3. HOUSING REVENUE ACCOUNT 2024/25 BUDGET

The HRA Business Plan

1. This year a review of the financial elements of the Business Plan has been undertaken, and projections updated accordingly. 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

Background

2. 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.
3. 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.
4. There is no legal requirement to produce a HRA business plan, but it is considered best practice to develop and review regularly 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.
5. 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.
6. 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

7. 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.
8. Demand for the services we provide for our most vulnerable residents keeps increasing. More people with complex lifestyles need our support. 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.

9. The uncertain economic climate - high inflation and borrowing costs, high energy costs, supply chain issues and skills shortages - is crystalising several risks and testing the resilience of the housing sector. We face the challenge of income not rising in line with costs, which is creating 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.

10. 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.

Key information

11. The key priorities for the HRA Business Plan are:

Invest in health and safety compliance measures to ensure we comply with the emerging building safety legislative environment.

12. 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 and the lifting of the regulatory notice.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

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.

18. The Repairs and Maintenance Services requires significant improvement following its transfer from Norwich Norse Building Ltd to Norwich City Services Ltd (NCSL) in April 2022. The Council are working closely with NCSL to drive improvements. To this end, NCC and NCSL have engaged repairs improvement consultants to review the service, produce a turnaround plan and to produce a business plan to ensure effective service delivery.

19. A significant backlog of repairs was outstanding at the beginning of April 2022. These were successfully completed by 3rd party contractors in the year 2022/23. 1.48% of the council homes are empty at the time of writing (and which require major work). Both NCSL & NCC are engaging 3rd party contractors to assist in the completion of outstanding works. Reducing the length of time, it takes to get an empty home ready to relet will continue to be a high priority for the Council.

20. 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 addressing damp and mould etc.) to make sure they continue to be well maintained. Over £90m will be invested over the next 5 years to make these improvements.

21. A stock condition survey 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.

22. 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.

23. Over 3500 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. In addition, each year approximately 140 council homes are lost through Right to Buy (RTB) sales. The sale of homes, through RTB means that over the 30-year life of the Business Plan, just over £19m is lost in rental income alone.

24. 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.

Scheme	Number of homes
Three Score (Phase 3)	76
Argyle Street	14
Mile Cross	168
Total	**258**

25. Due to the current economic climate, schemes will be subject to further viability assessment as the detailed proposal comes forward. Further opportunities will also be considered as they come forward. All opportunities 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.

26. 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.

27. 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 is included in the HRA Business Plan.

28. Further work will be undertaken during 2024/25 based on improved stock condition data, to develop a comprehensive 'Roadmap to Decarbonisation'.

29. 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.

30. The Council successfully bid for funding through the Social Housing Decarbonisation Fund and received £985k in 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.

31. In addition, £53m to improve energy efficiency and carbon reduction measures is included within the 5-year investment programme (2023/28). 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.

32. 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.

33. The 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.

34. 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.

35. 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 (in use - to be live)
- 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.
- Expansion of caretaking service by 50% and a project has been initiated to improve grounds maintenance delivery under clean streets delivery.
- A dedicated inspection regime is being considered for sheltered sites to be programmed and recorded digitally.

- NEC updated to track visiting programme for vulnerable and elderly residents, alongside tenancy activities, which is due to be released soon.
- Access into homes to make safe - 100% gas access for sustainable performance to minimise risks to tenants.
- 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.

Deliver year on year targets to achieve a reduction in management cost by £1.6m by 2025/26.

36. The drive for efficiency means we have set ourselves the goal of reducing our management costs by £1.6m over the next 3 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.

37. We introduced a new IT system in 2021 to enable us to be smarter and more efficient, to reduce back-office administration and improve the customer experience. This will improve the efficiency of the service we provide, both to customers and the teams we work with. For example, 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.

38. In 2022 we also took back control of our property services activities from NPS. Through this year 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. This restructure has resulted in a cost neutral position to management cost; however, the model has been created to drive greater value from the management off delivery.

