

## Policy Committee Decision Report

<b>Title of Report:</b>	Housing Revenue Account (HRA) Business Plan 2025/26
<b>Date of Decision:</b>	5 December 2024
<b>Report To:</b>	Housing Policy Committee
<b>Report Of:</b>	Ajman Ali, Executive Director, Neighbourhood Services
<b>Report Author:</b>	Chris Ellison, Interim Director of Housing

### Executive Summary:

The report sets out the 2025/26 Housing Revenue Account (HRA) Business Plan. Each year the HRA Business Plan is reviewed and updated to set budgets and charges for the year ahead and to provide an updated 5-year plan and 30-year affordability profile.

The purpose of this report is to provide the Housing Policy Committee with an update on the current national and local housing context, regulatory requirements, the priorities for Committee to action alongside capital and revenue spending plans for 2025/26. The Housing Policy Committee will be responsible for overseeing the scrutiny and, delivery of those plans on behalf of the Council housing tenants in Sheffield.

The HRA Business Plan is included as Appendix A to this report. It provides a more detailed analysis of the current operating environment, the priorities for the HRA over the next 12 months and an overview of revenue and capital spending proposals over both the 5 and 30-year life of the Business Plan.



### **Council Plan outcomes:**

[A place where all children belong and all young people can build a successful future](#)

[Great neighbourhoods that people are happy to call home](#)

### **Policy Committee remit:**

This report is to be considered by the Housing Policy Committee as its remit includes functions of the Council as Local Housing Authority, including

- Public sector
- Private sector
- Homelessness
- Supported housing
- Relationships with other social housing providers
- Refugee resettlement programmes
- Gypsy and traveller sites

Within its remit the Committee:

- Takes decisions on any reserved matter;
- Is responsible for regular monitoring of data including performance and financial information and for monitoring the performance of services;
- Is responsible for working within the budget framework agreed by Council, including taking timely action to address any overspend within services;
- Is responsible for delivery against the Corporate Plan and any associated Annual Plans and reporting performance to Strategy and Resources Policy Committee;
- Must keep its work programme under review at each meeting;
- May consider any matters referred by an Area Committee.

### **Matters Reserved to Housing Policy Committee:**

[Delivery of the Housing Revenue Account \(HRA\) Business Plan](#)

**Does the report contain confidential or exempt information? [No]**

## Recommendations:

The Housing Policy Committee is recommended to:

1. Note that the HRA Business Plan report for 2025/26, the HRA Business Plan priorities for 2025/26 and HRA Revenue Budget 2025/26 as set out in the Financial Appendices included in Appendix A to this Report, will go to the Strategy and Resources Policy Committee at its meeting in January 2025, for recommendation to Full Council for approval
2. Note that once adopted by Full Council, monitoring delivery of HRA Business Plan priorities will be within the remit of the Housing Policy Committee
3. Note the recommendation for increasing Council rents 2025/26 in line with the Regulator of Social Housing's Rent Standard

**Financial Implications:** [Yes/No] [Approved by: Paul Foster]

**Legal Implications:** [Yes/No] [Approved by: Rebecca Lambert]

**Equality and Engagement Implications:** [Yes/No] [Approved by: Bashir Khan]

Initial Equalities Impact Assessment completed with EIA number: 2899 covers the impact of the Rent Standard. This is the main planning assumption for this report. Individual EIAs have also been completed for other savings and pressure proposals being considered by Finance and Performance Committee in a related report.

**Climate Change Implications:** [Yes/No] [Approved by: Leila Gunnewicht ]

**Background Papers:** None

**Appendices:**

- Appendix A – HRA Business Plan and Financial Appendices 2025/26
- Appendix B – Summary of Tenant Consultation on Priorities
- Appendix C – Equalities Impact Assessment

## 1. Background

- 1.1 The Housing Revenue Account (HRA) is the financial account of the Council as a landlord. It is ringfenced in law for the 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 Sheffield regardless of tenure.
- 1.2 This HRA Business Plan report sets out how the estimated £188m income, predominately from tenant rents, will be spent on delivering repairs, capital improvements and tenant services to more than 38,000 council homes across the city during 2025/26. It also includes a longer-term forecast looking forward over the next 5 years.
- 1.3 The review of the HRA Business Plan is a dynamic process which reflects the Council's ambitions to be an excellent landlord. This is not just something that we undertake once a year but is part of an ongoing dialogue with tenants and residents to identify investment and service priorities that will improve the quality of homes and tenant services provided.

