3. HOUSING REVENUE ACCOUNT 2023/24 BUDGET

The HRA Business Plan

3.1 The HRA 30-year Business Plan is reviewed each year to reflect the updated budget and any known material changes. Whilst there is no longer a legal requirement to produce a HRA Business Plan, it is recognised as good practice, in particular for local authorities with development programmes where the need to understand the impact of investment costs, and borrowing capacity need to be evidenced.

3.2 The Business Plan is based on various data sets, which includes stock condition data and rental income streams, investment plans and a set of financial assumptions e.g., inflation and loan costs. The Business Plan is a key planning tool, and acts as an early warning system to indicate the overall viability of managing, investing, and developing the Council's housing stock.

3.3 The plan has regard to existing priorities regarding investment in existing stock, development of new stock, the estate environment, and the housing management service, as well as our need to respond to the emerging issues arising from the cost-of-living crisis, addressing health and safety compliance issues, and the new investment challenges arising from building safety legislation and climate change targets, including retrofitting our homes.

3.4 This year we undertook a comprehensive review of the whole model which underpins the HRA Business Plan, using a new model and rebased our understanding of our stock, the operating environment, and key aspirations of the council. The rationale for updating the model relates to:

i. Significant change in the operating environment since the last model was developed (e.g. rent standard)

ii. Need to respond to emerging investment requirements (e.g. health and safety and carbon reduction)

iii. General good practice, bringing in expert support to create a new base line.

3.5 The new HRA Business Plan confirms that the income, investment, and expenditure the Council has assumed and planned for is sustainable over the 30-year term.

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Introduction

3.6 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. The money that tenants pay in rent, coupled with income from a small number of commercial assets, goes into the 'ring fenced' Housing Revenue Account (HRA). It is this money, alongside receipts for sold properties, any grants received and borrowing that pays for services to our tenants, building new homes and the repair and improvement of tenant's homes.

3.7 We continue to see an increase in demand for the services we provide to support our most vulnerable tenants, which has been compounded by the emerging cost of living crisis and following significant price hikes in utility costs along with rising inflation and interest rates. These factors combine to increase pressure both on the housing service and the demand for affordable housing.

3.8 We have also been addressing historic performance issues relating to health and safety compliance in our homes, where we have seen significant improvement on our journey to full compliance over the course of 2021-23. The work we are doing is identifying areas where further investment is required, which need to be addressed to protect our tenants. This work is timely with the implementation of the Building Safety Act 2022, legislation which has both increased and defined the responsibilities of landlords.

3.9 We continue to face the challenge of funding improvements to our council homes in line with our zero carbon ambitions. We will implement the Social Housing Regulation Bill which sets out a Charter for social housing tenants and outlines plans for the strengthened Regulator for Social Housing and their consumer regulation, a strengthened Housing Ombudsman to speed up complaints resolution, and future sector wide reporting against tenant satisfaction measures.

3.10 The current HRA Strategy 'Fit for the Future' describes our four primary 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

3.11 The HRA budget 2023/24 reflects and underpins the priorities we have set to meet our ambitions and the challenges ahead.

Delivering new homes

3.12 The council works in partnership with registered providers, charities and developers, including its own wholly owned housing company, to increase the supply of council and housing association homes. Over the next 5 years, approximately 220 new homes are planned to be built on small and medium sized sites, including at Mile Cross, Argyle Street and Three Score.

Maintaining and improving condition of existing housing

3.13 Next year, it is proposed to spend £16.674m on repairing and maintaining our tenants' homes. Significant improvement to these services is required and the Council has been clear about its ambition for Norwich City Services Ltd to deliver an excellent, value for money service to tenants. To that end an improvement plan is being implemented seeking to start the improvement journey before the end of the current financial year. In 2023/24 it is planned to develop a new approach to deliver a stronger, more responsive, and efficient service for our tenants. This new service will be implemented and improved over a three-year period up to 2025.