39. 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, and they will review the existing service provision with a view to empowering tenants through digital solutions whilst at the same time structuring the service in a more efficient way.

Financial Background and Budget

40. 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.

41. 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 2023/24 Outturn

42. The latest position on the Housing Revenue Account (HRA), as at period 9, shows a forecast overspend of £3m.

Proposed 2024/25 Revenue Budget

43. The budget proposes gross revenue expenditure of £72.867m and gross income of £82.969m, generating a surplus of £10.102m, as shown in appendix 3 (A). It is proposed to utilise the majority of this surplus to make a revenue contribution of £10.045m towards the funding of the 2024/25 HRA capital programme.

Chart 3.1: 2024/25 HRA gross revenue expenditure budget

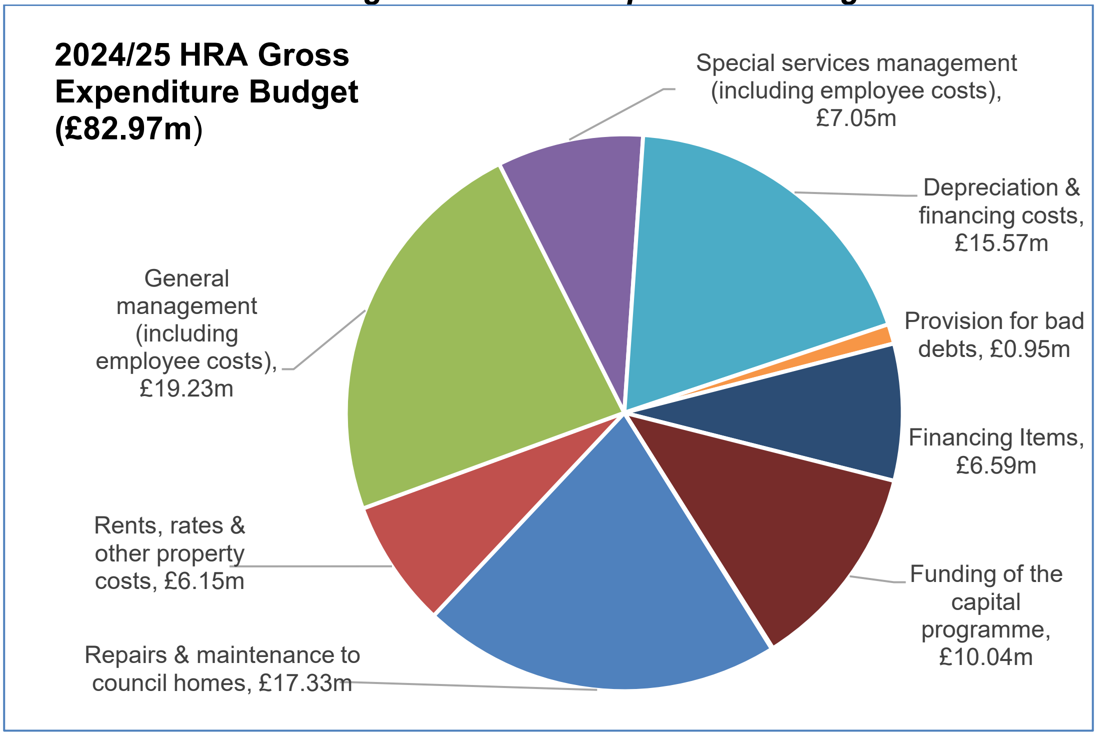
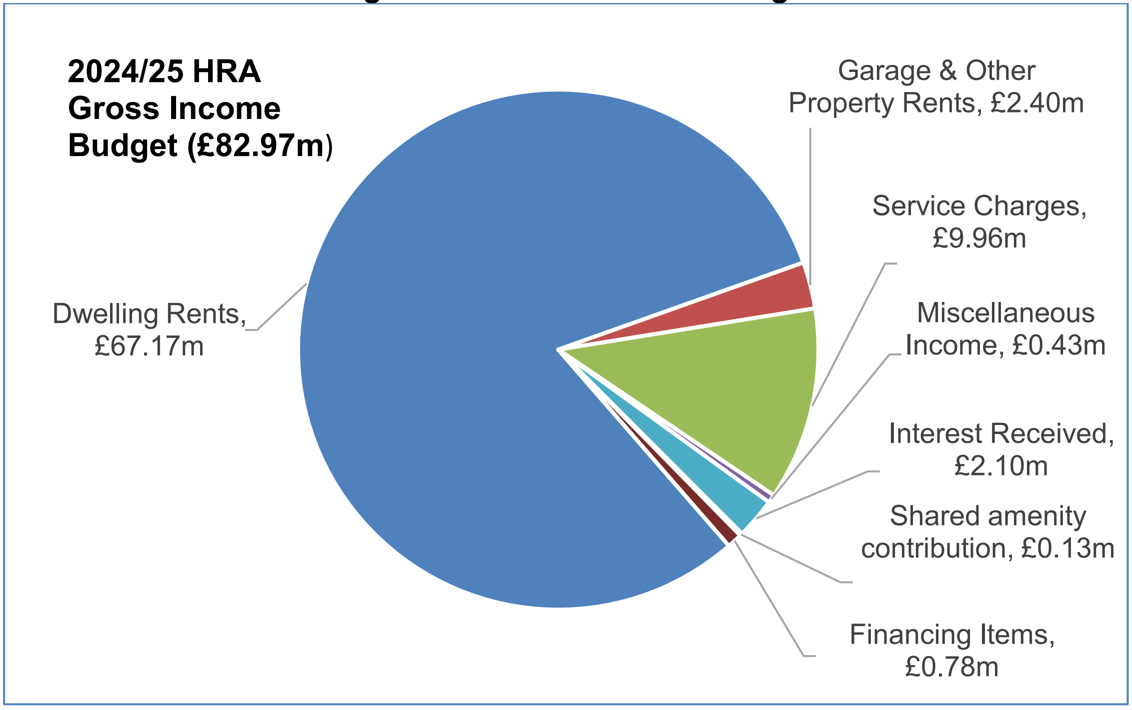


