# 3. HOUSING REVENUE ACCOUNT 2025-2026 BUDGET

## The HRA Business Plan

1. Every year a review of the financial elements of the Housing Revenue Account Business Plan (HRA BP) is undertaken, and projections updated accordingly (The report detailing the latest review is due to be presented to Cabinet on 11th December 2024). The review aligns the investment priorities in the HRA BP 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
2. The annual review of the HRA BP considers the following factors that can affect its viability:
   - National political and policy changes (regulatory requirements, welfare)
   - Expected rental income (rent settlements) and service charges
   - Housing stock condition
   - Wider economic pressures: inflation, utilities, building and maintenance costs

### Background

3. The HRA is required to record expenditure and income on the operation of the Council's housing stock, including related services and/or facilities which are provided principally for the benefit of the Council's tenants.
4. The HRA budget covers both revenue and capital spending including all services to tenants and leaseholders.
5. The main aspects of the HRA are:
   - it is a landlord account, recording expenditure and income arising from the provision of housing accommodation by local housing authorities (under the powers and duties conferred on them in Part II of the Housing Act 1985 and certain provisions of earlier legislation)
   - it is not a separate fund but a ring-fenced account of certain defined transactions, relating to local authority housing, within the General Fund
   - the main items of expenditure included in the account are management and maintenance costs, major repairs, loan charges, and depreciation costs
   - the main sources of income are from tenants in the form of rents and service charges
   - the HRA should be based on accruals in accordance with proper accounting practices, rather than cash accounting

6. Legislative features are:

- ring-fenced account within the General Fund
- credits and debits are prescribed by statute
- no general discretion to breach the ring-fence
- cannot budget for a deficit
- all borrowing within the HRA is in line with the CIPFA Prudential Code.

7. The Housing Revenue Account Business Plan (HRA BP) provides a long-term projection of the income, expenditure, investment and funding for the Council's housing service, based on current information and expectations. The HRA BP provides the evidence for:

- financial viability of the HRA
- maintaining tenant and leaseholder safety
- informing stock decency and levels of investment (including new build)
- service delivery and accountability

**Key points of the review**

8. The annual review found that to deliver the HRA BP and the goals of our housing strategy the Council must do the following:

- Drive down overall costs
- Maximise its income
- Secure additional funding

9. But because of inflationary pressures this means that the Council needs to borrow more to deliver:

- Decarbonisation
- Stock investment
- New council homes to meet housing needs.

10. To ensure we can meet the above objectives and a viable HRA BP in the short to long term we will also consider the following:

- Increase social rent levels by CPI+1% for existing tenants on annual basis for the next five years, rent levels beyond five years subject to Government consultation.
- Charge social formula (target) rent on new lettings of existing stock. As part of the 2002 Government's Rent Restructuring policy, a formula (target) rent was calculated for each dwelling based on a number of factors including the size and value of the property and local and national earnings. The policy intended to align council and registered social landlord rents by gradually moving actual rents towards formula rents over a ten-year period. However, due to subsequent changes to the policy and imposed rent caps and reductions, in most cases, actual rents have not converged with the formula rent.

- Charge an enhanced level of rent (at local housing allowance) for specific new homes that offer lower living costs as a result of enhanced energy efficiency standards.
- Explore additional alternative rent models for new homes and relet dwellings that offer lower living costs as a result of enhanced energy efficiency standards.

**Risks identified in the HRA BP**

11. The following risks and controls were identified:

| Risk | Controls required |
|---|---|
| **Long term future rent uncertainty** | We have seen the impact of the four-year rent freeze and a subsequent rent cap. Any future 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.<br><br>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 2025-2026, we will update the assumptions.<br><br>Additional grant funding (above the 40% 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.<br><br>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. |
| **Inflation Rate Risk** | The HRA Business Plan assumes a range of ongoing inflation rates which has been factored into the 30-year plan. The consumer price index inflation rate is assumed at 1.7% for 2025-2026, 2.25% for 2026-2027, 1.5% for 2027-2028 and 2% assumed thereafter for both revenue and capital. Building costs inflation is assumed at CPI plus 1% throughout the plan. If the assumed inflation rate was to change, 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. |

## Financial Background and Budget

12. 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.