## 2. Proposal – HRA Business Plan 2025/26

- 2.1 The HRA Business Plan operates within a political environment therefore changes in both national and local policy can have a major impact and influence the plan. This year, there are several factors impacting the plan, some of which present various challenges including additional financial and operational delivery pressures. Ensuring the business plan remains sustainable and viable whilst meeting and maintaining regulatory compliance and expectations will be vital.
- 2.2 The key factors impacting the plan this year include the implementation of a new set of [Consumer Standards](#) by the Regulator of Social Housing (RSH), which set out the required outcomes and expectations social landlords are expected to deliver; compliance requirements from both Building Safety and Fire Safety Acts and increasing demand on council housing services as a result of customer changing needs, demographics and living circumstances.
- 2.3 Factors such as those highlighted above, mean there are additional operational delivery and cost pressures on the HRA this year. This is alongside other factors that have previously and continue to impact the business plan such as high inflation rates which have resulted in increased construction and material costs.

- 2.4 Increased investment is essential for repairs and capital improvements to ensure that our homes meet the Decent Homes Standard, as well as to align with the outcomes and expectations outlined in the Safety and Quality Standard. Compliance with building and fire safety regulation also falls under this standard, therefore crucial investment in this area will remain a priority for the Business Plan in 2025/26.
- 2.5 In July 2024, Sheffield City Council received a C3 judgement from the Regulator for Social Housing (RSH), indicating that the Council is currently failing to deliver the necessary outcomes of the Safety and Quality Standard. In response to this judgment, we have been actively collaborating with the RSH and have developed a series of improvement activities aimed at addressing the regulatory concerns. A [report](#) detailing these planned initiatives was presented to the Housing Policy Committee in September 2024, outlining the next steps the Council intends to take to meet the Safety and Quality Standard. Regular monthly meetings with RSH have been taking place and will continue into 2025/26, giving us the opportunity to demonstrate progress in delivering the required improvements.
- 2.6 Government have indicated that they are likely to consult on a proposed new Decent Homes Standard in 2025. It is expected that a new Decent Homes Standard will introduce additional requirements relating to the state of repair of homes, new requirements on damp and mould, and new requirements regarding the safety and security of homes. Increased legislation is also expected for damp and mould, meaning damp and mould hazards being investigated and remedied to set timescales. Government have also indicated plans to introduce minimum efficiency standards for social rented sector homes that could require social homes to meet Energy Performance Certificate C or equivalent by 2030. Further details are expected in 2025, but it is likely that further investment will be required in this area to help improve energy efficiency of homes.
- 2.7 The demand for council housing is rising due to shifting demographics and individual circumstances such as economic factors, population growth, and changes in family structure. As a result, housing services must adapt to meet these changing needs. This may include expanding services for vulnerable groups, improving accessibility, and ensuring a sufficient supply of affordable housing options. The Council's new 10-year [Housing Strategy](#) was approved in October, which sets out the Council's longer term housing ambitions, taking into consideration changes to the national housing landscape. The HRA Business Plan 2025-26 and its priorities will help to support the vision and ambitions of the new Strategy.
- 2.8 Income into the HRA is predominately through dwelling rents. The RSH's [Rent Standard](#) determines our ability to set rents with the maximum being

capped at September's Consumer Price Index (CPI) + 1%. The Government have recently initiated a [consultation](#) around the future Rent Standard, proposing to set a rent policy for at least 5 years from 2026-2031. This should bring more certainty for our planning assumptions for at least the next 5 years.