Chart 3.2: 2024/25 HRA gross revenue income budget



HRA Business Plan

44. 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.

45. 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.

46. 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.

Council housing rents, garage rents, and service charges

47. 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 a loss of over £200m in rental income.

48. From 2020/21, 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 2023/24, the government implemented a cap of 7% on all social housing rent increases.

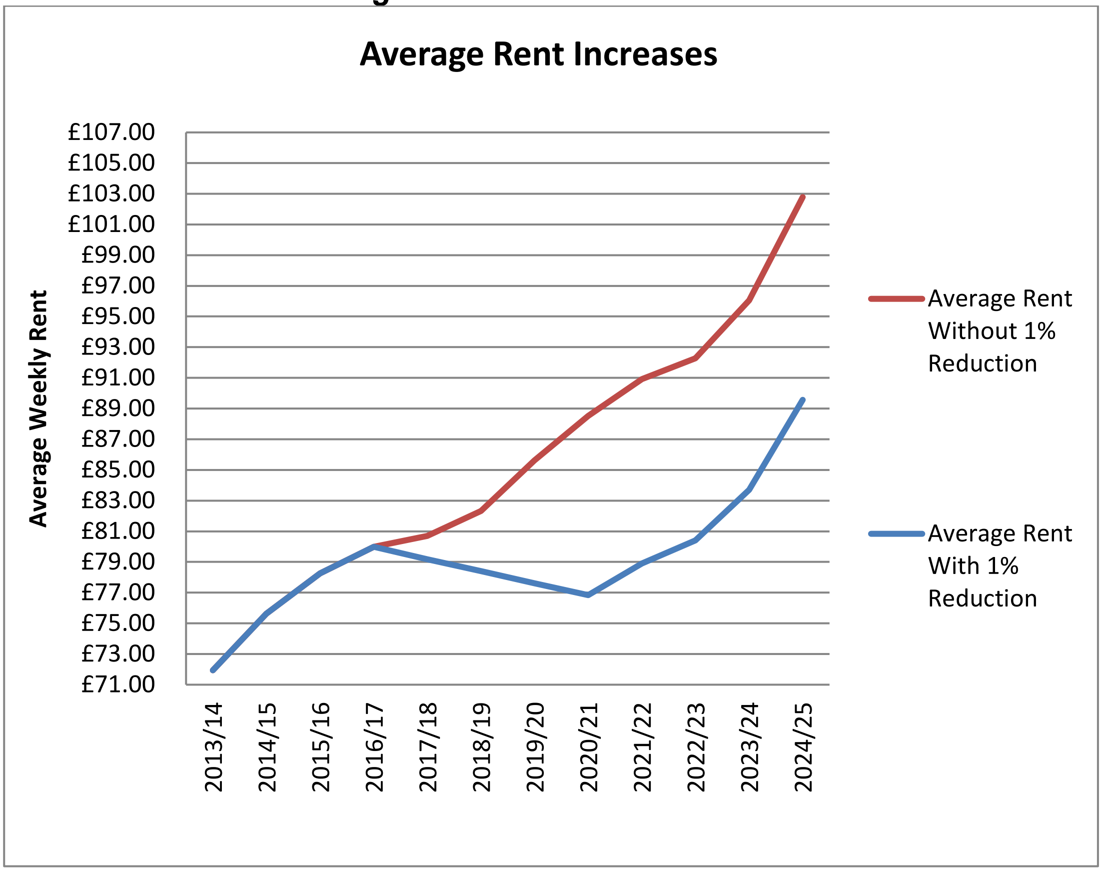
49. For 2024/25, rent increases will again follow the Rent Standard, which would increase rents by 7.7% and generate an average weekly rent increase of £6.91 for Norwich social housing tenants (excluding larger dwellings leased to care agencies). The table below shows the minimum and maximum rent increases at 7.7%.

Table 3.1: Proposed dwelling rent increase 2024/25

Item	Average £	Maximum £	Minimum £
Rent 2023/24	83.71	139.09	63.75
Proposed Increase (7.7%)	6.91	10.71	4.91
Proposed Rent 2024/25	96.62	149.80	68.66

50. 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



51. Tenant Involvement Panel representatives were consulted over the proposed 7.7% increase on 14th December 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 7.7% in line with government guidance.

52. For 2024/25, it is also proposed to increase garage rents by CPI +1% which is 7.7%.

53. 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.

54. The current budget provision is calculated using a void rate of 1.2%, which is marginally improved on last year and equates to an estimated rental income loss for void periods of £0.816m for 2024/25.