3.14 Stock condition surveys of our homes form the basis of our 30-year investment plan and capital improvement program. 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, and we will in turn review our own ‘Norwich Standard’ in light of these changes, to ensure we are compliant with legislative requirements and meet the needs of our tenants.

3.15 Our major works investment program proposes investment of £22.045m over the next 12 months, details of which are set out Section 4 of the report. We are developing a medium-term five-year investment plan which would smooth delivery, maximise efficiency and improve value for money.

Improving our neighbourhoods

3.16 Our ambition is for all our neighbourhoods to be clean, feel safe to live in and have facilities and activities that provide for the community. We know that there are some neighbourhoods where we need to improve standards. To this end we have developed a housing management strategy which will guide the development of our services, with the aim of improving their neighbourhoods.

3.17 This year we will continue to invest £0.750m in our programme of estate improvement works. We will set a robust performance framework to drive improvements and tenants’ satisfaction.

3.18 We have drafted a new community safety strategy and have reviewed our anti-social behaviour services to complement our ongoing programmes to improve community safety and deter crime.

Improving the use and management of our existing housing

3.19 Overall demand for housing, the services we provide, and the support required to sustain and retain tenancies is increasing. We will collaborate with tenants to guide our development of a new delivery model for the housing service in 2023/24, which takes advantage of the new housing management software, NEC. To support this, and in response to the Social Housing Regulation Bill White Paper, we will develop a tenant engagement strategy which sets out a wide range of opportunities for our tenants to be involved in the management of their homes and the shaping of their services.

3.20 This fresh approach, will seek to provide a better service through early intervention, delivering the right level of support for our tenants, at the right time. We will bring services and partners together where appropriate to improve services for tenants. This will be supported by our new housing and estates management strategy.

3.21 We will also implement a new asset management strategy, in which capital investment and revenue spending programmes take account of the age and condition of our homes, the future needs of the tenants of Norwich, and the need to respond to new agendas such as climate change. Options to consider will be to remodel existing homes and buildings, and/or redevelop some properties to improve suitability and condition. We will continue to invest £1.900m in services which deliver disabled adaptations

Financial Background and Budget

3.22 The Housing Revenue Account (HRA) was established by the Local Government and Housing Act 1989 as a ring-fenced account separate to the general fund and contains income and expenditure related to the ownership and management of the council’s social housing stock.

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3.23 Prior to 2012/13, the HRA was funded at a national level through the housing subsidy regime. Since then, it has been run on a self-financing basis i.e. all revenue and capital expenditure needs to be funded from the rents and service charges paid by tenants or funded by housing benefit.

Forecast 2022/23 Outturn

3.24 The latest position on the Housing Revenue Account (HRA), as at quarter 3, shows a forecast underspend of £3.376m.

Proposed 2023/24 Revenue Budget

3.25 The budget proposes revenue expenditure of £71.540m and income of £77.070m, generating a surplus of £5.530m, as shown in appendix 3 (A). It is proposed to utilise this surplus along with a further £1.210m of HRA reserves to make a revenue contribution of £6.740m towards the funding of the 2023/24 HRA capital programme.

