

Appendix D: Summary of the HRA Business Plan

1. Introduction

- 1.1 This report includes a proposal for HRA rent setting for 2021/22 and provides an update to the Housing Revenue Account (HRA) Business Plan, along with highlighting the key assumptions required to reflect national policies and financial impacts to the HRA. The business plan projections reflect the income and expenditure required to manage the landlord function and, at the same time, work towards the Council's objectives to increase Council housing supply in Brent.
- 1.2 This report does not attempt to summarise all aspects of the HRA business plan but aims to highlight areas where particular issues should be noted and consider options for future budget strategy.

2. National and local policies that can impact the HRA Business Plan

- 2.1 The HRA self-financing system for Council Housing was implemented in April 2012. Under HRA self-financing, the Council's HRA continues to be a ring-fenced account (income and expenditure) for Council dwellings. HRA self-financing is intended to allow local authority landlords to manage and maintain their own stock from the rental income they generate.
- 2.2 In October 2018, the government announced that the HRA borrowing cap would be lifted, revoking the previous determinations that specified local authorities' limits on indebtedness. This has provided councils with new borrowing powers to increase their housing supply, with a focus on mixed-tenure development including homes for social rent, affordable rent and shared equity products.
- 2.3 The Welfare Reform Act 2012 introduced radical changes to the welfare system, which included a reduction of housing benefits for social tenants if their accommodation is considered larger than required. It also introduced a new universal credit system to be implemented over time, where benefit payments would be made directly to the tenant, rather than the landlord. This change increases the risk of non-collection, which would lead to a rise in rent arrears.
- 2.4 The Welfare Reform Act 2016 imposed a 1% rent reduction a year for 4 years from April 2016 to March 2020. The final financial year of reductions being 2019/20. The resulting loss of rental income for Brent over this period was £23 million when compared to the income that would have been due to the Council if this was not imposed.
- 2.5 It was therefore necessary to make revenue savings within the HRA to compensate for the loss of rental income. A combination of these savings and the use of HRA reserves has helped to achieve a balanced budget during the period of rent reduction, as required by legislation.

- 2.6 In October 2017, the government announced a return to the option of increasing rent by CPI plus 1% for 5 years for all local authorities, starting in April 2020.
- 2.7 A return to the CPI plus 1% model for 5 years from April 2020 will provide some stability and certainty over planned investment in the current stock, service improvements and new developments, at least in the short to medium term. The approach to be taken by the government beyond 2025 remains uncertain for all local authorities. In the absence of this information, it is assumed in the business plan that rent will remain as CPI plus 1% after 2025.
- 2.8 Increasing rents by CPI plus 1% over the next 5 years allows profiling of major works to be funded without the need to borrow in the long term. This creates the possibility for a borrowing strategy to be exclusively aimed towards new builds and housing supply. It is important to consider both short and long-term impacts of rent setting, as it will have an accumulated impact on future budget availability, similar to the way council tax is modelled.
- 2.9 Increasing rents by CPI plus 1% will also help the Council to deliver its commitment to fire safety improvement works, address the gaps identified from the stock condition survey, as well as fund agreed uplifts in contracts without affecting the delivery of essential services.
- 2.10 The independent review of building regulations and fire safety, also known as The Hackitt Report, was published in 2018. The report set out over 50 recommendations for the delivery of a robust regulatory system. As a result, in June 2019, the government published the 'Building a Safer Future' consultation detailing proposals to achieve long-term reform of the building safety system. This document sets out the government's proposals for a reformed building safety system covering the performance of all buildings, as well as the management of fire and structural safety risks in new and existing buildings in scope.
- 2.11 A low-rise fire safety programme was developed by Brent Housing Management to address risks in 1,208 converted and purpose built blocks. With regard to high-rise blocks, it was decided to go over and above regulatory standards by carrying out Type 4 Fire Risk Assessments across all tower blocks over 12 storeys, the outcome of which found no fundamental issues or safety concerns. The Council is currently in the process of developing a robust major works programme, as outlined in the Asset Management Strategy, to deliver the highest standards of compliance, providing ongoing peace of mind and reassurance to our residents when it comes to fire safety in tenant homes.
- 2.12 As part of the South Kilburn regeneration programme, the Gloucester House & Durham Court site is being redeveloped to provide 235 new affordable homes to assured social tenants. These are expected to be fully occupied by Brent's residents by December 2021. Brent Council owns the freehold and the Council's housing team, together with the Council's energy team, will provide the billing for heat to the residents. The associated costs will be funded by service charges and

through the HRA asset management strategy, in line with other communal heating networks.