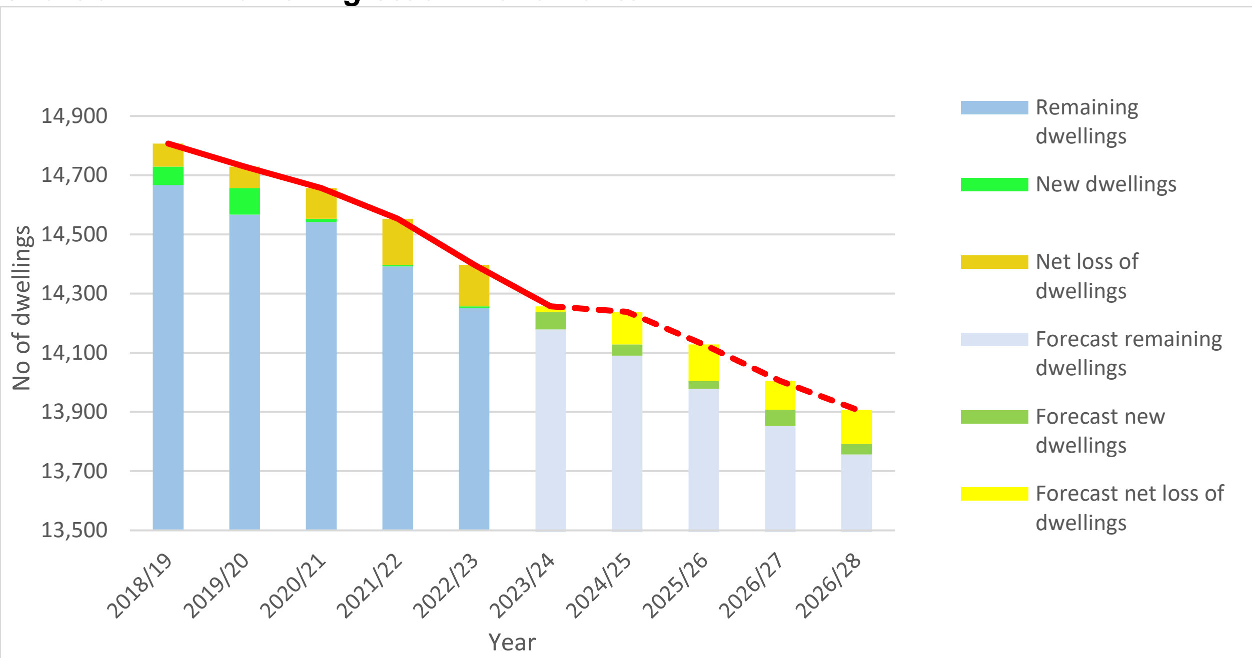
Council dwelling stock levels

55. Following a reduction in 2020/21, the number of Right-to-Buy purchases of HRA dwellings increased significantly in 2021/22 and 2022/23 but has reduced during 2023/24. This is reflected in the business plan, with future losses estimated to return to approximately 140 each year throughout the plan.

56. Over the past five years, 710 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.

57. 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

58. 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 2024/25 capital budget).

59. 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

60. 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 2024/25 which will be considered by Council in February 2024.

61. 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

62. 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):

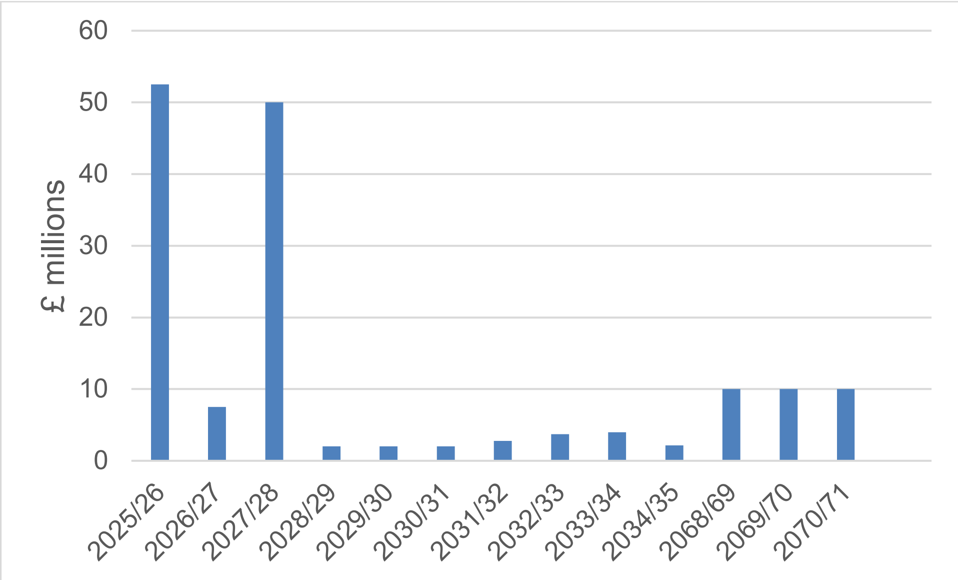
1. Right-to-Buy Retained 'One for One' capital receipts.
2. Capital Grants
3. Major Repairs Reserve
4. General HRA capital receipts
5. General reserves
6. Revenue budget contributions
7. Borrowing

63. The current HRA Capital Financing Requirement (the 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 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 24 years ago.