Chart 3.1: 2023/24 HRA gross revenue expenditure budget

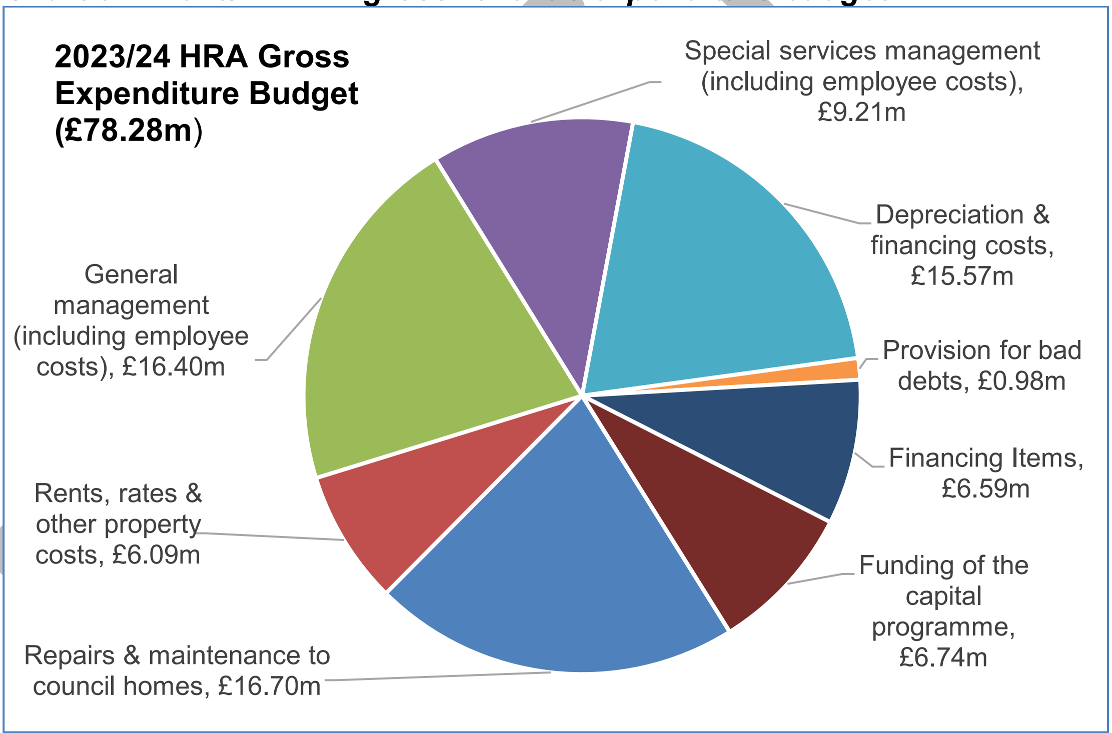
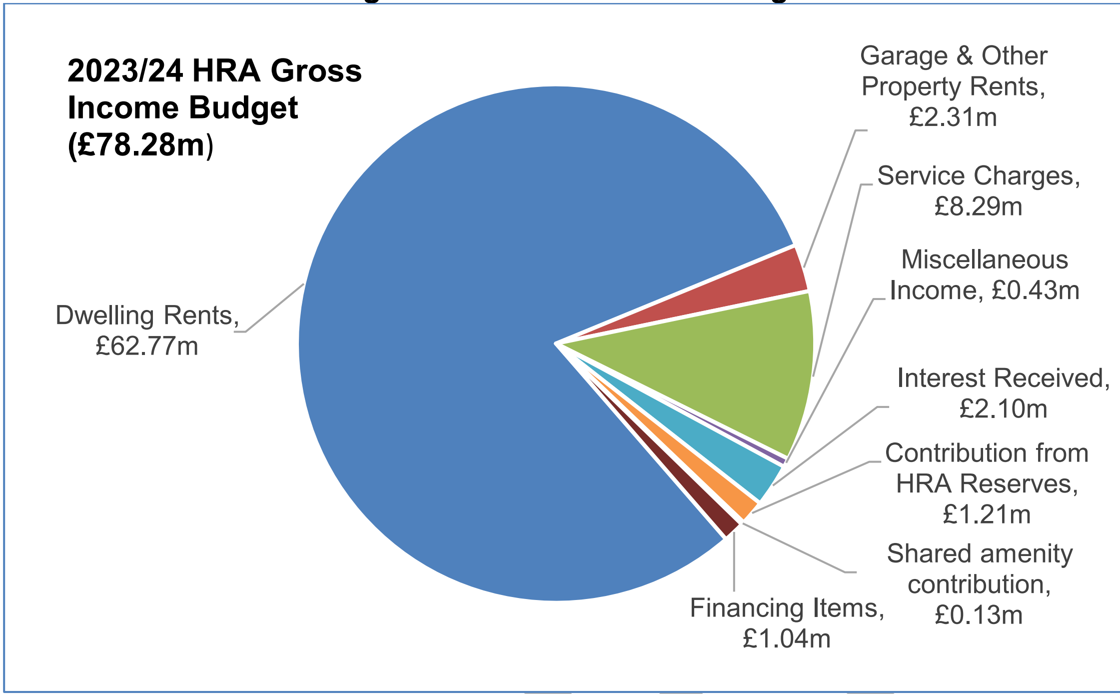