13. Prior to 2012-2013, 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 2024-2025 Outturn

14. The latest position on the Housing Revenue Account (HRA), as at period 6, shows a forecast underspend of £7.167 million, which is driven entirely by the removal of the planned revenue contribution to capital costs (RCCO) of £10.063 million, made possible as a result of the new flexibilities applied to the Right To Buy (RTB) retention agreement for a two-year period. The underlying position continues to reflect budget pressures with property maintenance costs, reflecting demand and supply pressures within the property sector both in terms of the volume of activity but also the associated costs, which have been offset, to a degree, by staff vacancies and income recovery.

## Proposed 2025-2026 Revenue Budget

15. The budget proposes gross revenue expenditure of £80.252m and gross income of £83.191m, generating a surplus of £2.939m, as shown in appendix 3 (A). Due to the new flexibilities relating to the Right to Buy retention agreement described above, it will not be necessary to make a revenue contribution towards the funding of the capital programme in 2025-2026. It is therefore proposed that the surplus of £2.939m is transferred to HRA reserves in 2025-2026 and utilised to support the provision of new homes in future years.

***Chart 3.1: 2025-2026 HRA gross revenue expenditure budget***

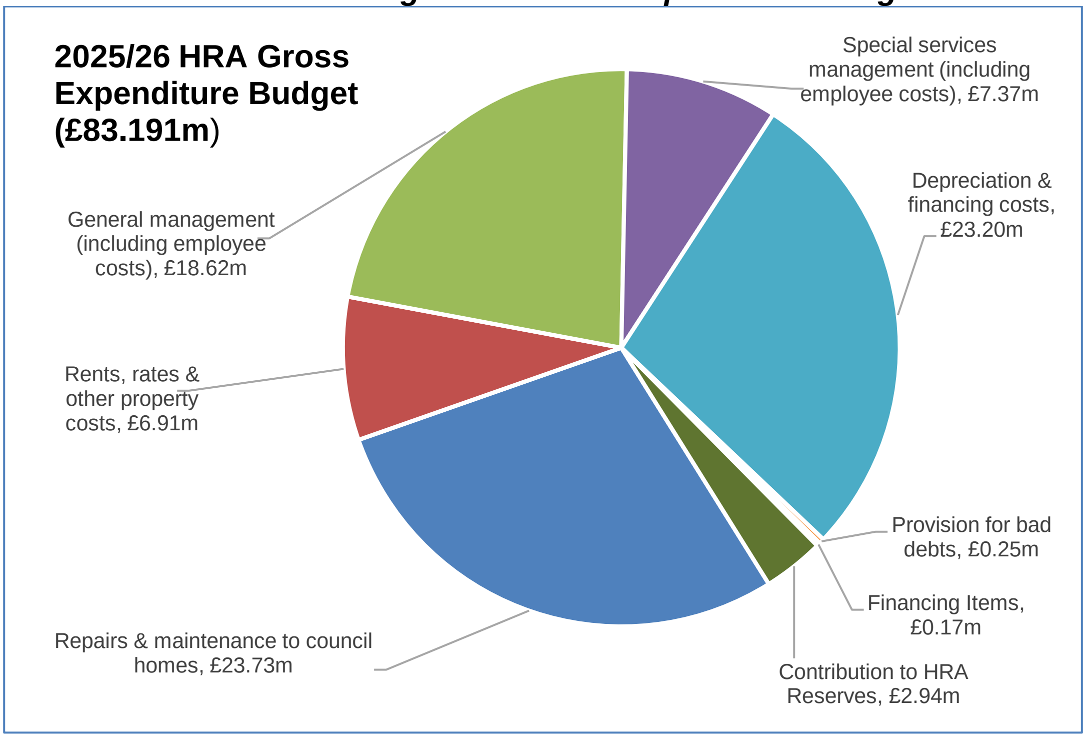
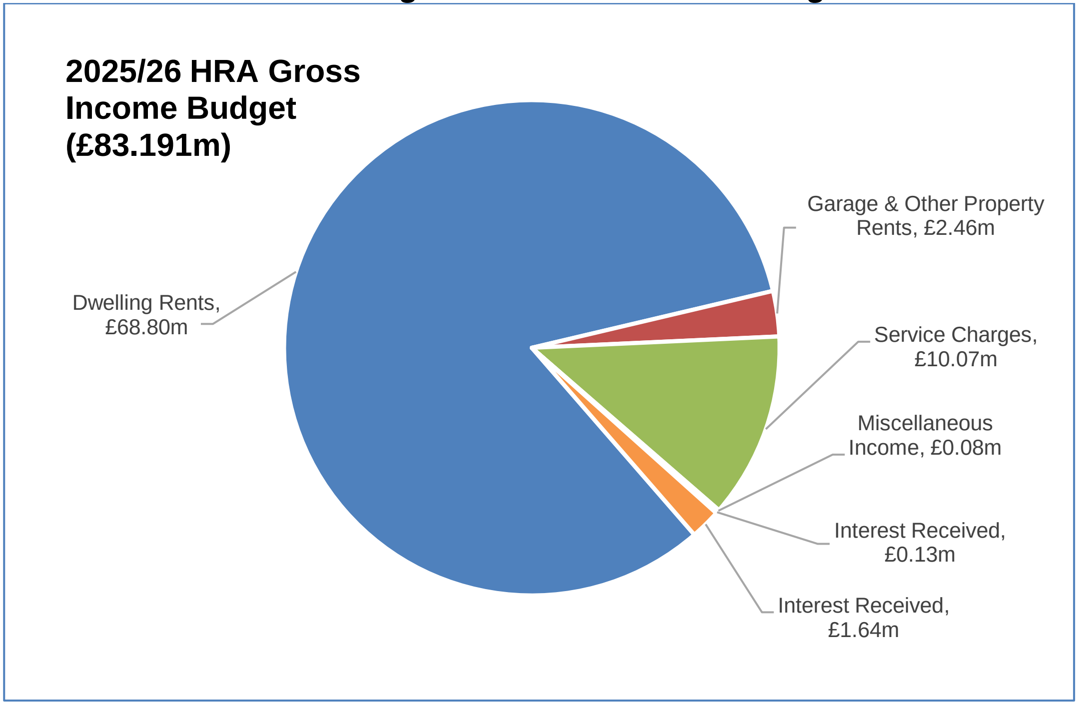


