increases in contractor and materials costs as part of capital and responsive repair programmes. We will continue to monitor the long-term direction of construction cost inflation, collaborating with colleagues across the Council. The business plan is a 'living document' and will be adjusted accordingly.
Meeting Decarbonisation targets –	The investment included within the business plan is based on assumptions currently used by the social housing sector. As local stock condition, energy performance and cost data are developed in 2024/25, we will update the assumptions. Additional grant funding (above the 10% assumed), could support delivery at a faster pace. We will investigate opportunities to work with other social housing sector partners to share opportunities for funding, skills, and supply chain.
Borrowing and interest rates	The HRA's existing loan portfolio comprises loans of various but fixed rates, however future borrowing will be exposed to interest rate changes. Although this is a risk to the business plan, where possible, future borrowing will be timed to take advantage of lower interest levels as opportunities arise.
Building and fire safety	The full cost impact assessment has not been possible yet because secondary legislation will be published over several years. However, budget provision has been made for the next 5 years which is based on the best information we have and should enable investment in all buildings over 18 metres (high-rise) and any high-rise residential buildings. In the future, some degree of re-prioritisation of the 30-year business plan may be needed. The Fire Safety Act 2021 and subsequent legislation means there are further fire safety measures that we need to implement. The costs of preparing for and managing these changes have been included in the business plan. There continues to be a risk around the market capacity/capability to respond to the scale of need nationally which could lead to the possible inflation of costs. This will have an impact on our repairs and capital budgets.

Risk	Controls required
Inflation Rate Risk	The HRA Business Plan assumes a range of ongoing inflation rates which has been factored into the 30-year plan. The assumed consumer price index inflation rate of 5.2% for 2024/25 and 2% assumed thereafter for both revenue and capital. Building costs inflation of 6.7% for 2024/25 and 6.2% for 2025/26 and 3% assumed thereafter. If the assumed inflation rate was to change then this will have an impact upon the forecasted income into the HRA over the 30 years; if the assumed inflation rate was to be exceeded, then this may have a negative impact upon revenue expenditure and the capital programme costs.
Stock condition and performance data risk	A stock condition survey has been commissioned, the data from the survey and energy performance assessment information will be utilised to fully understand costs and enable better planning of capital and decarbonisation works.

Other options considered.

93. The HRA Business Plan is used as a sector wide planning tool, therefore no alternative options were considered. A range of scenarios, mitigations and assumptions were tested in developing the final plan.

Reasons for the decision/recommendation

94. The proposals in this report are aimed at maximising financial resources to deliver outcomes to our tenants in the context of a self-financing funding regime, developments in national policy, the current economic climate, and reductions in government funding.

95. The HRA Business Plan 2024/25 will continue to contribute to the delivery of wider housing strategies and policies such as the Housing Strategy, the Homelessness Prevention Strategy, and our development plans.

96. The Council must ensure that as a self-financing entity council housing in Norwich has a sustainable future. The purpose of the HRA Business Plan report for 2024/25 is to ensure the cost of council housing - including investment in homes, services to tenants, the servicing of debt and overheads - can continue to be met by the income raised in the HRA.

Background papers: None

Appendices: None

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