Chart 3.2: 2023/24 HRA gross revenue income budget



HRA Business Plan

3.26 The longer-term financial strategy for the HRA is based upon a 30-year business plan, which models the revenue costs of intended capital investment alongside other forecasts of revenue expenditure and income to determine the resultant surplus or deficit over the life of the plan and the resources required to implement the HRA Strategy.

3.27 The longer-term perspective is crucial to ensure that the service and its primary assets, the housing stock, are fit for purpose and that intended investments in the stock are affordable and sustainable for the whole plan.

3.28 The business plan relies upon a combination of known and assumed economic factors and government announcements to generate a financial forecast. The key assumptions within the business plan are summarised in the paragraphs that follow.

3.29 The current HRA business plan was approved by Cabinet on 14th December 2022 subject to approval of the 2023/24 HRA budget at Council in February 2023.

Council housing rents, garage rents, and service charges

3.30 Historically, the level at which council housing rents were set was decided by the Council in line with guidance set out by the government and information provided by the HRA Business Plan. However, in 2016/17 the rent policy was replaced by a government enforced minimum 1% reduction in rent for a four-year period until March 2020, as set out in the Welfare Reform and Work Act 2016. The impact of this over a 60-year period was an estimated loss of over £200m in rental income.

3.31 From 2020/21, the enforced 1% rent reduction ended and the Secretary of State issued the Direction on the Rent Standard 2019 which from April 2020 enabled authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%.

3.32 In September 2022, CPI was 10.1%, which in accordance with the Direction on the Rent Standard 2019, would have resulted in a rent increase of 11.1%. However, following a consultation, the government implemented a cap of 7% on all social housing rent increases for 2023/24.

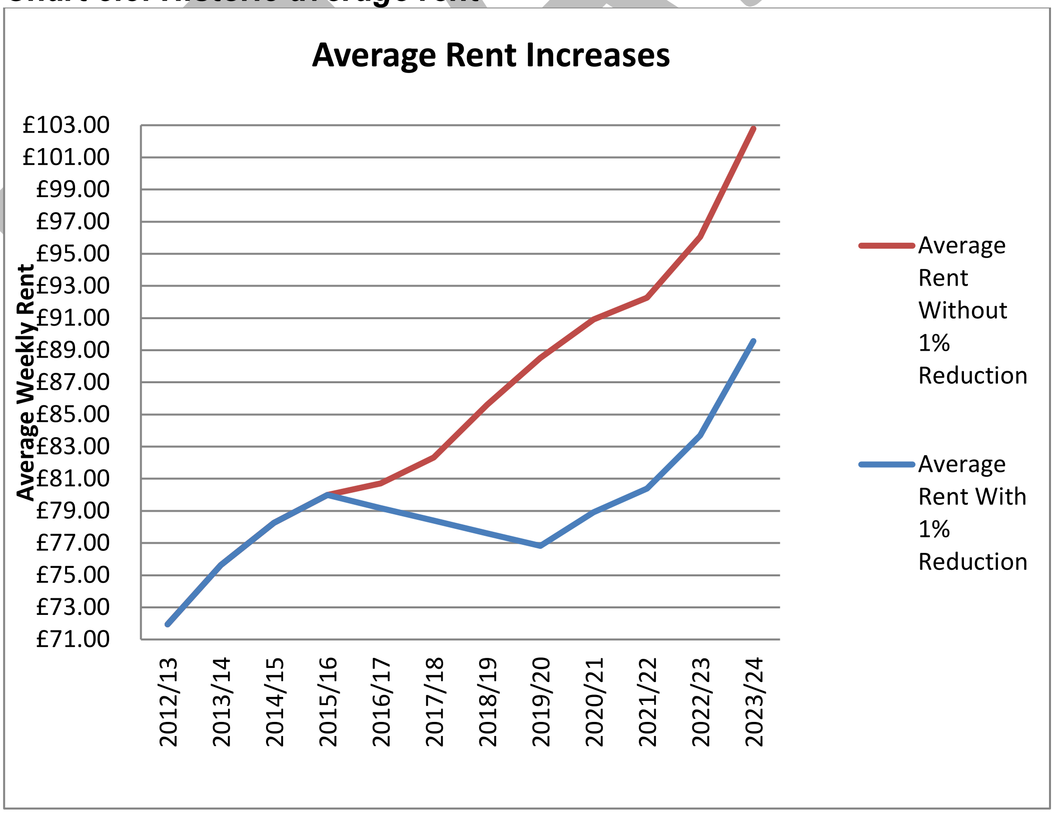
3.33 A dwelling rent increase for 2023/24 of 7% would generate an average weekly rent increase of £5.85 for Norwich social housing tenants (excluding larger dwellings leased to care agencies). The table below shows the minimum and maximum rent increases at 7%.