*Chart 3.2: 2025-2026 HRA gross revenue income budget*




**Council housing rents, garage rents, and service charges**

16. 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 2016-2017 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 a loss of over £200m in rental income.

17. From 2020-2021, the enforced 1% rent reduction ended and the Secretary of State issued the Direction on the Rent Standard which enabled authorities to increase rent annually by up to CPI (Consumer Price Index) as at the preceding September plus 1%. However, for 2023-2024, the government implemented a cap of 7% on all social housing rent increases.

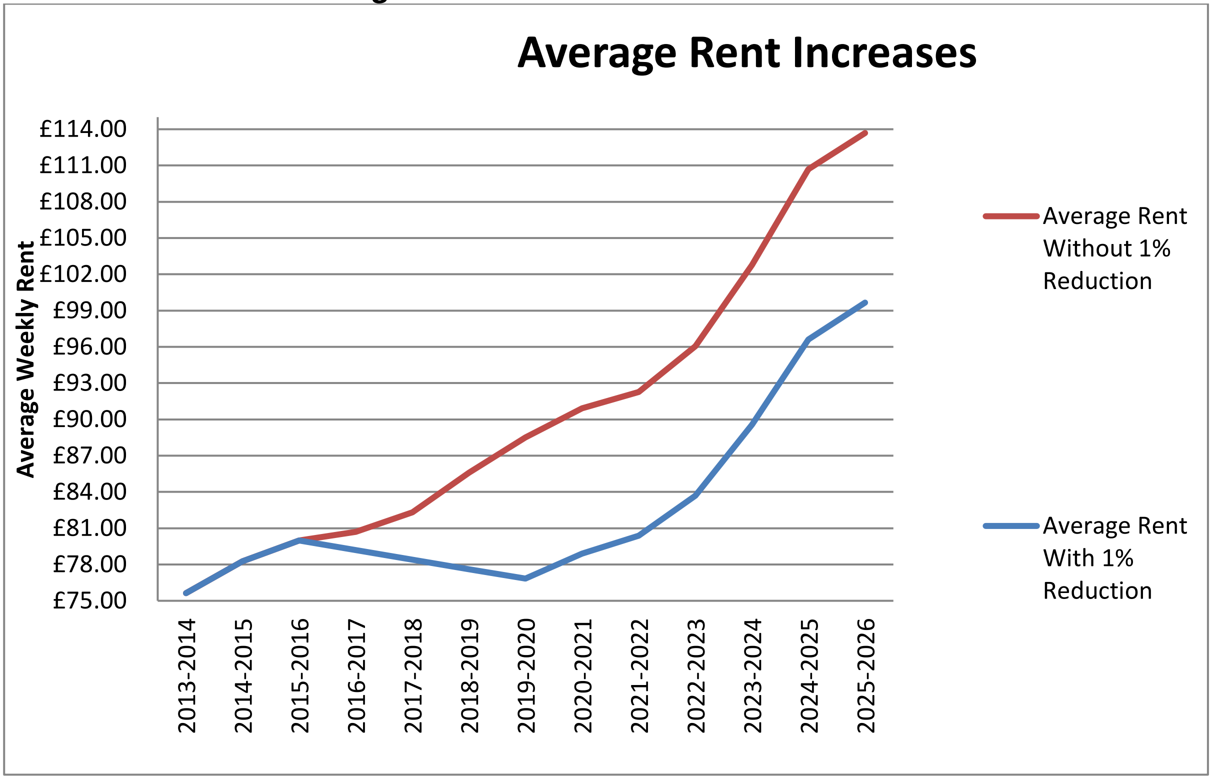
18. For 2025-2026, rent increases will again follow the Rent Standard, which would increase rents by 2.7% and generate an average weekly rent increase of £2.62 for Norwich social housing tenants (excluding larger dwellings leased to care agencies). The table below shows the minimum and maximum rent increases at 2.7%.

*Table 3.1: Proposed dwelling rent increase 2025-2026*

| Item | Average £ | Maximum £ | Minimum £ |
|---|---|---|---|
| Rent 2024-2025 | 97.04 | 151.66 | 68.66 |
| Proposed Increase (2.7%) | 2.62 | 4.09 | 1.85 |
| Proposed Rent 2025-2026 | 99.66 | 155.75 | 70.51 |

19. 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***




20. Tenant Involvement Panel representatives were consulted over the proposed 2.7% increase on 12th December 2024. The impact on both tenants and the long-term viability of the HRA was discussed, but it was recognised that increases are necessary to maintain the level of investment in existing and new homes and delivery of the decarbonisation programme, and the proposed rent increase of 2.7% in line with government guidance was noted.

21. For 2025-2026, it is also proposed to increase garage rents by CPI +1% which is 2.7%.

22. 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, to be applied to existing and for any new service provision.

23. The current budget provision is calculated using a void rate of 1.6% and equates to an estimated rental income loss for void periods of £1.119m for 2025-2026.

