

**To:** Cabinet  
**Date:** 11 December, 2024  
**Report of:** Peter Matthew, Executive Director - Communities and People (Interim)  
**Title of Report:** Housing Revenue Account (HRA) 40-Year Business Plan

Summary and recommendations	
<b>Purpose of report:</b>	To present the HRA 40-year Business Plan for approval and implementation
<b>Key decision:</b>	Yes
<b>Cabinet Member:</b>	Cllr. Linda Smith, Cabinet Member for Housing and Communities
<b>Corporate Priority:</b>	Housing
<b>Policy Framework:</b>	Corporate Business Plan priorities for Housing

**Recommendation(s):** That Cabinet resolves to:

Cabinet is asked to:

1. Adopt the new OCC Housing Revenue Account 40-Year Business Plan, which is attached at **Appendix A** that shows the HRA is able to fund planned expenditure over the medium term as set out in the 2025/26 Budget and MTFP proposals.
2. Agree to:
  - i). implement the actions set out at paragraph 3.12 for further improving the financial position of the HRA in the medium term and bring forward availability of new borrowing from 2030/31; and
  - ii). prepare the options available to the Council for investing the HRA beyond 2030/31 as outlined at paragraphs 3.19/20.

## 1. Report Summary

1. Oxford City Council's Housing Revenue Account Business Plan models the HRAs expected incomes, and its expenditure on housing management, housing repairs and capital maintenance over the next 40 financial years. It

also models approved proposals for additional council house building and acquisitions.

2. The draft OCC HRA Business Plan, attached at **Appendix A**, confirms that the Council's plans (as per MTFP) for delivering services to its tenants, and maintaining and securing new council homes over the next 5 years, are affordable.
3. The Business Plan confirms the reasonably good health of the HRA over the next 40 years. It highlights that the HRA will marginally fall into a 'borderline affordable' position below the ICR guideline for a 3-year period around 2028-31. This limits the Council's ability for new, additional borrowing or investments in the medium term, but affordability and new borrowing headroom improve from 2031.
4. The draft explains that the baseline position can also be improved, by a range of measures. It proposes a core set of actions that Council can take, which if actioned would have significant positive impacts on the Plans baseline, the HRA ICR could be held above the guideline throughout the plan period, and new borrowing headroom will steadily rise from as early as 2029/30.
5. Cabinet is asked to approve the draft OCC HRA 40-year Business Plan and agree for officers to develop actions for enhancing the Plan baseline position; and present proposals for determining its future HRA investment priorities and choices beyond 2030/31.
6. Cabinet is asked to relate this report to others also presented to December Cabinet covering the HRA Asset Management Strategy, HRA 5-Year Investment Programme and delivery arrangements, and HRA Tenant Engagement and service changes in housing management.

## **2. Reason for Decision and Options Considered**

- 2.1 The Housing Revenue Account (HRA) is a ring-fenced account within the Council's General Fund, which accounts for transactions relating to council owned housing. Since the introduction of Self-Financing in April 2012 the Council has been able to retain the income generated by its housing within the HRA and use this for the purpose of delivering services to tenants and maintaining and investing in council housing.
- 2.2 The HRA Business Plans set out the funding available to the Council to manage and invest in its social housing, while also funding the building and buying of new council homes. The Plan diagnoses the ability of HRA finances to fund the delivery of services over 40 years based on projections of current and medium-term expenditure plans and assumptions. Its outcomes – the health of the HRA - provides a long-term line of sight/framework for guiding current and medium-term decisions.