- 2.13 In May 2019, the UK government declared a climate change emergency, committing to target net zero carbon emissions by 2050. In July 2019, Brent declared a local climate and ecological emergency, and has committed to working towards carbon neutrality by the year 2030.
- 2.14 London Councils have included a target of an average EPC Band B rating for London’s housing stock by 2030 as part of its Joint Statement with the London Environment Directors’ Network on Climate Change. A key feature of the borough-wide climate strategy will be to achieve an average level of EPC band B by retrofitting all housing properties by 2030. Research and piloting work on this is underway for 2020/21, and will form part of the future updates to the Asset Management Strategy.
- 2.15 Brent has committed to an ambitious strategic housing target to deliver 5,000 new affordable homes over the five year period between 2019 - 2024. The 5,000 new affordable homes includes the provision of 1,000 to be delivered directly by the Council by the 31st March 2024. As of July 2020, 146 homes have already been delivered, with more in pipeline. The current baseline business plan has incorporated the expected delivery of an additional 461 new homes, along with the associated income and expenditure. Further schemes will be added into the business plan during the year, when they have progressed to advanced stages after completing financial appraisals.

3. Rent setting proposal for 2021/22

- 3.1 The table below shows the current average rent levels and the proposed increase of CPI plus 1% which equates to 1.5% for 2021/22. All new re-lets are charged at target rent, which is reflected in the current average rent.

Bed Size	Current Average Rent 2020/21	Proposed Average Rent (1.5%) 2021/22	Proposed v Current Rent
	£	£	£
Bedsits	87.33	88.64	1.31
1	102.30	103.84	1.54
2	118.16	119.94	1.78
3	129.63	131.57	1.94
4	141.41	143.53	2.12
5	154.20	156.51	2.31
6+	177.74	180.41	2.67
Average Rent	116.30	118.05	1.75

- 3.2 The proposed rent rates for 2021/22 will be £1.75 per week (1.5%) higher, on average, when compared to the previous financial year.
- 3.3 A rent increase of 1.5% is estimated to result in an additional £0.7m of income when compared to 2020/21. However, this is £0.5m less than previously assumed in the business plan. This due to CPI reducing by 1.2% compared to last year, which is the result of unprecedented national economic pressures due to the ongoing pandemic.
- 3.4 The net rent amounts exclude service charges. Service charges are a recharge to tenants and leaseholders based on actual costs incurred in providing specific services, such as estate cleaning.
- 3.5 Two other options have been modelled:
- i. Rents could be increased by just CPI (0.5% in September 2020). This is estimated to increase rental income by £0.2m. However, this would result in a £0.4m deficit (as per the table below), which will need to be covered by the operating reserve.
 - ii. Rents could be frozen at current rates. However, this will result in a shortfall of £0.6m and could potentially result in significant reductions to operating reserve in order to balance the budget.

Both of these options would result in reduced maintenance and service improvements to tenants and leaseholders.

- 3.6 The table below illustrates the different options for rent setting and the projected outturn for 2021/22 as a result of indicative budget requirements to specific expenditure lines:

	Budget Requirements		Rent Setting Scenarios		
	Budgets 2020/21	Indicative Budget 2021/22	1.5%	0.5%	Freeze
	£m	£m	£m	£m	£m
Net Rent	(47.5)	(48.2)	(0.7)	(0.2)	0.0
Rent related expenditure (not recoverable through service charges)					
Supervision and management	11.8	12.2	0.4	0.4	0.4
Repairs and maintenance	11.7	12.1	0.4	0.4	0.4

Efficiency savings	-	(0.5)	(0.5)	(0.5)	(0.5)
Major works	13.5	13.5	0.0	0.0	0.0
Provision for bad debts	0.4	0.7	0.3	0.3	0.3
Rents rates and other charges	0.9	0.9	0.0	0.0	0.0
Financing costs	9.2	9.2	0.0	0.0	0.0
Net (Surplus) / Deficit	0.0	(0.1)	(0.1)	0.4	0.6