- 2.9 Previous high inflation rates, particularly in relation to building and construction costs which impact the investment and repairs costs to our residents' homes and have resulted in HRA income not keeping pace with rising costs. This has made it increasingly challenging for the Council to effectively manage and maintain homes. Although lower inflation levels are anticipated for 2025-26, leading to a smaller increase in rental income compared to the previous year, the lasting effects of higher inflation from previous years still remains.
- 2.10 The annual update of the Business Plan provides the opportunity to review our current priorities regarding service delivery and investment in council homes. Priorities for 2025/26 have been reviewed and refreshed to encompass all essential areas. This ensures our priorities align with regulatory requirements and are priority areas that are important to our tenants. More detail of our HRA Business Plan priorities for 2025/26 and how we are delivering in these areas can be found in Appendix A to this report.
- 2.11 Tenants have had the opportunity to feedback which of our current priorities are most important to them. Appendix B of this report includes further details of the consultation. The findings reveal that tenants place significant importance on issues such as repairs, damp and mould, neighbourhood management, and vacant property turnaround. Addressing investment priorities are crucial to ensure regulatory compliance and to ensure that we are also prioritising what is important to our tenants.
- 2.12 The HRA Capital Investment Programme is a rolling 5-year programme and is updated each year as part of the annual business planning process. The HRA Capital Investment Programme feeds into the Council's wider Corporate Capital Programme that brings together all Council Capital Programmes. The main aim of the HRA Capital Investment Programme is to ensure that investment is targeted to achieve key priorities of well maintained, decent, safe and warm homes. Housing investment continues to focus on a 'fabric first' approach to protect council housing assets to reduce our ongoing and long-term repairs and maintenance obligations and increase tenant satisfaction with their homes.
- 2.13 Key investment areas include building and fire safety, health and safety compliance essential works, heating and energy improvements, carbon

reduction works, and other planned internal and external improvement works. The 5-year programme also includes provision for Gleadless Valley regeneration and our Stock Increase Programme. The 5-year programme has been refreshed for 2025/26, with proposed investment across the 5 years that reflects better our immediate plans that will help to support our longer-term investment decisions. Further details of the 5-Year Capital Investment Programme can be found in Appendix A to this report.

- 2.14 There is a requirement from the RSH for Registered Providers, including local authorities to understand their stock, how it performs and how it uses multiple information sources to determine investment needs and priorities. In June 2024, HRA funding was approved for around 20,000 stock condition surveys and associated stock appraisals to be commissioned and completed by the end of 2025/26. This work is essential in providing us with a more accurate understanding of the condition of our housing stock and therefore enables us to target required investment to where this is needed most. This will help to inform an interim Asset Management Strategy in the short term and be the building blocks for a longer-term plan and Asset Management Strategy on how to best prioritise investment into our housing stock.
- 2.15 The HRA's Stock Increase Programme (SIP) sets out our ambitions to build and acquire much needed new council housing. In recent years, factors including increased costs in construction materials and labour, inflation, land availability and associated costs have all had a significant impact on our original planning assumptions for the programme. This has meant we have had to review the plan and think more strategically about how we are able to continue to deliver the programme within existing budgets, alongside the other HRA investment priorities.
- 2.16 The focus for the SIP to 2029 will continue to be on acquiring new market homes, strategic acquisitions and directly delivering a small number of housing sites which remain viable and that will continue to meet an identified need for housing in the city. This may lead to a review of commitments and the release of land where sites are no longer viable under current market conditions.
- 2.17 Approval of the SIP will be presented as part of the Council Capital Strategy. This may lead to a review of commitments and the release of land where sites are no longer viable under current market conditions. We will continue to maximise the use of Right to Buy receipts to maintain our programme of acquisitions, again to meet identified need.
- 2.18 The Council's new Housing Strategy sets out the housing need and affordable housing requirements for the city and any gaps in provision. This will inform future discussions with the Housing Policy and other

Committees to formalise the Council's wider housing growth ambitions throughout 2025/26 to maximise the use of available funding alongside the HRA capital allocation.