**Council dwelling stock levels**

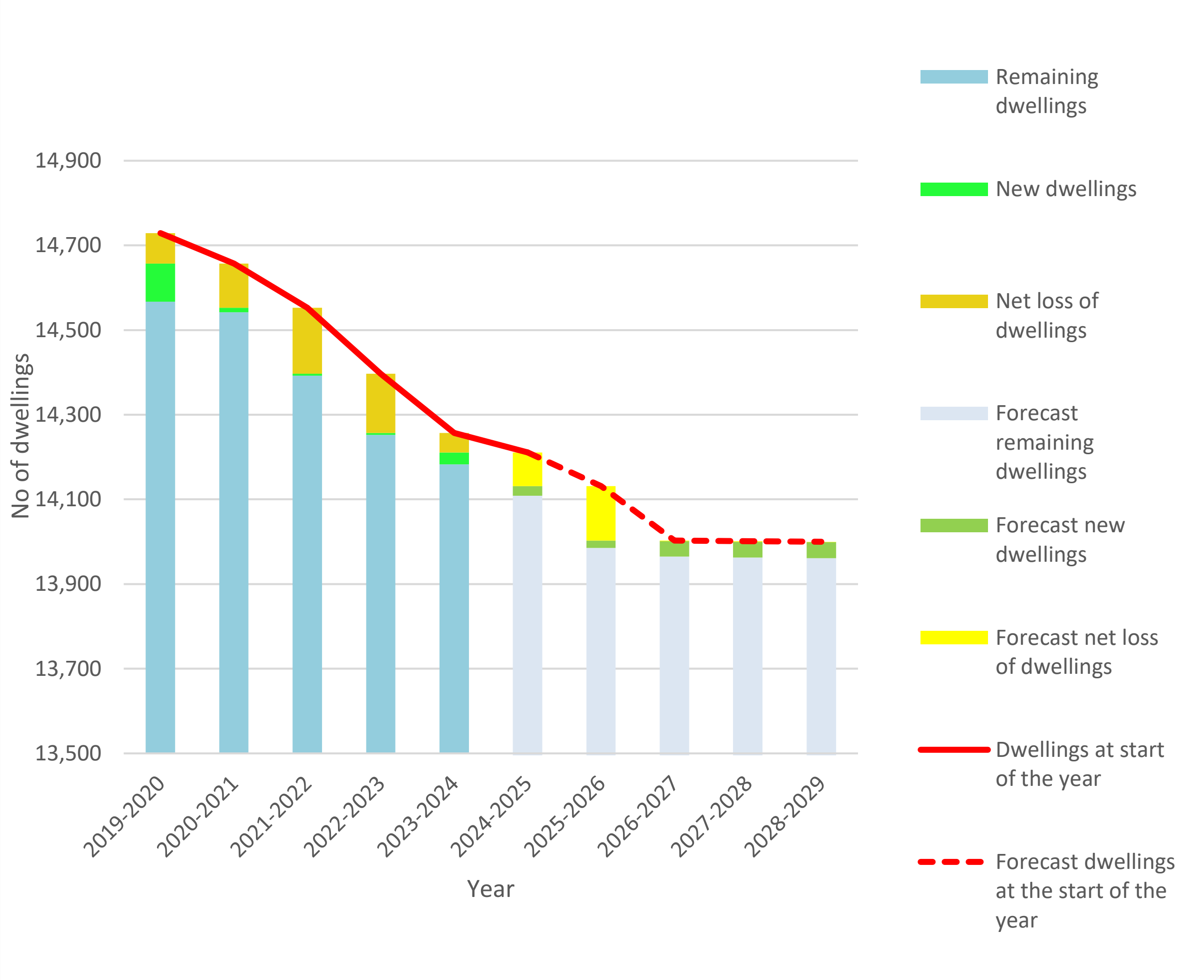
24. Following a significant increase in 2021-2022 and 2022-2023, the number of Right-to-Buy purchases of HRA dwellings reduced during 2023-2024 but is anticipated to increase again for 2024-2025 and further to approximately 140 for 2025-2026. In the future, the business plan anticipates that the impact of the reduction in Right to Buy maximum discounts and the consultation on wider reform to the scheme, announced in the Government's Autumn Budget

will significantly reduce the level of future sales to 32 dwellings, with only a slight increase thereafter.

25. Over the past five years, 641 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 also at risk of being subject to Right to Buy.

26. 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

27. The HRA business plan includes expenditure arising from the proposed HRA capital budget as set out in section 4 of this report (capital strategy and 2025-2026 capital budget).

28. The proposed HRA capital programme is based upon 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

**Capital financing plans**

29. Following the government abolition of the HRA borrowing cap in 2018, the council can determine how much it will borrow to fund capital expenditure, if 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 several prudential indicators. These indicators now include the HRA and will be included in the Treasury Management Strategy 2025-2026 which will be considered by Council in February 2025.