Table 3.1: Proposed dwelling rent increase 2023/24

Item	Average £	Maximum £	Minimum £
Rent 2022/23	83.63	129.99	59.58
Capped Increase (7%)	5.85	9.10	4.17
Proposed Rent 2023/24	89.49	139.09	63.75

3.34 The impact of the four-year rent reduction is shown in the chart below, which plots the actual average rent against the calculated average rent had a rent reduction not been enforced.

Chart 3.3: Historic average rent



3.35 The impact of not applying a rent increase over the 30-year business plan period is shown in the table below. Alternative rent increases have also been reviewed along with the forecast impact on HRA borrowing over varying terms.

Table 3.2: Impact of rent increase 2023/24

Rent Increase	Average increase	Resulting Loss of Rental Income over period
		30 Years
Capped 7%	£5.85	-
No increase	£0.00	£72m

3.36 Tenant Involvement Panel representatives were consulted over the proposed 7% increase on 18th January 2023. The impact on both tenants and the long-term viability of the HRA was discussed at length, with concerns raised regarding the effect of an increase on those struggling financially in the current climate. However, the panel recognised that increases are inevitable if the level of investment in existing and new homes is to be maintained alongside the decarbonisation programme, and endorsed the proposed rent increase of 7.0% in line with the government rent cap.

3.37 For 2023/24 it is proposed to increase garage rents by 10.1%, based on CPI in September 2022.

3.38 In accordance with the constitution, levels of tenants' service charges will be determined by officers under delegated powers, in consultation with the portfolio holder and after engagement with tenant representatives.

3.39 The void turnaround (period during which a property is unoccupied) has increased to 59 days. This is due to a backlog of 147 voids which have arisen as part of the transfer of services from Norse to NCSL on 1st April 2022. In the first quarter of this financial year two additional contractors were appointed to undertake this work, and it is anticipated that this work will be completed by the end of the financial year. A dip in performance was anticipated in this area of activity due to the historic nature and scale of works required to these properties.

3.40 The current budget provision is calculated on a void rate of 1.42%, which equates to rental income loss for void periods of £0.904m for 2023/24.

Council dwelling stock levels

3.41 Following a reduction in 2020/21, the number of Right-to-Buy purchases of HRA dwellings increased significantly in 2021/22 and continued to remain high in 2022/23. This is reflected in the business plan, with future losses estimated at 140 each year throughout the plan.

3.42 Over the past five years, 752 homes have been lost from social rent. Whilst the council is ambitious in its plans to build new social housing to meet local need, these are at risk of being subject to Right to Buy.