- 2.19 We will maintain a viable 30-year Business Plan by managing our rental income and operational expenses to reinvest in existing homes and neighbourhoods alongside the creation of new homes. This requires a rigorous approach to business planning and financial management to mitigate the impact of the challenges from national and local policy, whilst delivering on our priorities. Officers are utilising the expertise of Savills to provide further advise on the 30-year Business Plan.
- 2.20 Ensuring a balanced HRA Business Plan over 30 years presents ongoing challenges. As highlighted in the previous sections of this report, establishing investment priorities is vital not only for regulatory compliance but also for aligning with what is important for our tenants.
- 2.21 We have assumed throughout our planning that rent will increase each year by the amount allowed by the Rent Standard (i.e., September CPI + 1%). A reduction in the assumed income would mean that costs would need to be reduced to balance the Business Plan.
- 2.22 The HRA has significant financial pressures, meaning there is a savings requirement for 2025/26. These pressures will impact on the ability of the HRA Business Plan to remain affordable over the course of the 30-year plan. Mitigation proposals and further details of HRA pressures and savings will be presented to the Finance and Performance Committee on 16<sup>th</sup> December 2024. Following this, the HRA Business Plan report for 2025/26, the HRA Business Plan priorities for 2025/26 and HRA Revenue Budget 2025/26 will go to the Strategy and Resources Committee in January 2025 for recommendation to Full Council for approval in February 2025.
- 2.23 This report sets the 5-year medium-term position of the HRA Business Plan, including the operating account and Housing Capital Investment Programme. The HRA is a ring-fenced account and therefore all capital investment must be funded from a combination of revenue contributions (mainly rents) capital receipts, grant funding and borrowing. The interest costs from any borrowing will need to be affordable from our rental income. Over the next 5-years we are planning to increase our borrowing to partially fund our Stock Increase Programme from increased rents from new supply. These loan repayments will be fully funded from the additional rental income from the resultant new properties and, when capital debt is repaid will create a surplus that can support the wider costs in the HRA in the longer term. Investment into our existing stock will be through a mixture of revenue, capital receipts and capital reserves.



- 2.24 The Business Plan does not currently include any changes in relation to the Autumn Budget changes to the Right to Buy scheme. The full details of the government's plans are still to be finalised and are pending a consultation exercise. We are currently modelling the potential impacts of this and will include these in future iterations of the HRA Business Plan before Finance and Performance Committee in December.
- 2.25 The development of the Asset Management Strategy will be critical to any decision making around future investment priorities. It will inform stock option appraisals to review our stock profile, consider the impact of individual archetypes on our capital and repairs costs, and balance our tenant demand and need profiles to ensure that the Business Plan remains viable. These will be difficult decisions that will impact on the services and homes that we offer our tenants. They will potentially impact on the number of homes we own but will be necessary to deliver a sustainable future for council housing in the city. This could also involve reducing any stock that has a negative impact on the overall HRA Business Plan so that the level of Council homes and, our ability to service long term debt from increased borrowing remains balanced over 30-years.
- 2.26 Risks to the HRA are collated and monitored via a risk register and are primarily concerned with threats to income and expenditure that would compromise the viability of the HRA Business Plan. These risks are reviewed and regularly updated. The key risks to the HRA Business Plan include the changes to the regulatory environment (including review of Decent Homes standard); health and safety/fire risks; increase in repairs and maintenance costs; an increase in interest, borrowing and inflation rates and impacts of Welfare Reform. Appendix B of this report sets out a more detailed consideration of the overall 30-year viability of the Business Plan and the steps that are being taken to manage this.
- 2.27 The HRA unearmarked revenue reserve is currently £11.8m, a similar level is currently assumed for 2025/26 The financial impact of the above risks far exceeds the reserve held, but the likelihood of all these risks being incurred in any one year is low and therefore, it is not deemed prudent, nor offers best value to hold sufficient reserves for all eventualities. However, the level of reserves will be monitored to ensure that the reserve levels are adequate to cover future expected pressures in the medium term.

