

**Report to** Cabinet  
14 November 2012  
**Report of** Deputy chief executive  
**Subject** Housing investment strategy

**Item**

12

## KEY DECISION

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### Purpose

To approve housing capital investment priorities to provide decent housing for all

### Recommendation

The cabinet is asked to:

- a) Note potential scope for additional investment of up to £30 million over a five to five year period arising from the HRA re-financing;
- b) Ask officers to develop a revised housing capital plan and programme that makes use of this potential additional funding as well as other funding opportunities;
- c) Agree that the additional options to include with a revised housing capital plan and programme over and above existing commitments are:
  - Providing new council housing;
  - Reconfiguring the sheltered housing stock;
  - Estate renewal;
  - Renewable energy solutions; and
  - Investment in private sector housing; and
- d) Agree that steps should be taken to bring forward new council housing subject to council approval in the short term.

### Corporate and service priorities

The report helps to meet the corporate priority to make Norwich a city with decent housing for all and the service plan priority to bring forward new build housing development for council.

### Financial implications

1. The report presents an opportunity to providing additional housing capital investment arising from re-financing of the HRA. Funding from the HRA re-

financing along with other sources of funding will enable unprecedented levels of investment in the housing in Norwich by the council.

- Options to make use of this potential funding along with other funding sources are recommended, which if they have cabinet support, will be developed further for inclusion in the housing capital plan for 2013/14-2016/17 and the capital programme 2013/14.

Ward/s: All

**Cabinet member:** Councillor MacDonald – Housing

**Contact officers**

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**Background documents**

None

# Report

## Background

1. The council has a variety of housing powers and responsibilities. These include providing council housing, protecting the public from poor quality housing, provision of homelessness services, providing adaptations for the disabled and other housing improvements and providing new homes. Capital funding for these activities is set out in the housing capital plan and programme. The capital resources to fund the plan and programme come from several sources including the Housing Revenue Account (HRA), capital receipts (e.g. from right to buy sales and disposals) and grants and contributions (e.g. S106 planning contributions).
2. The Housing Revenue Account (HRA) is a “ring fenced” account that funds all expenditure associated with the management and maintenance of the council’s housing stock. Until recently the HRA was operated within a subsidy system by Government which saw councils making a surplus on their account paying money back to Government – some £8million p.a. in the case of Norwich – rather than enabling it to be re-invested locally.
3. This changed in April when self-financing was introduced. The council has taken on all of the debt associated with the HRA. However with no longer having to pay money back to Government and competitive borrowing costs the council is now able to improve its housing capital resources and hence the levels of investment it makes to its housing stock.
4. A new ‘Norwich offer’ was agreed by the council in February following consultation with tenant representatives. It will result in significant improvement in the quality of the council’s stock for tenants’ benefit with such investment helping to reduce levels of responsive repairs. The ‘Norwich offer’ is reflected in the housing capital plan 2012/13-2015/16 and the housing capital programme 2012/13. The capital plan and programme also identify other capital resources including capital receipts and grants and contributions. The plan includes £157 million of investment covering the following elements:
  - Preventative Maintenance – keeping stock structurally sound
  - Supported Independent Living – adaptations, stair lifts, etc.
  - Increased investment in improvements – the Norwich Offer – including 1,264 new kitchens and 747 new bathrooms, over 950 new heating systems or boilers, 479 composite door replacements, UPVC windows to 2,400 homes and 20 whole house improvements
  - Grants to Housing Associations for new affordable housing
  - Disposal, site acquisition and redevelopment costs
  - Disabled facility grants and renewal grants for private housing
5. In assessing the affordability of the “Norwich Offer” a cautious approach to financial assumptions and projections was applied. On transfer of the debt to the council, however, lower than anticipated interest rates together with ongoing prudent management of the account now mean that additional investment over and above that required to pay for the ‘Norwich offer’ is

possible. Revised modelling and analysis has been carried and the results are shown in appendix 1.

6. The modelling carried out in February based on financing the “Norwich Offer” together with other parts of the housing capital plan showed that there would be no additional headroom for further expenditure left between the consequent debt profile and the debt cap of £237 million set by Government. More recent analysis, however, shows that there is headroom between the debt profile and debt cap<sup>1</sup> and that there may therefore be scope for additional investment of up to £30 million over a five year period.
  - a) The additional investment affordable within this headroom will be affected by several factors and uncertainties, including the:
    - Level of future rent income to the HRA;
    - Revenue returns arising from investments;
    - Prioritisation and phasing of the new investment; and
    - Interest rates prevailing at the time of any additional borrowing.
7. The impact of these, and any other, factors will need to be assessed for each year's housing capital programme and also for individual investment proposals being brought forward. To help inform development of the housing capital plan and programme, in light of the opportunity of additional funding, potential investment options are considered below.