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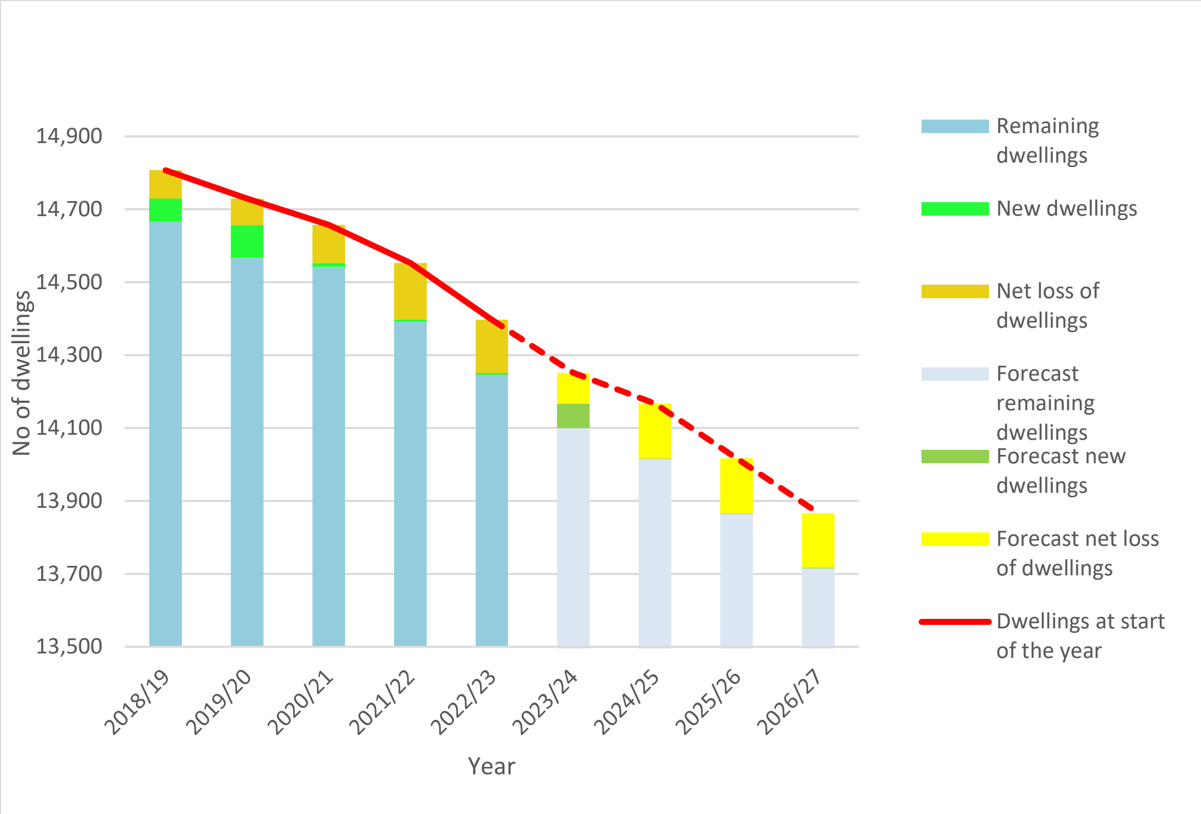
3.43 Chart 3.4 below sets out the movement in the level of council housing stock over the past five years along with a forward projection over the next five years. Further detail is provided in Appendix 3 (B).

Chart 3.4: HRA dwelling stock movements



Capital expenditure plans

3.44 The HRA business plan includes expenditure arising from the proposed HRA capital budget as set out in section 4 of this report.

3.45 The proposed HRA capital programme is based upon the HRA Strategy which contains the following neighbourhood housing primary goals:

- Delivering new homes
- Maintaining and improving condition of existing housing
- Improving the use and management of our existing housing stock
- Improving our neighbourhoods.

Capital financing plans

3.46 Following the abolition of the HRA borrowing cap in 2018, the council can determine how much it will borrow to fund capital expenditure, as long as it can demonstrate that the borrowing is affordable, prudent and sustainable as required by CIPFA's Prudential Code. The council does this for general fund capital expenditure by agreeing and monitoring a number of prudential indicators. These indicators now include the HRA and these are included in the Treasury Management Strategy 2023/24 which is included as section 5.