### **3. How does this decision contribute to the Council Plan?**

#### **3.1 Council Plan outcome**

The HRA Business Plan priorities for 2025/26 align and support the Council Plan outcomes, specifically:

- [Great neighbourhoods that people are happy to call home](#)
- [People live in caring, engaged communities that value diversity and support wellbeing](#)

### 3.2 People – Prosperity - Planet

The HRA Business Plan priorities focus on improving the quality of the homes and services that we provide to current and prospective council housing tenants. Our priorities will have a positive impact on the wellbeing of tenants. A stable, secure home provides the basis for all citizens to contribute to the prosperity of the local economy and their own economic wellbeing. As part of our investment decisions and through our improvement plans, we will take a sustainable approach to the procurement of services and in particular construction materials, that create a minimal impact on the planet. This includes a focus on working towards net zero for our Council homes – benefiting tenants and the planet.

### 3.3 City Goals

The City Goals include themes around thriving communities, and a green and resilient Sheffield, areas that our housing and repairs services feed into. We also work collaboratively with other partners across the city to deliver in these areas. We remain mindful of the important role we play in supporting our city goals so that we can collectively achieve the shared vision for Sheffield.

## **4. What community or partner engagement has been undertaken and how has it informed the proposal?**

4.1 Consultation on business plan activities takes place throughout the year as part of our formal tenant governance activities. This helps us to understand what tenants think about the delivery of current services, but also to identify their priorities and shape future service needs.

4.2 Appendix B sets out full details of consultation recently undertaken on the draft priorities contained within the Business Plan 2025/26. The consultation helps us to gain a better understanding of tenant's views of our council housing spending priorities. The priorities which ranked highly (e.g. repairs, damp and mould, neighbourhood management, and vacant property turnaround) are the areas where we will invest both time and financial resources in improving services to tenants.

## **5. What alternative options did we consider?**

5.1 The Council is required to both set a balanced in year HRA budget and to ensure that in-year income and expenditure are balanced over 30 years. No other alternatives were considered.

## **6. How has equality, diversity and inclusion been actively considered?**

6.1 There are no direct equality implications arising from this report. Equality Impact Assessment reference 2899 covers the impact of the Rent Standard. This is the main planning assumption for this report. Individual EIAs have been completed for savings and pressure proposals being considered by the Finance and Performance Committee in a related report.

## **7. Financial and Commercial Implications**

7.1 The HRA Business Plan allows for a continuation of services to tenants, revenue repairs to properties and financial support for the Council Housing Capital Programme by means of a contribution from revenue. Any annual revenue surpluses on the account will continue to support the 30-year Business Plan.

7.2 The Council Housing Capital Programme including the stock increase programme will require the HRA to support further borrowing, as allowed under the current Government guidelines. The debt strategy for the HRA will continue to be reviewed and developed in accordance with the Council's treasury management strategy.

7.3 The Commercial Resilience section of Appendix A explains the detailed commercial viability of the plan and the financial tables also in Appendix A set out the 5-year projections for the HRA Income and Expenditure Account and the 5-year capital investment programme. These are based on current assumptions and continue to be reviewed for known changes. Further details on the Council Housing Capital Programme will be set out in the Council's Capital Strategy.

## **8. Legal Implications**

8.1 The provision of housing accommodation is set out in Part II of the Housing Act 1985 (the 1985 Act). Statutory requirements regarding the keeping of a Housing Revenue Account (HRA) are contained in the Local Government and Housing Act 1989 (the 1989 Act). The provisions include a duty, under Section 76 of the 1989 Act, to budget to prevent a debit balance on the HRA and to implement and review the budget. The 1989 Act places a duty on local housing authorities to: (i) to produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii) to review and if necessary, revise that budget from time to time and (iii) to take all reasonably practical steps to avoid an end of year deficit.

8.2 On 10 November 2020 the Ministry of Housing, Communities and Local Government (MHCLG) published guidance on the operation of the Housing Revenue Account ring-fence. This guidance updates and



replaces Circular 8/95 published by the former Department of the Environment (DoE). It gives advice to local housing authorities in England on certain aspects of the HRA. This guidance restates ministers' established policy for the HRA and introduces no new issues of principle. However, it highlights the need to be fair to both tenants and council taxpayers and that there should be a fair and transparent apportionment of costs between the HRA and General Fund.