30. 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

31. 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):

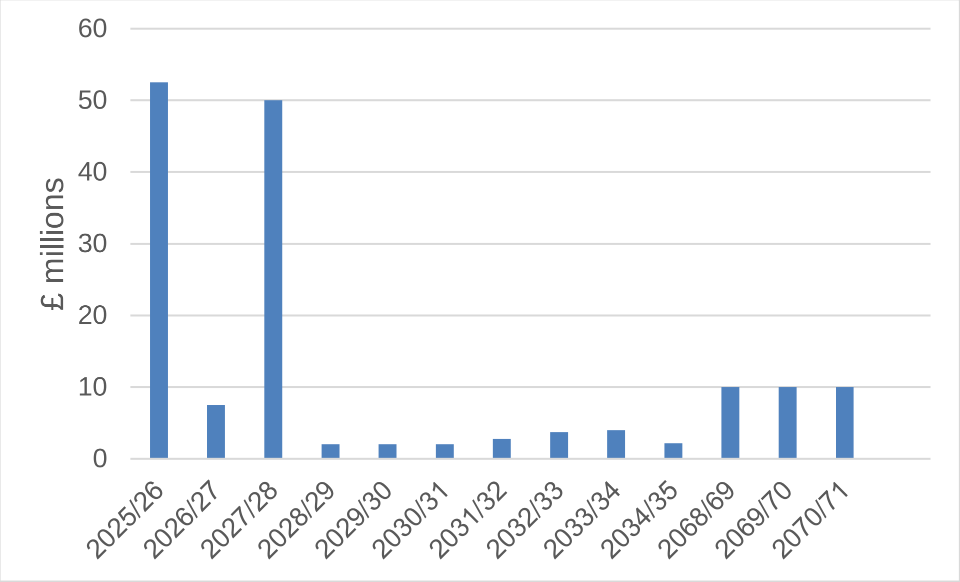
    1. Right-to-Buy Retained 'One for One' capital receipts.
    2. Capital Grants
    3. Major Repairs Reserve
    4. General HRA capital receipts
    5. General reserves
    6. Revenue budget contributions
    7. Borrowing

32. The current HRA Capital Financing Requirement (the need to borrow) is £208.532m. The most recent HRA external borrowing of £30m was taken in advance to support the refinancing in 2022-2023 of an existing loan of £49m which formed part of the £149m loan undertaken to fund the HRA self-financing settlement in 2012 when the HRA subsidy system was abolished. This meant that the council no longer had to make payments of approximately £9m per annum to the Government subsidy system and was able to retain all future rental income in return for taking on a calculated share of the national housing debt. The remaining borrowing consists of £31m of historic external borrowing, the most recent being taken over 25 years ago.

33. HRA assets are currently valued at £933.340m (31 March 2024), which against a borrowing requirement of £208.532m (31 March 2024), equates to a loan-to-value gearing of 22.343%. This is lower than the national average gearing for local authorities of 28% and the national average for registered providers which is more than 60%.

*34.* Chart 3.5 sets out the redemption dates and values of current HRA external borrowing. The most recent borrowing in 2021 and 2012 is represented by loans totalling approximately £130m from the Public Works Loans Board (PWLB), whilst all other loans shown constitute historic borrowing which will be repaid within 10 years.

35. ***Chart 3.5: Existing HRA external borrowing***




36. The 2025-2026 HRA capital budget proposed in section 4 of this report does not require any new borrowing, although to deliver significant levels of new social housing and the retrofit programme, additional borrowing will be required in future years.

**HRA Reserves Position**

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

***Table 3.3: Estimated HRA reserves position***

| Item | £000 |
|---|---|
| Brought Forward from 2023/24 | (41,419) |
| Budgeted utilisation of balances in 2024-2025 | (57) |
| Forecast HRA underspend 2024-2025 (at period 6) | (7,167) |
| **Forecast to be carried forward to 2025-2026** | **(48,643)** |
| Provisional proposed contribution to balances in 2025-2026 | (2,939) |
| **Forecast to be carried forward to 2026-2027** | **(51,582)** |

38. The level of general reserves is forecast to increase in both 2024-2025 and 2025-2026, which is due to not being required to make a revenue contribution towards the cost of new homes as a result of the temporary increased flexibilities surrounding Right to Buy Receipts in these years. The estimated reserves to carry forward into 2026-2027 remain substantial (£52m) 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.