## **Business Plan - financial modelling inputs and assumptions**

- 2.3 The business plan finance model simulates and forecasts HRA financial activity to provide a guide to its long-term health. It projects expected council housing income and cash flows for managing, maintaining, and investing in tenant services and its housing stock, and developing new council homes over a 40-year period: 1 April 2024 and ending on 31 March 2064.
- 2.4 The financial model takes into account evidence of current levels of HRA income and expenditure as approved through the budget setting and Medium Term Financial Strategy (MTFS) process, which are also presented to Cabinet today. They include:
- a) Current average annual levels of HRA revenue income of £57m generated from dwelling rents, service charges and non-dwelling rents.
  - b) **£142 m revenue expenditure** over the next 5 year, allocated for day-to-day general management costs in providing services to tenants and for carrying out responsive and cyclical repairs. This includes providing the housing and tenancy management, repairs and maintenance, and management services for tenants.
  - c) **£176.5m capital Investment** over 5 years - 2025/26 to 2030/31 to support delivery of major works and components for existing and future homes (52% of total), energy efficiency and decarbonisation of the housing stock (28%), building safety and regulatory compliance works (20%) over the next 5 years. Cabinet is asked via a separate report to agree a new 5-Year Investment Programme for investing in existing homes and estates, to ensure that they are well managed, safe, and maintained at decent and energy efficient homes standards.
  - d) **£356m for delivering the Council's ambitious housing development** for building and acquiring 1095 new homes to provide a range of much-needed quality affordable and social housing by 2030/31. This includes HRA reserves and borrowing, grants and capital receipts.
- 2.5 In addition, the modelling draws on wider assumptions around local and national policy, local housing market and macroeconomic conditions. These include:
- a) continued management of HRA expenditure in line with approved budgets and policies within the MTFP.
  - b) information flows from the Council's ongoing housing stock condition surveys. This should provide for long-term investment in the housing stock to increase to £55,172 per property over 30 years at current prices (£1,839 per year);
  - c) underlying inflation forecasts for the consumer prices index (CPI) provided by the Bank of England, of 2% from 2027/28. Projected income and expenditure assumptions include:

- rents increase by CPI +1% in 2025/26 (in line with extant policy);
- rents increase by CPI only from 2026/27 onwards. A prudent assumption taken by other social landlords, pending policy of the new Government;
- building costs increase at CPI +1%. This recognises the potential volatility of these costs and is reflective of long-term trends; and
- interest rates on new borrowing reflect OCC's own projections over the medium term, settling at 3.5% pa from 2029/30.

2.6 In addition to the provisions above, the projections allow for representative levels of investment in existing dwellings in order to meet new decent homes and regulatory requirements.

### **Business Plan - Baseline Position**

- 2.7 The Business Plan report, attached at **Annex A**, graphically outlines the projections of the Council's HRA income and expenditure plans with future assumptions. It then presents the resulting **baseline indicator** of the health of the HRA over the next 40 years.
- 2.8 The report acknowledges the need for the HRA to borrow extensively to deliver our medium-term programmes. It shows the scale of current plans for building and acquiring new homes, and their major (spiking) impacts on current borrowing plans over the next 5 years.
- 2.9 The report explains the health of the Plan over the 40 years based around two core indicators:
- Scale of debt load being carried: over the medium-term debt levels are expected to rise steeply before stabilising at high levels from around 2031 over the mid-point of the plan, with debt peaking at £700m at 2040/41 compared to around £415m today. Debt then falls significantly from the third quarter of the 40 year period.
  - Ability to repay debt - interest rate cover ratio (ICR): the ICR measures the affordability of the baseline projections in terms of the ability of HRA surpluses to repay interest rate charges on its debts. The report shows that the HRA baseline is above the guideline 125%, except for 3 years where it dips below the line (2028 to 2031). This is linked with expected higher expenditure levels as many housing development programmes reach their final stages.
- 2.10 The Report narrative concludes that in the medium term (to 2031/32) the HRA is insufficiently flexible to respond to additional regulatory and other emerging pressures, substantial additional decarbonisation works, or other new initiatives over the medium term. As a result the report indicates that the HRA baseline is "borderline affordable", and would deteriorate further if substantial new plans are undertaken over the medium term.

