

To: City Executive Board

Date: 7th December 2011

Report of: David Edwards, Executive Director, Housing and City Regeneration

Title of Report: HRA Business Plan Draft for Consultation

Summary and Recommendations

Purpose of report: To request approval to undertake public consultation on the current draft HRA business plan

Key decision? No

Executive lead member: Cllr Joe McManners

Policy Framework: Corporate Plan, Housing Strategy, Asset Management Plan, Regeneration Framework, Core Strategy.

Recommendations:

- 1. To approve consultation on the current draft HRA business plan principles through the tenant and leaseholder roadshows**
- 2. To note the current draft HRA business plan which will be developed further as DCLG funding principles are confirmed.**

Background

1. A series of five tenant engagement roadshows is planned in November-December 2012. The Council wishes to use the opportunity to consult tenants to inform the draft HRA business plan
2. The Housing Revenue Account (HRA) regime will end on 31st March 2012. The financial control and responsibility for council housing will revert to Local Authorities in exchange for a final capital settlement. Councils in surplus, such as Oxford City, will be required to make a final capital payment, for redistribution to Local Authorities in deficit. The Government has given a provisional assessment that Oxford City Council will be required to make a payment of £200m and may be able to borrow up to £240m, but this will not be confirmed until January 2012.
3. A business plan is required as part of the preparation for Government approval, undertaking the borrowing, and setting the initial financial framework. The Council has prepared the attached draft business plan (Appendix 1) with input from consultants CIH Consult (financial model), Savills (asset management) and Sector (treasury management).

Consultation

4. The Council is hosting five tenants and leaseholders roadshows in November-December. These are an opportunity to engage with tenants on a range of issues affecting their neighbourhood, as well as to discuss the implications of the HRA business plan. A short fact sheet is being provided, but the working draft business plan will also be available on request.
5. The feedback from the tenant discussions will be reflected in the business plan and reported when the draft final business plan is sent to full Council for approval in January 2012.

HRA Business Plan

6. The attached plan is a working draft. The principles have been discussed at the Cross-Party group. It will be revised and updated following the tenant consultation. The provisional financial settlement from Government remains to be confirmed later this year. It is intended that the draft final plan will be submitted to full Council in January 2012. The main principles of the draft business plan are summarised below.

Funding

7. Oxford City Council will be required to make a final capital payment of £200m (provisional) to DCLG at the end of the HRA regime (28th March 2012). DCLG has indicated that it has set the borrowing cap for the Council at £234-239m (provisional) to fund the debt. After settlement of this year's HRA funding charge (estimated at £24m) this gives potential headroom of £10-15m assuming the Council borrows the maximum amount.
8. DCLG will make available lending through the Public Works Loan Board and this is likely to be the preferred funding route, as opposed to commercial borrowing. The funding for the HRA payment will be at a preferential interest rate, with the balance being taken in accordance with cash flow requirements and at the prevailing PWLB rate.
9. The headroom is needed to facilitate two potential immediate projects: the tower block refurbishment programme (£8.5m over 6-8 years) and the HCA new build programme (developing 112 new homes at a cost of £16m over 3 years). These projects can be afforded within the overall funding envelope if the Council takes the maximum borrowing facility and does not pay down the debt in the early years.

Income and Expenditure

10. Overall the Council's housing stock is in reasonable repair and has achieved the Decent Homes standard. The Council will need to continue to meet its repairs and maintenance responsibilities and invest in renewing its stock and this is provided for in the business plan.
11. However, challenging efficiencies in the current cost of works will need to be delivered by Direct Services (in some cases 20-30%), on a phased basis to bring them in line with comparable costs elsewhere and make the Plan affordable.
12. Discretionary budgets for aids and adaptations, redecoration and gardening are maintained, but will require review and strategies to be developed to manage these within the current limits as we recognise that there is likely to be increased demands on these budgets in the future.
13. The current rental convergence uplift formula (RPI plus 0.5% plus £2 per year) is retained. New lettings of existing stock will be let at social rents. The cap on the full recovery of service costs from tenants will be reviewed, but is currently assumed to continue. Currently, tenants on benefits are eligible for full service charge recovery through the benefits system.
14. The impending benefits system changes leading to the Universal Credit are expected to lead to increasing pressures in managing rent arrears. Whilst the current policy intention is that the value of housing benefit is ring-fenced, other benefits may be reduced so depressing incomes. Second, it is the intention that the housing benefit will be paid direct to the tenant, rather than as at present to the landlord, which further increases the risk of arrears. Finally, there is the risk that Central Government promotes Right to Buy with deep discounts which could result in the sale of stock and a reduced income to the Council.