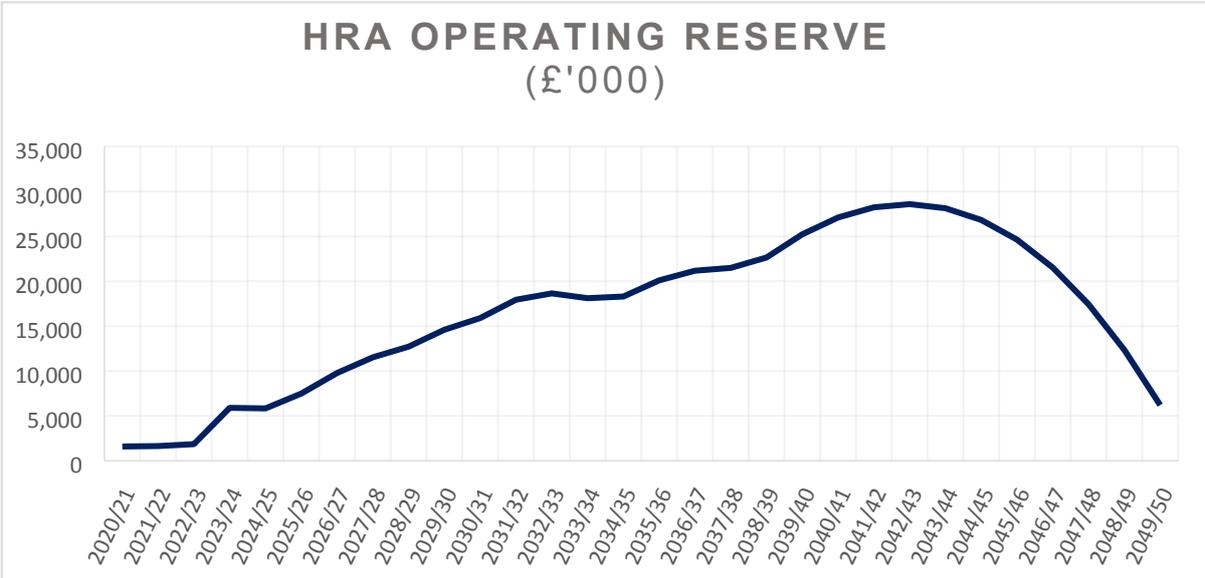
- 3.7 Supervision and management costs include allowances for pay inflation uplifts in the business plan. An assumed 3% inflation in 2021/22 will amount to an additional £0.4m budget requirement compared to previous year.
- 3.8 Repairs and maintenance contracts include an annual RPI inflationary uplift assumed at 3%, this will result in an additional £0.4m budget requirement.
- 3.9 Efficiency savings targets are incorporated into the budget setting process and business plan, in line with the Council's overall budget setting process. A 2% efficiency target across management and repairs will result in a £0.5m budget reduction for 2021/22, with an average saving reduction of £1.6m per annum over 30 years.
- 3.10 The major works expenditure for 2021/22 is budgeted to remain consistent with the previous year, which is in line with the affordability projections in the business plan. A two-year stock investment plan for 2020/21 and 2021/22 has been developed, whilst the Asset Management Strategy is being finalised following consultation with residents. During the first period of the capital investment strategy, the main focus is on the major refurbishment programme of high rise properties and completing the low-rise fire safety programme.
- 3.11 Future capital investment decisions derived from the Asset Management Strategy will need to be made in line with the affordability projections set out in the HRA Business Plan. It is envisaged that any significant investment identified in the Asset Management Strategy will require remodelling of the Business Plan to ensure that the cumulative financial impact of investment is sustainable over the long term, so that the HRA does not face a budget deficit over the next 30 years.
- 3.12 The provision for bad debt is a key budget risk arising from the ongoing global pandemic, adding to the risk of under-recovery resulting from the rollout of Universal Credit. Covid-19 and Universal Credit are expected to have an impact on rental income collection rates, which could lead to an increased likelihood of bad debts arising. The average collection rate in 2019/20 was 98.6%, which led to a £0.6m increase (from £4.2m to £4.8m) in rental arrears as at 31st of March 2020.
- 3.13 The full impact on income collection rates due to the pandemic is uncertain. The table below considers different scenarios for rent and service charge collections:

Scenario	Detail	Forecast Service Charges Income	Forecast Rental Income	Forecast Total Income	Ongoing Covid-19 related pressure
		£m	£m	£m	£m
1	100% collections	4.68	49.87	54.55	-
2	No drop in service charge collection rates and 1.4% drop in rent collection rates (same as last year)	4.68	49.17	53.85	0.70
3	5% drop in service charge collection rates and 2% drop in rent collection rates	4.45	48.87	53.32	1.23
4	10% drop in service charge collection rates and 4% drop in rent collection rates	4.21	47.88	52.09	2.46
5	15% drop in service charge collection rates and 6% drop in rent collection rates	3.98	46.88	50.86	3.69

3.14 The reduced collection rates could result in a requirement for the HRA to set aside additional sums, particularly in the short-term due to Covid-19, in order to accumulate sufficient funds to absorb the impact of the increased likelihood of bad debts arising. If any of the above scenarios materialise, it is likely to have an immediate budgetary impact on major works in order to mitigate cashflow shortages in the short-term. The business plan has been developed to take the sensitivity of collections rates into consideration and set aside an average of £0.5m each year for bad debts over the life of the business plan. This would allow the HRA to accommodate the drop in collection rates modelled in the worst case Scenario 5 and be able to absorb the resulting bad debt of £3.7m by 2027/28.

3.15 The HRA operating reserve as at 31st March 2020 was £1.4m, and it is not anticipated to be used while rent increases are set at CPI plus 1%. Currently, the business plan models to achieve a minimum operating reserve balance that represents an estimated 3% of income (£200 per unit), which is approximately £1.6m. The operating reserve is necessary to manage unexpected deficits, or for smoothing in-year budget pressures due to timing differences between the cost of building new homes and receiving rental income, so that it can offset the increased borrowing costs. In addition to the need for the HRA to balance competing demands, such as investing in supply of new homes, the current pandemic has further stressed the importance of maintaining an adequate level of reserves.

3.16 The graph below illustrates the baseline projections of the operating reserve over the next 30 years. The reserve balance increases during the medium-term, reflecting assumed annual rent increases of CPI plus 1%. The eventual reduction in the later years of the business plan is a reflection of accumulated inflationary uplifts and planned maintenance costs catching up with rental income, resulting in a reserve balance of £6m in year 30.



4. Summary of key assumptions in the HRA Business Plan

4.1 The HRA business plan provides long-term financial forecasts resulting from the implications of the Council’s spending, investment and rent-setting decisions, based on the authority’s current income, expenditure and investment expectations. The data is combined with key assumptions on how costs and income might change in the future to illustrate what the authority can reasonably expect to happen, using the best available information.

4.2 Regular review of assumptions is important in order to help the Council to make early decisions that help keep the HRA in balance, whilst also delivering substantial levels of investment in Council housing.

4.3 A summary of the key assumptions that underpin the 30 Year Business Plan are presented below:

Description	How it impacts the Business Plan	Assumptions used in the Business Plan
HRA Stock	Projected rental income is based on stock numbers	Baseline stock numbers in the current year are adjusted for projected RTB sales and new affordable housing supply

Description	How it impacts the Business Plan	Assumptions used in the Business Plan
Inflation on supplies and services	All income and expenditure is adjusted for inflation to reflect general cost increases	Rental income uses CPI, all other expenditure is assumed at RPI. CPI 0.5% and RPI 3%
Minimum Working Balance	Target level of minimum reserve for any overspends	Working balance requirements assumed at 3% of income giving circa £1.6m
Rental Income	Tenant rent projections are driven by stock numbers and average rent. Tenant rent is the largest source of income for the HRA	Average rent is currently set at £116 per week. Rent is adjusted as per government policy. Assumed CPI+1% in 2021/22 (1.5%)
Supervision and Management Costs	Rental income is allocated to management costs of providing a landlord service	Cost assumed to increase by RPI each year
Service Charges	Cost of specific services are charged back to tenants and leaseholders	Service charge uplift is in line with anticipated cost increases at RPI
Voids	Level of void properties have an impact on rental income that can be charged	Rent loss though voids is estimated at 1.3%
Bad Debts	Rent arrears that are not collected results in loss of income	Assumed on average 0.9% of rent
Repairs and Maintenance Costs	Rental income is allocated to repairs budgets	Expenditure is adjusted in line with RPI and stock movements
Right to Buy Sales	Stock reductions reduce rental income and set a target for the Council to achieve 1-4-1 replacements	Projected 18 sales in Yr1, and 16 sales per annum going forward