- 2.11 Council could be a bit more optimistic than this position. Although the baseline shows that ICR falls slightly below the guideline for a 3-year period, this would nonetheless be well within the 25% extra cover buffer above 100% set in the guideline. Aside from this 'blip', the baselines show a healthy plan, which improves steadily over the long term.
- 2.12 We considered a range of actions that can improve the financial baseline and resilience of the HRA. The following actions are proposed for further exploration:
- delivery of current new homes programmes – Are they on track? The next phase housing acquisition strategy beyond 2030/31 including the mix on offer for PRS, an RSL, and smaller new homes projects;
  - reducing HRA operating costs, in particular, repairs and maintenance costs, by up to £2.5m over 25/26 to 30/31. To be effected through annual efficiency targets rising to 5% over the 5 years;
  - increasing operating income, in particular, by raising service charges to full cost recovery, which could generate up to £1m over 5 years at a cost of approx. £2.15 per month/tenant; and
  - increasing capital through the sale of poor performing assets, by reviewing underperforming stock that do not work socially for tenants, or are expensive to maintain and maybe beyond maintainable. Initial indication for disposing up to 10 units/yr from 2025/26 for 10 years.
- 2.13 Taken together the report explains that these measures would enhance the baseline by reducing costs, increasing income, and pairing back on debt levels. In the medium term, the measures could help to raise the baseline above the ICR guideline, and borrowing headroom would steadily increase from 2030/31.
- 2.14 This outlook would enable the Council to begin to consider its future priorities and options for investing the HRA from 2030/31.

### **Addendum**

- 2.15 In the October budget, the Government announced changes to the rent policy to retain the current rent formula at CPI plus 1% for five years from 2025/26.
- 2.16 The attached Addendum at **Annex B** explains the impact of this policy change on the HRA baseline. In essence, by improving our income assumptions from 2026, the policy change for up to 5 years would provide more income available to repay debt and should therefore help to raise the baseline ICR above the 125% guideline. In addition to the measures at paragraph 3.12 above, the change would also provide a steadily improving borrowing headroom from 2030.

### **Future investment**

- 2.17 The baseline anticipates available HRA borrowing headroom increasing from £6.5m in 2031 rising to £26m by 2041 - subject to implementing the measures at

paragraph 2.12 above. In addition, the recently announced rent policy increase by CPI+1% for 5 years from 2025/26, could lead to a further increase in the amount of borrowing the HRA could undertake, and earlier, by approximately £70m between 2029/30 and 2031/32.

2.18 Overall, the updated projected baseline could provide the possibilities for new HRA borrowing of up to £700m over the 10-year period between 2030 to 2040. This presents the Council the opportunity to consider and plan for its future investment choices for the HRA.

2.19 Council is therefore able to begin to prepare its investment choices for making best use of available HRA funding beyond the medium term. The Council is already undertaking the following pieces of work, which should go some way to developing those investment options:

- preparation of HRA asset strategy, and 5-year investment plan;
- revised HRA delivery proposals - commissioning and clienting arrangements, including finance client management to support delivery of efficiencies targets and VFM;
- reshaping the tenancy management functions for effective management of the services with tenants fully engaged; and
- preparation of OX Place business cases and plans for future options – including PRS, RSL and modest additional homes projects.

2.20 In addition to the work above, the following should also be carried out to present the full range of choices:

- affordable housing programme from 2031, in particular, opportunities for small to medium scale projects; and
- decarbonisation delivery programmes from 2031 to 2040.

### **Governance**

2.21 The HRA Business Plan does not propose new governance for approving HRA budgets, or the capital maintenance or development programmes. It is a working document that provides a framework for informing the Council's future decisions about HRA expenditure and housing services. The Plan is intended to be flexible to adjust to changes in its underlying assumptions and should be reviewed and updated every year.

### **Value For Money**

2.22 Council partners who deliver work covered by the HRA business plan are subject to providing value for money. The commissioning of the council's main partner for delivery of works to its housing stock, Oxford Direct Services Ltd (ODS), should require the submission of an annual business plan that demonstrates continued

value for money, and this is verified on an ongoing basis as part of the clienting arrangements.