3.47 The decision to remove the borrowing cap gives the council more flexibility to invest in the existing housing stock and to increase its holdings. Future investment will be guided by the housing strategy

3.48 How an individual capital scheme is funded will depend on the prevailing financial circumstances and the nature of the scheme (e.g. new build or enhancement of an existing asset). In practice, there are seven key funding sources which the council uses in the following priority order (more information is given on capital financing strategy in Appendix 4 (C):

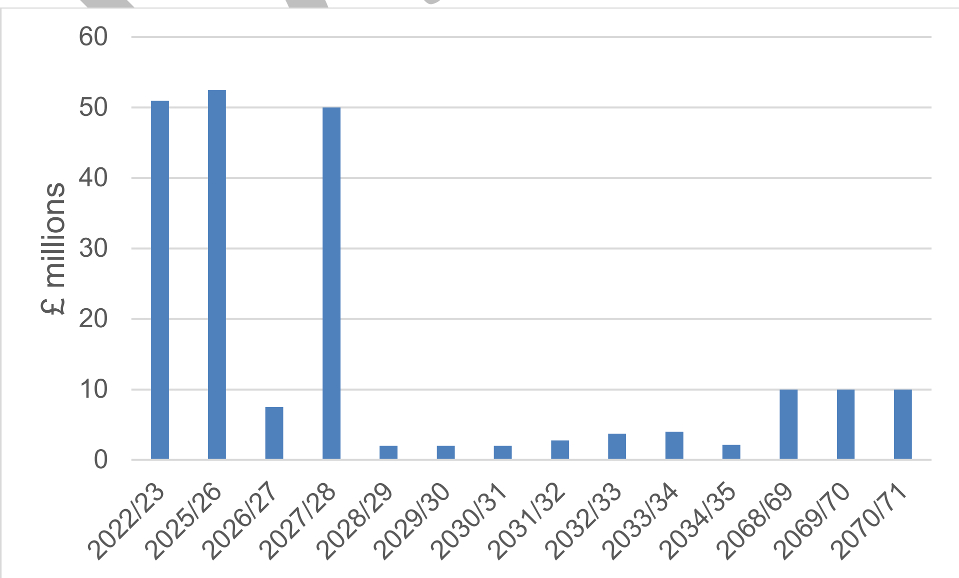
1. Right-to-Buy Retained 'One for One' capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. General HRA capital receipts
5. General reserves
6. Revenue budget contributions
7. Borrowing

3.49 The current HRA Capital Financing Requirement (the underlying need to borrow) is £208.533m. The most recent HRA external borrowing of £30m was taken in advance to support the refinancing in 2022/23 of an existing loan of £49m which itself formed part of the £149m loan undertaken to fund the HRA self-financing settlement when the HRA subsidy system was abolished.

3.50 HRA assets are currently valued at £827.029m (31 March 2022), against a borrowing requirement of £208.533m (31 March 2022), equates to a loan-to-value gearing of 25.215%. This is lower than the national average gearing for local authorities of 28% and the national average for registered providers which is in excess of 60%.

3.51 Chart 3.5 sets out the redemption dates and values of current HRA external borrowing. The most recent borrowing is represented by loans totalling approximately £179m from the Public Works Loans Board (PWLB), whilst all other loans shown is historic borrowing which will be repaid within 13 years.

Chart 3.5: Existing HRA external borrowing



3.52 The 2023/24 HRA capital budget proposed in section 4 of this report does not require any new borrowing, although it is anticipated that to deliver significant levels of new social housing, additional borrowing will be required in future years.

HRA Reserves Position

3.53 The proposed budget will impact on the HRA balance as follows:

Table 3.3: Estimated HRA reserves position

Item	£000
Brought Forward from 2021/22	(51,373)
Budgeted utilisation of balances in 2022/23	6,096
Adjustment to forecast utilisation of balances in 2022/23	(147)
Forecast HRA underspend 2022/23	(3,376)
Carried Forward to 2023/24	**(48,800)**
Proposed utilisation of balances in 2023/24	1,210
Carried Forward to 2024/25	**(47,590)**

3.54 The level of general reserves is forecast to slightly reduce in 2023/24, but this is due to the council's planned investment in new social housing during the year. The estimated reserves to carry forward into 2024/25 remain substantial (£47.590m) which not only provides a flexible funding resource for the HRA, but also ensures the financial resilience of the account, and provides the council with options for service delivery and the funding of future capital expenditure whilst managing overall debt.