8.3 In December 2022 the Government published an updated policy statement on rents for social housing (Rent Policy Statement) from 1 April 2023 onwards and, pursuant to powers under section 197 of the Housing and Regeneration Act 2008, issued the Direction on the Rent Standard 2023. This required the RSH to set a new rent standard covering the financial year 2023-24, consistent with the Rent Policy Statement, with effect from 1 April 2023. The Direction applies to the RSH in relation to the rents of all Registered Providers of social housing, including local authorities, and replaces a 2014 Direction which applied only to rents of private registered providers. It also updates and amends the more recent 2019 Direction. The 2023 Rent Standard sits alongside the 2020 Rent Standard and applied to the rent period that began for 12 months from the 1 April 2023 to the 31 March 2024. It was introduced to address the exceptional circumstances which required the Government to adjust its policy in order to protect social housing tenants from very large nominal-terms rent increases that would otherwise have been permitted in 2023-24 due to higher than expected levels of inflation. In order to combat this the 2023 Rent Standard introduced a 7% ceiling on rent increases for that one year period which meant that for rents set between 1 April 2023 and 31 March 2024 the Council and other Registered Providers of social housing could only increase social rent and affordable rent by up to 7%. For rents set from 1 April 2024 onwards the 2023 Rent Standard is no longer applicable, and the Government has directed that the 2020 Rent Standard applies in full. Consequently, for the period from 1 April 2024 to 31 March 2025 all Registered Providers of social housing including local authorities are required to revert back to following the 2020 Rent Standard. In January 2024, the RSH published its 'Limit on annual rent increases 2024-25' guidance document which sets out the annual adjustment of formula rent figures based upon the annual Consumer Price Index figure. This provides an update for the 2024-25 financial year to the information contained in Appendix A of the Rent Policy Statement. The Government is currently consulting on a new draft Direction to the RSH in relation to social housing rent policy from 1 April 2026. This consultation will close on the 23 December 2024. The requirement that the Council's rent increases be in accordance with government rent policy is not itself new but with effect from 1 April 2020 this is secured through a regulatory standard. The RSH's Rent Standard sets the required outcomes for how Registered Providers of social housing set and increase rents for all their social

housing stock in line with government policy. The Council must comply with these rent setting rules. If it fails to do so it may be made subject to regulatory action.

8.4 The basis for setting rent is set out under Section 24 of the 1985 Act which provides that a local authority must make such reasonable charges as they determine for the tenancy occupation of their houses. The Council has a broad discretion in setting such reasonable rents and other charges as it may determine and must from time-to-time review rents and make such changes as circumstances may require. The duty to review rents and make changes is itself subject to the requirements for notice of a variation set out in Section 103 of the 1985 Act. The notice must specify the variation and the date on which it takes effect which must be at least four weeks after the date of service.

## **9. Climate and Environmental Implications**

9.1 Climate Impact Assessment reference 65 and Appendix A to this report, highlights the issue of EPC C targets and net zero as part of the capital investment programme. Our business plan priority that “*we will work towards creating greener, more energy efficient homes focusing on reducing fuel poverty*” supports our aim for all Council homes to be EPC C by 2030 and fulfils the present-day obligations on us as a social landlord. Individual climate impact assessments will be completed for other savings and pressures being considered by the Finance and Performance Committee in a related report. The Housing and Neighbourhoods Service is working with Rider Levett Bucknall (RLB) to understand the wider investment requirements for housing in order to meet the city’s aspirations for net zero and climate change. An Asset Management Strategy will be presented to the Housing Policy Committee in March 2025 setting out our principles for decarbonisation.

## **10. Other implications**

10.1 There are no other implications as a result of this report.

## **11. Reasons for decision**

11.1 This report and its recommendations, sets out the scale of the challenge ahead, the limited resources available and the difficult decisions that now need to be taken to deliver a balanced HRA budget for 2025/26 and for the overall 30-year viability.

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