## **Conclusions**

- 2.23 The OCC HRA 40 Year Business Plan provides Council a context for framing its future investment decisions for the HRA in the long term.
- 2.24 The Business Plan demonstrates that projected rental income should cover the Council's expenditure plans on housing management, repairs and maintenance, and decarbonisation of the stock to 2030. There is also sufficient capacity to fund its current commitments for building and acquiring new homes,
- 2.25 The Business Plan, therefore, presents a reasonably healthy HRA over the period. HRA debt reaches a maximum affordable level over the medium term (to 2030) in all scenarios - the affordability of the baseline remains above the guideline ICR, except for a short 'borderline' period. Council should therefore refrain from additional new HRA investments, until after 2030.
- 2.26 By implementing options proposed in this report, coupled with the proposed extension to the national rent increase policy, the affordability of the baseline can be significantly improved and thereby bring forward available investment headroom providing for up to £700m of borrowing between 2030 to 2040.
- 2.27 Council should make an early start in determining its investment priorities for future HRA investment beyond 2030/31.

## **Financial implications**

- 2.28 The financial implications of this report are included above. The HRA 40-year business plan shows that the HRA is viable and affordable.
- 2.29 This report shows the options available to further improve the HRA's financial position over the shorter term resulting in an increase to the borrowing capacity.
- 2.30 There may be indirect financial consequences to consider, such as implications for the generation of surpluses generated by ODS as a result of this new process. Careful consideration should be taken, and the impacts fully evaluated.

## **Legal issues**

- 2.31 The Local Government and Housing Act 1989 ("the 1989 Act") contains the statutory requirements regarding the keeping of a Housing Revenue Account (HRA). This includes 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) produce and make available for public inspection, an annual budget for their HRA, which avoids a deficit; (ii)

review and if necessary, revise that budget from time to time; and (iii) take all reasonably practical steps to avoid an end of year.

- 2.32 The guidance published by the MHCLG on the operation of the HRA ring fence 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.
- 2.33 Sections 167 to 175 of the Localism Act 2011 (“the 2011 Act”) introduced a new system of Council housing finance which ended the current Housing Revenue subsidy system in England and replaced it with self-financing arrangements. Section 171 of the 2011 Act empowered the Secretary of State to make provision relating to the level of indebtedness in relation to local housing authorities in England which keep a HRA.
- 2.34 Local authorities with an HRA are no longer constrained by government controls over borrowing for housebuilding and are able to borrow against their expected rental income, in line with the Prudential Code.
- 2.35 In relation to the Council’s public sector equality duty, where the setting of the capital, revenue and HRS budget result in new policies or policy change, the Council should carry out an equality impact assessment to secure delivery of that duty, including such consultation as may be required.

### **Equalities, Human Rights and Community Cohesion**

- 2.36 In implementing the recommendations of this report, the council will have due regard to its obligations under the Equality Act 2010, the Human Rights Act 1998 and other relevant legislation. The management and upkeep of council housing and construction of new homes are not expected to impact on equalities, human rights or community cohesion. Individual residents and protected groups will continue to be treated in line with OCC’s Housing policies and procedures, which are assessed for their effect against these criteria.
- 2.37 The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:
- (i) the need to eliminate discrimination, harassment, victimisation, and any other conduct that is prohibited by or under the Equality Act 2010;
  - (ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not: and
  - (iii) foster good relations between those who have protected characteristics and those who do not.

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<b>Background Papers:</b>	
1	Housing Revenue Account 40-Year Business Plan
2	Addendum report to the HRA 40-Year Business Plan

**Please note in the table below the version number of your report that was finally cleared at each stage**

<b>Report Stage</b>	<b>Version Number</b>
<b>First Draft:</b> 31 October 2024 <i>Commissioned and cleared by Director 4 November</i>	V1
<b>Second Draft:</b> <i>Cleared by Legal and Finance deadline 6 November</i>	V2
<b>Final Draft:</b> deadline to send to the Cabinet Members 11am on 8 November <i>Cleared by Cabinet Member deadline 13 November</i>	V3
<b>Final approved author draft:</b> deadline 14 November for Labour Group agenda publication  <i>Cleared by Labour Group xx November with xx November final deadline for cabinet member clearance after any Labour Group amendments</i>	

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