## **Housing investment options**

### Providing new council housing

8. The Greater Norwich Housing Partnership (GNHP) housing strategy<sup>2</sup> published in 2008 set out the housing challenges facing the city and in particular the need to deliver over 600 affordable homes per annum. Whilst there have been notable successes, delivery has not met need especially in recent years.
9. In light of this gap between housing need and supply it is concluded that a significant proportion of funds available could be used to enable new council homes to be built. The council's long standing aspiration to build new council homes has previously been noted in the February cabinet and council HRA re-financing reports.
10. Separate reports on this agenda consider specific proposals to bring forward initial council housing at two locations in the city in the shorter term. As these proposals lie outside the existing capital plan and it is proposed to commence

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<sup>1</sup> Assuming the debt is repaid over a similar term.

<sup>2</sup> The council has recently commenced a review of its housing strategy. However housing supply will continue to be a key element of the strategy given the evidence of an imbalance between supply and need/demand

work to develop them during the current financial year it will be necessary for full council to approve their progression.

11. Previously the cabinet has confirmed proposals to 'reacquire' homes sold under right to buy through the mortgage rescue scheme. In many cases this provides a good value for money mechanism for expanding the council's stock. It therefore forms another way to increase provision along with new build.
12. There is a risk that some new housing could be sold on within a short period under right to buy. There are mechanisms to mitigate this and officers are exploring these measures further that could help protect the council's investment.

#### Reconfiguring surplus sheltered housing stock to meet other needs

13. In Norwich there has been a decreasing demand for sheltered housing. Previous reports to Cabinet agreed to invest in the existing stock to make it fit for purpose, and, at the same time, review, on a scheme by scheme basis, the future of all sheltered housing for which there is a lower level of demand. A proportion of the additional HRA investment funding could therefore be used towards such a reconfiguration. In doing this, there may be an overlap with investment required from the General Fund, and this requirement would be considered as part of the wider housing capital programme.

#### Estate renewal

14. The strategy to improve existing stock already agreed by the council in February will ensure that homes are of excellent standard, exceeding for example the decent homes standard. However, housing quality is not only a product of the home, but also of the adjacent external environment.
15. In some cases the quality of the external environment could be improved. This is particularly so for communal areas associated with flats and sheltered housing etc. Whilst maintained, such areas may have had not capital reinvestment to improve them over many years. This may also mean that maintenance costs are unnecessarily high.
16. A proportion of additional funding could be use towards estate renewal.

#### Renewable energy solutions

17. In consulting tenant groups on investment options arising from HRA re-financing a couple of options were discussed which would have delivered investment in renewable and sustainable energy solutions and improved insulation works to reduce resident's energy costs and reduce carbon dioxide emissions (over and above existing investment).
18. At the time (prior to February cabinet and council) a strong preference for the "Norwich Offer" was indicated delivering whole home upgrades. In view of additional funding availability it is now possible to re-examine this.

19. Improving energy performance of buildings is an area of investment that will often be eligible for grant funding. These opportunities would be considered in greater detail as part of any initiative to increase investment in this area.

#### Private sector housing

20. The council has for many years funded home improvement works for vulnerable people in private sector housing using right to buy capital receipts. More recently the level of funding the council has been able to sustain has diminished alongside government grant funding. As well as reducing the level of work undertaken it has also put pressure on the sustainability of the Home Improvement Agency (via Orbit housing) to deliver this work. With increased funding there may be scope to provide additional investment.

21. Whereas the council has a particular interest in the provision of council housing members will be aware of the council's wider duty to ensure that all housing in its area is free of significant hazards to health. In the case of Norwich some 20% of the housing stock is in the private rented sector. Within this sector a significant proportion are Houses in Multiple Occupation (HMOs) which are typically occupied by younger people often on low incomes.

22. While much private sector housing is good quality in some cases adequate standards are not met and there may be problems regarding security of tenure. In addition demand for HMO type accommodation is likely to increase due to welfare reform changes – as well more general increase in private rented demand due to reduced affordability of homes for sale. Some councils are therefore considering proposals to enter into the private rented sector as a provider themselves in response to these pressures. The Government acknowledges the importance of the private rented sector in helping meet housing need and demand and there are indications that the Government are preparing to provide funding to increase investment in the sector.