39. It is proposed that the prudent minimum level set for the HRA reserve should remain unchanged for 2025-2026 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*

| Item | £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 |

**Appendix 3 (A): 2025-2026 proposed HRA budget by service**

| Division of Service | Original Budget 2024/25 £000 | Proposed Budget 2025/26 £000 | Change £000 |
|---|---|---|---|
| Repairs & Maintenance | 17,279 | 23,730 | 6,450 |
| Rents, Rates, & Other Property Costs | 6,087 | 6,910 | 823 |
| General Management | 18,181 | 18,616 | 435 |
| Special Services (not provided to all tenants) | 7,107 | 7,374 | 267 |
| Depreciation & Impairment | 22,160 | 23,203 | 1,043 |
| Provision for Bad Debts | 299 | 251 | (48) |
| Adjustments & Financing Items | 399 | 169 | (229) |
| **Gross HRA Expenditure** | **71,511** | **80,252** | **8,742** |
| Dwelling Rents | (66,972) | (68,799) | (1,828) |
| Garage & Other Property Rents | (2,419) | (2,461) | (42) |
| Service Charges – General | (9,907) | (10,075) | (168) |
| Miscellaneous Income | (82) | (82) | 0 |
| Amenities shared by whole community | (130) | (130) | 0 |
| Interest Received | (2,104) | (1,645) | 459 |
| **Gross HRA Income** | **(81,613)** | **(83,191)** | **(1,578)** |
| **Total Housing Revenue Account** | **(10,102)** | **(2,939)** | **7,164** |
| Revenue contribution to capital | 10,045 | 0 | (10,045) |
| Contribution to/(from) HRA reserve | 57 | 2,939 | 2,881 |
| **Total** | **(0)** | **(0)** | **(0)** |

**Explanation of key variances:**

- Repairs & maintenance costs have increased by £6.450m due to an increase in contract delivery costs along with additional provisions for work to prevent damp and mould, survey and remove asbestos and exterior painting.
- Rents, Rates, & Other Property Costs have increased by £0.823m as a result of increased utility and insurance costs along with increased staff recharges.
- General management costs have increased by £0.435m largely as a result of increased staffing related costs across the council.
- Dwelling rent income will increase by £1.828m as a result of the proposed 2.7% rent increase.
- Depreciation charges are expected to increase by £1.043m due to an increase in the value of property and the replacement of key components, however within the HRA, the full value of the depreciation charge is utilised to fund capital upgrade work.
- The revenue contribution to capital expenditure has reduced by £10.045m as expenditure on new homes will be fully funded from Retained One-for-One

Right to Buy Receipts in 2025-2026 due to the temporary increased flexibilities provided by the Government.

**Appendix 3 (B): HRA dwelling stock movements**

| Council dwellings | 2019-2020 | 2020-2021 | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 | 2026-2027 | 2027-2028 | 2028-2029 |
|---|---|---|---|---|---|---|---|---|---|---|
| No of dwellings at start of year | **14,729** | **14,657** | **14,553** | **14,397** | ***14,257*** | **14,211** | ***14,131*** | ***14,003*** | ***14,001*** | ***14,000*** |
| RTB sales in year | (156) | (112) | (159) | (145) | (69) | *(102)* | *(140)* | *(32)* | *(32)* | *(33)* |
| Non-RTB sales/leased in year | (6) | (3) | (2) | 0 | (5) | *0* | *(6)* | *(6)* | *(6)* | *(6)* |
| Dwellings demolished | 0 | 0 | 0 | 0 | 0 | *0* | *0* | *0* | *0* | *0* |
| Dwelling conversions | 2 | 0 | 0 | 0 | 0 | *0* | *0* | *0* | *0* | *0* |
| New build dwellings | 87 | 0 | 0 | 5 | 28 | *14* | *16* | *34* | *37* | *34* |
| Dwelling acquisitions | 1 | 11 | 5 | 0 | 0 | *8* | *2* | *2* | *0* | *4* |

Shaded cells in italics denote forecast movements