Future Opportunities

15. The immediate headroom (initial 2-3 years) is potentially absorbed by the tower blocks and HCA new build programmes. Thereafter there will be potential for new investment. The opportunities identified in the draft business plan include the following.
16. **Energy and Thermal Efficiency:** to improve energy efficiency and use renewable sources (principally photo-voltaics) based on the principles of relieving fuel poverty, reducing carbon emissions and the potential to attract funding support (for example through the Green Deal and private sector).
17. **Regeneration:** funding new development within our estates to allow us to add new homes, improve our estate environment and decant tenants where stock needs to be replaced. An example is the Blackbird Leys estate, but there will be other opportunities across the City.

18. **New Development:** there may be development opportunities on Council land outside existing estates. The main example is Barton, where there is the potential for over 400 affordable homes, beginning in 2013-14. Funding this would be a major commitment (perhaps over £100m over 10 years), but the increased rental income and reduced management overheads through efficiencies of scale might support this.
19. **Improving Stock Renewal:** we could seek to enhance the basic stock renewal standard-either raising the specification or bringing forward the renewals.

Risk

20. A risk assessment is attached. The principal risks divide into three main categories:
 - a) Treasury: the scale of the borrowing commitment is significant, but the treasury management strategy provides for the mitigation of future interest rate fluctuations.
 - b) Policy Factors: the scale of the impact of changes to the benefit regime identified above is unclear, but there will be implications for increased management of rent and service charge arrears.
 - c) Works and Services Cost: we have identified the need to reduce costs and will be establishing a strategy with Direct Services to address this.

Wider Implications

21. **Climate Change and Environmental Impact:** the improvements to the tower blocks will raise the energy efficiency standards of 400 homes. There is potential to improve further energy efficiency across the Council's housing stock.
22. **Equality Impact Assessment:** the continued provision of social rented affordable homes and the development of new affordable homes will benefit people on low incomes and vulnerable sections of society.
23. **Financial Implications:** there are none immediately at this stage. The Treasury and borrowing strategy for funding the HRA buy-out will be reported fully when the business plan is further developed. The consequent 2012/13 HRA budget will be reported to Council in February 2012. The draft HRA budget appears elsewhere on the agenda and is in accordance with the draft HRA Business Plan.
24. **Legal Implications:** there are none at this stage.

Appendix to the report: Working Draft HRA Business Plan

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List of background papers: None