23. Before cabinet can take a considered view of this option, further investigation is required and officers will need to work up thorough financially sound business cases. Whilst such investment would form part of the housing capital plan, assuming any properties were let at market rent, such expenditure would need to be funded out of the general fund. That said there may be scope to combine such provision with new council homes on some sites which could help to increase overall viability.

#### Tenant views

24. The above emerging priorities were discussed by the citywide board HRA sub-group at their 25 October meeting. The group were content with the options and were particularly supportive of providing new council housing and estate renewal and investment. In the case of estate investment there was a suggestion that local budgets should be enlarged. The group also suggested that the council should actively pursue matched funding for agreed priorities and to look at other opportunities as they arise on a case-by-case basis. Finally the suggested an element of funding to pay for mortgage rescue schemes.

25. The emerging priorities are due to be discussed with the tenant forum and citywide board in advance of the cabinet meeting. Cabinet members will be updated orally of further feedback this generates.

### **Next steps**

26. If cabinet supports the above range of options it is proposed that officers will work up further details to inform the housing capital plan for 2013/14-2016/17 and the housing capital programme 2013/14 which will be considered as part of the council's budget setting process for 2013/14. Such work will involve a variety of technical financial assessment and further consultation with tenants. It will also need to take account of an emerging review of the council's housing strategy and the different options available for delivering this strategy including working with other partners.

27. In the meantime the pressure to provide additional social housing is considerable and whilst unable to do so for many years, the council has retained a consistent aspiration to build more council homes. In view of this it is proposed to progress the initial new build development of projects in the shorter term subject to council approval. Details of these initiatives are provided in separate agenda items.

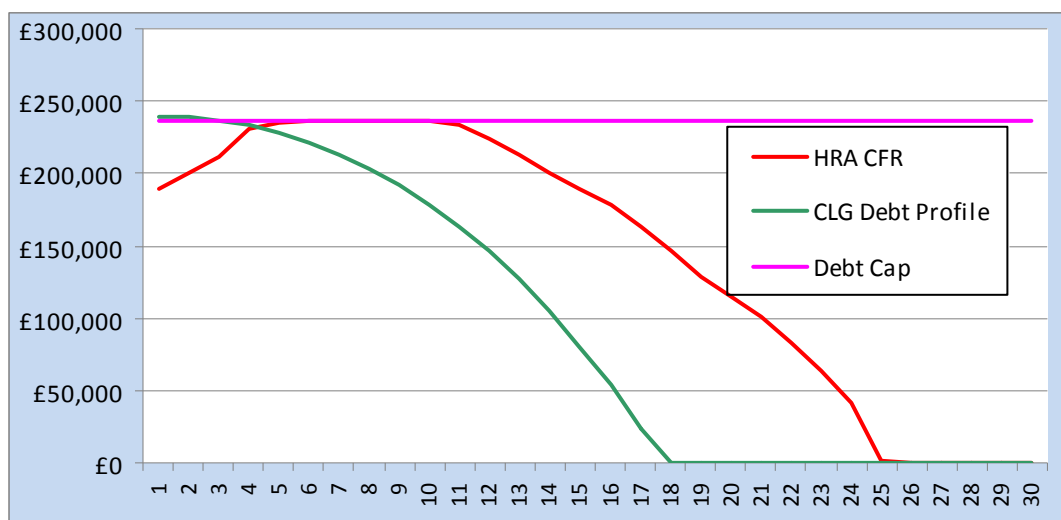
### Illustrative HRA business plan implications

These charts, extracted from HRA Business Plan models, shows the “debt curve” (the amount of internal and external borrowing required) against the “debt cap” (maximum allowable debt) and CLG’s assessment of debt repayment at the time of the debt settlement.

They give a straightforward means of comparing various financial scenarios, expressing outcomes as maximum debt (Y axis) and duration of indebtedness (X axis).

#### Chart 1

This chart shows the council’s initial estimation of the impact of HRA Self-Financing debt at historic interest rates, including financing for the “Norwich Offer”, and assuming future rent increases complying with the government’s rent policy.



It shows maximum debt at the cap for several years (and therefore no ability to fund additional investment) and a repayment period of around 26 years.

#### Chart 2

This chart shows the council’s current estimation of the impact of the actual borrowing, at extremely favourable rates, again including the “Norwich Offer” and formula rent increases.