3.55 It is proposed that the prudent minimum level set for the HRA reserve should remain unchanged for 2023/24 as set out in Table 3.4. Provision has been made for the risk of additional costs and risk arising from the impact of welfare reforms, the economy and jobs in the city. Further provision is also made for other potential risks and unforeseen events.

Table 3.4: Prudent minimum level of HRA reserves

Potential Financial Risk	£000
Calculated operational risk	1,348
Potential issues arising from welfare reform	500
Potential issues arising from economic issues	1,000
Potential interest costs relating to retained one for one receipts	1,000
Unforeseen events	2,000
Estimated required level of HRA reserves	**5,848**

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Appendix 3 (A): 2022/23 proposed HRA budget by service

Division of Service	Original Budget 2022/23 £000	Proposed Budget 2023/24 £000	Change £000
Repairs & Maintenance	18,395	16,696	(1,699)
Rents, Rates, & Other Property Costs	6,336	6,092	(244)
General Management	16,813	16,401	(412)
Special Services (not provided to all tenants)	5,025	9,207	4,182
Depreciation & Impairment	23,176	22,164	(1,012)
Provision for Bad Debts	619	980	361
Gross HRA Expenditure	**70,364**	**71,540**	**1,176**
Dwelling Rents	(59,358)	(62,766)	(3,408)
Garage & Other Property Rents	(2,177)	(2,309)	(132)
Service Charges – General	(7,914)	(8,290)	(376)
Miscellaneous Income	(82)	(431)	(349)
Amenities shared by whole community	(254)	(130)	124
Interest Received	0	(2,104)	(2,104)
Adjustments & Financing Items	(827)	(1,041)	(214)
Gross HRA Income	**(70,610)**	**(77,070)**	**(6,460)**
Total Housing Revenue Account	**(246)**	**(5,530)**	**(5,284)**
Revenue contribution to capital	6,342	6,740	398
Contribution to/(from) HRA reserve	(6,096)	(1,210)	4,886
Total	**0**	**(0)**	**(0)**

Explanation of key variances:

- Repairs & maintenance costs have reduced by £1.699m due to the removal of 2022/23 short-term growth for the backlog of repairs and additional sub-contractor costs.
- Special Services cost have increased by £4.182m, primarily due to the increase in utility costs (gas £3.072m; electricity £1.172m)
- Depreciation & Impairment has reduced due to a reduction in the cost of borrowing as a result of significant self-financing borrowing being due for repayment in January 2023 (£0.738m) and an anticipated reduction in the depreciation charge (£0.287m).
- Dwelling rent income will increase as a result of a proposed 7% rent increase (£3.408m).
- Interest received has increased by £2.104m following substantial increases in the Bank of England interest rate during 2022/23 which is expected to continue into 2023/24.

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Appendix 3 (B): HRA dwelling stock movements

Council dwellings	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27
No of dwellings at start of year	**14,987**	**14,807**	**14,729**	**14,657**	**14,553**	***14,397***	***14,251***	***14,167***	***14,017***	***13,867***
RTB sales in year	(187)	(138)	(156)	(112)	(159)	*(151)*	*(140)*	*(140)*	*(140)*	*(140)*
Non-RTB sales/leased in year	(7)	(3)	(6)	(3)	(2)	*0*	*(12)*	*(12)*	*(12)*	*(12)*
Dwellings demolished	0	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Dwelling conversions	4	2	2	0	0	*0*	*0*	*0*	*0*	*0*
New build dwellings	10	61	87	0	0	*5*	*66*	*0*	*0*	*0*
Dwelling acquisitions	0	0	1	11	5	*0*	*2*	*2*	*2*	*2*

Shaded cells in italics denote forecast movements

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