Version number: 2

Risk Register

RED RISK

CLOSED RISK

Risk ID	Risk						Corporate Objective	Gross Risk		Residual Risk		Current Risk		Owner	Date Risk Reviewed	Proximity of Risk (Projects/Contracts Only)
Category-000-Service Area Code	Risk Title	Opportunity/Threat	Risk Description	Risk Cause	Consequence	Date raised	1 to 6	I	P	I	P	I	P			
CRR-000-CHCD	Universal Credit (P)	T	Reduction in benefits entitlement	Changes in Government policy	Increased tenant arrears	17.11.11	2	4	5	4	2	4	4	TP	Current	NA
CRR-000-CHCD	Housing Benefit payment (P)	T	HB payment changed from landlord to tenant	Changes in Government policy	Increased tenant arrears	17.11.11	2	4	5	4	2	4	4	TP	Current	NA
CRR-000-CHCD	Increased homelessness (E)	T	Increased homelessness	Economic context	Increased presentations and waiting list	17.11.11	1	4	4	4	2	4	3	TP	Current	NA
SRR-000-CHCD	Affordable rents policy (E)	T	Grant funding conditional on 'Affordable Rents'	Changes in Government policy	Less funding support and development	17.11.11	1	3	4	2	4	3	4	TP	Current	NA
CEB-000-CHCD	Right to Buy	T	Increased discounts for RTB	Changes in Government policy	Reduced stock and income	17.11.11	1	4	3	3	3	4	3	TP	Current	NA
CEB-000-CHCD	Tenant governance (P)	O/T	Need to overhaul tenant scrutiny and engagement	Lack of effective tenant participation	Poor tenant scrutiny/engagement	17.11.11	6	4	5	2	2	4	2	TP	Current	NA
SRR-000-CHCD	Local Offer	O/T	Local offer required	TSA regulation	Lack of regulatory compliance	17.11.11	2	4	3	2	2	4	2	TP	Current	NA
SRDR-000-CHCD	Residents profiles	O	Raise quality/coverage of resident profiles	Inadequate survey information	Less effective targeting of services	17.11.11	1	4	4	2	2	3	3	TP	Current	NA
SRR-000-CA	Renewals/repairs database	T	Lack of stock condition data assurance	Inadequate data and systems	Higher costs and poor workflow	17.11.11	1	5	4	3	2	4	4	SS	Current	NA
SRR-000-CA	Stock condition	T	Accurate stock condition data needed	Inadequate data and systems	Higher costs and poor workflow	17.11.11	6	5	4	3	2	4	4	SS	Current	NA
CEB-000-DS	Renewals/repairs costs	T	Current costs too high	City Services costs too high	Excessive costs	17.11.11	1	5	4	3	3	5	4	GB	Current	NA
CEB-000-CA	Tower block programme	T	Cost exceed programme	Additional works required	Additional costs	17.11.11	6	4	3	2	2	3	2	SS	Current	NA
SRR-000-CA	Green Deal	O	Funding for energy efficiency	Government programme announcement	Potential to access funding	17.11.11	1	4	3	2	2	4	3	SS	Current	NA
SRR-000-CHCD	Performance measures	O/T	Need to confirm indicators suite	Current indicators not comprehensive	Inadequate reporting	17.11.11	1	5	4	2	2	3	3	TP	Current	NA
CRR-000-FI	Treasury strategy	O/T	Interest charges and conditions	Market volatility	Increased finance risk/costs	17.11.11	1	5	3	3	2	3	3	NK	Current	NA
CEB-000-FI	Borrowing cap	T	Reduction in borrowing cap	Changes in Government policy	Inability to fund programme	17.11.11	1	4	3	3	3	4	3	NK	Current	NA
CEB-000-FI	Rent increase	T	Possible cap on future rent increases	Government regulation and high inflation	Lower income	17.11.11	1	4	2	3	2	3	3	NK	Current	NA
CEB-000-CA	Service charges	O	Potential to secure full tenant recharge	Policy to cap tenant charges	Failure to recover full service costs	17.11.11	1	3	5	3	3	3	4	SS	Current	NA
SRR-000-CHCD	Voids	T	Increased incidence and extended void period	Reduction in benefits/change in benefit payment	Lower rental income	17.11.11	6	4	4	3	3	3	4	TP	Current	NA
SRR-000-CHCD	Bad debts	T	Increased bad debts	Reduction in benefits/change in benefit payment	Lower rental income	17.11.11	6	4	4	3	3	3	4	TP	Current	NA
CEB-000-CA	Tower block cost recovery	O	Potential to recharge part to leaseholders	Leaseholders unable to fund	Lower income	17.11.11	6	4	5	2	4	3	5	SS	Current	NA
CRR-000-CA	HCA programme delivery	T	Failure to deliver programme	Council capacity and land holdings	Non-delivery of affordable homes	17.11.11	1	4	4	3	2	4	3	SS	Current	NA
CEB-000-CA	Barton development	O	Potential for City Council to deliver affordable homes	Management and financial capacity	Lack of increase of Council stock	17.11.11	1	4	4	3	3	4	4	SS	Current	NA
CEB-000-CA	Estate regeneration	O	Potential for City Council to deliver affordable homes	Management and financial capacity	Lack of increase of Council stock	17.11.11	1	4	4	3	2	4	4	SS	Current	NA
CEB-000-CA	Energy efficiency and carbon reduction	O	Potential to support Low Carbon Oxford and reduce fuel poverty	Strategy required	Potential efficiencies and carbon reduction targets missed	17.11.11	1	3	4	2	3	2	4	SS	Current	NA
SRR-000-CA	Raise quality of stock renewal	O	Improve specification for bathroom and kitchen renewals	Strategy required	Potential to raise stock standards missed	17.11.11	1	2	4	2	3	2	4	SS	Current	NA