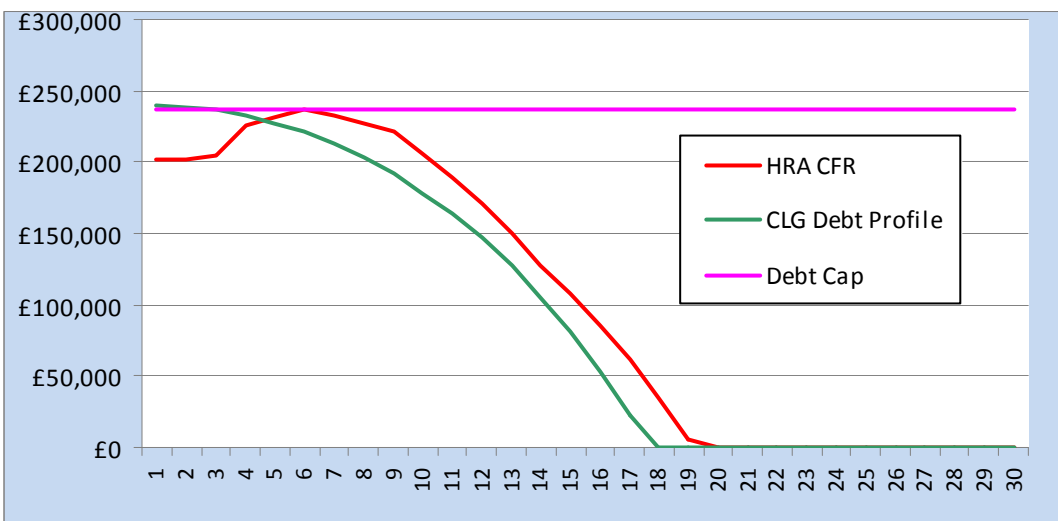




It shows that maximum debt remains significantly below the cap (and therefore “headroom” for additional investment) and a repayment period of around 17 years.

### Chart 3

This chart illustrates the council’s current estimation of the impact of the actual borrowing, at extremely favourable rates, again including the “Norwich Offer” and formula rent increases, together with additional investment in the construction or acquisition of 300 new council properties over a 5-year period, plus an allowance of up to £2m per year for estate renewal, renewable energy, etc. which are not expected to produce additional rent income to offset borrowing costs. This is an illustration of these example circumstances, not a recommendation of any specific investment mix or timeframe.



It shows that maximum debt would reach the cap, so that no further additional investment would be possible until headroom reappears as additional rent income allows for debt to be reduced. The repayment period would be extended to 20 years.

## Integrated impact assessment



**NORWICH**  
City Council

### Report author to complete

<b>Committee:</b>	Cabinet
<b>Committee date:</b>	14 November 2012
<b>Head of service:</b>	City development services
<b>Report subject:</b>	Housing investment strategy
<b>Date assessed:</b>	18 October 2012
<b>Description:</b>	To approve investment priorities to provide decent housing for all

	Impact			
<b>Economic (please add an 'x' as appropriate)</b>	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
<b>Finance (value for money)</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Provision of more council homes will improve overall affordability of the housing stock. The investment priorities represent a prudent use of financial resources to meet corporate priorities
<b>Other departments and services e.g. office facilities, customer contact</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>ICT services</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Economic development</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The investment priorities outlined in the report will provide employment opportunities, opportunities for local contractors and businesses and will generate local spending for the benefit of the wider economy. Providing more housing is important in supporting sustainable economic growth and prosperity.
<b>Financial inclusion</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Providing additional social housing will advance financial inclusion by helping to improve housing affordability
<b>Social (please add an 'x' as appropriate)</b>	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
<b>Safeguarding children and adults</b>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Building more council homes and altering existing accommodation to meet changing needs will help provide accommodation for vulnerable adults and children
<b><u>S17 crime and disorder act 1998</u></b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Human Rights Act 1998</b>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Health and well being	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	The provision of sufficient and decent quality housing is essential to ensuring decent levels of health and well being
<b>Equality and diversity (please add an 'x' as appropriate)</b>	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Relations between groups (cohesion)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
<b>Environmental (please add an 'x' as appropriate)</b>	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Proactive maintenance and improvement of communal areas will help improve the natural and built environment in housing areas
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>(Please add an 'x' as appropriate)</b>	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>

	<b>Impact</b>			
<b>Risk management</b>	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Right to buy

<b>Recommendations from impact assessment</b>	
<b>Positive</b>	
<b>Negative</b>	
<b>Neutral</b>	
<b>Issues</b>	