64. HRA assets are currently valued at £869.864m (31 March 2023), which against a borrowing requirement of £208.533m (31 March 2023), equates to a loan-to-value gearing of 23.973%. 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%.

65. 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 11 years.

Chart 3.5: Existing HRA external borrowing



66. The 2024/25 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

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

Table 3.3: Estimated HRA reserves position

Item	£000
Brought Forward from 2022/23	(45,247)
Budgeted utilisation of balances in 2023/24	1,210
Forecast HRA overspend 2023/24 (at period 9)	2,926
Carried Forward to 2024/25	**(41,111)**
Proposed contribution to balances in 2024/25	(57)
Carried Forward to 2025/26	**(41,168)**

68. The level of general reserves is forecast to reduce in 2023/24 but slightly increase again in 2024/25, which is due to the council's significant planned investment in new social housing. The estimated reserves to carry forward

into 2025/26 remain substantial (£41m) 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.

69. It is proposed that the prudent minimum level set for the HRA reserve should remain unchanged for 2024/25 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): 2024/25 proposed HRA budget by service

Division of Service	Original Budget 2023/24 £000	Proposed Budget 2024/25 £000	Change £000
Repairs & Maintenance	16,696	17,331	635
Rents, Rates, & Other Property Costs	6,092	6,149	57
General Management	16,401	19,226	2,824
Special Services (not provided to all tenants)	9,207	7,050	(2,157)
Depreciation & Impairment	22,164	22,164	(0)
Provision for Bad Debts	980	947	(33)
Gross HRA Expenditure	**71,540**	**72,867**	**1,327**
Dwelling Rents	(62,766)	(67,166)	(4,400)
Garage & Other Property Rents	(2,309)	(2,401)	(92)
Service Charges – General	(8,290)	(9,961)	(1,672)
Miscellaneous Income	(431)	(431)	0
Amenities shared by whole community	(130)	(130)	0
Interest Received	(2,104)	(2,104)	0
Adjustments & Financing Items	(1,041)	(777)	264
Gross HRA Income	**(77,070)**	**(82,969)**	**(5,900)**
Total Housing Revenue Account	**(5,530)**	**(10,102)**	**(4,572)**
Revenue contribution to capital	6,740	10,045	3,305
Contribution to/(from) HRA reserve	(1,210)	57	1,268
Total	**0**	**(0)**	**(0)**

Explanation of key variances:

- Repairs & maintenance costs have increased by £0.635m which is the net impact of contract inflation offset by savings of £0.785m as reflected in the HRA business plan.
- General management costs have increased by £2.824m which is the net impact of inflation offset by savings of £0.350m as reflected in the HRA business plan.
- Dwelling rent income has increased because of the 7.7% rent increase (£4.400m).
- The revenue contribution to capital expenditure has increased by £3.305m reflecting the increased expenditure on the development of new council homes planned during 2024/25.

Appendix 3 (B): HRA dwelling stock movements

Council dwellings	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28
No of dwellings at start of year	**14,807**	**14,729**	**14,657**	**14,553**	**14,397**	***14,257***	***14,239***	***14,128***	***14,005***	***13,908***
RTB sales in year	(138)	(156)	(112)	(159)	(145)	*(72)*	*(140)*	*(140)*	*(140)*	*(140)*
Non-RTB sales/leased in year	(3)	(6)	(3)	(2)	0	*(6)*	*(9)*	*(10)*	*(12)*	*(12)*
Dwellings demolished	0	0	0	0	0	*0*	*0*	*0*	*0*	*0*
Dwelling conversions	2	2	0	0	0	*0*	*0*	*0*	*0*	*0*
New build dwellings	61	87	0	0	5	*58*	*36*	*25*	*53*	*33*
Dwelling acquisitions	0	1	11	5	0	*2*	*2*	*2*	*2*	*3*

Shaded cells in italics denote forecast movements