Description	How it impacts the Business Plan	Assumptions used in the Business Plan
Interest rate on borrowing	Rental income is allocated to financing debt	New debt is assumed at 3% interest on average
Capital Programme - Major Works	Investment to maintain housing stock	Profiling over 30 years based on affordability. This will be updated with ongoing updates to Asset Management Strategy
HRA Debt Balance	The HRA debt balance as at 31st of March 2020 was £229m.	Currently, the business plan does not anticipate the repayment of debt over 30 years old, as it will not be affordable while investing in new housing supply
RTB Receipts	Rolling three year spend targets are set by MHCLG based on RTB sales	It is currently assumed in the business plan that spend targets will be met. Further spend projections will be added into the business plan during the year when they have progressed to advanced stages after completing financial appraisals
Affordable Housing Supply	The Council has committed to providing 1,000 affordable homes by 31 March 2024	The current baseline business plan assumes 461 new affordable homes with an estimated cost of £86m. Further schemes will be added into the business plan during the year when they have progressed to advanced stages after completing financial appraisals
Efficiency Savings	Savings contribute towards offsetting budget pressures	2% efficiency savings target across revenue costs on management and repairs

5. Risks

- 5.1 The business plan is based on a set of assumptions, and there will always be an element of risk of significant changes in cashflow projections in the revenue and capital accounts, if any of the assumptions fail to materialise, such as the efficiency savings target of 2% each year.

5.2 The impacts of Universal Credit and Covid-19 will affect the HRA Business Plan, as the number of rent arrears are expected to increase considerably. A scenario analysis has been undertaken in order to explore a range of options. Cost pressures and income losses are continuously monitored and updated in the Council's Covid-19 Budgetary Impact Tracker. A number of mitigations are in place to help support tenants with universal credit such as:

- Continuing raising awareness with residents about Universal Credit, including what it means for them
- Developing future delivery partnership with DWP
- Establishing delivery partnership agreement that supports the most vulnerable
- Increasing provision for digital inclusion and improve capacity for residents to manage accounts independently
- Continuing to review strategy for maximising rent collection that reflects Universal Credit implications for transition and full service
- Investing in technology to optimise operating process and generate efficiencies

5.3 Impacts of national housing policies and any changes proposed in future Government papers can have an adverse impact on the HRA and could require additional resources to address any unexpected changes.

5.4 Uncertainty surrounding Brexit can lead to delays in housing policy decisions. The value of sterling could fall, which would lead to an increase in the cost of imported materials. The RPI in September 2020 is 1.1%, the business plan has built in an annual uplift on costs of 3% to allow for potential fluctuations.

5.5 The HRA debt cap has been removed and significant borrowing is required to invest in stock in order to increase housing supply in Brent. The HRA is exposed to interest rate fluctuations, which can have a significant impact on revenue budgets and the overall business plan. In March 2020, the government announced a discounted rate of PWLB for the HRA. This means the HRA can secure borrowing at a level of 100 basis points above gilts. Brent Council operates a one-pool approach to its borrowing, where the HRA receives a proportion of the Council's overall borrowing but with the reduced rate. The Council expects to be able to secure some long-term borrowing for the HRA at these low rates. The expected borrowing rate for the HRA is predicted to remain low over the next few years due to the global pandemic, however the expectation is that it will rise in the future. Interest rates for borrowing in the HRA are currently at 2% in 2020 and the business plan has built in an annual interest rate of 3% on average to cover any fluctuations.

5.6 Spend targets for 1-4-1 receipts set by Government mean that the Council may need to transfer receipts with interest, if spend targets are not met within 3 years of receiving the receipt. There is currently an agreement in place with the GLA to

ring-fence RTB receipts for a further 3 years if Brent transfers over any unspent RTB receipts to the government.

- 5.7 Since the early 2000s, a large number of councils in London, including LB Brent, entered into agreements with water companies to collect payments from their social housing tenants towards the water and sewerage charges. The councils were operating under the assumption that they were entitled to a discount from the water providers when they bought the water rates, on the basis that they were acting as their agent in collecting the water rates. The discount was to cover for bad debts, void loss and commission. However, following court rulings involving Southwark and Kingston-Upon-Thames, it was deemed that the councils were providing these water collection services as a 'water reseller', and not as an 'agent' of the water companies, as initially assumed. This means that the councils were only allowed to levy a small administration charge on top of the amount charged by the water undertaker, and therefore, councils have been overcharging their tenants for water and sewerage.
- 5.8 Therefore, Brent, and all local authorities, who had similar agreements with regional water companies, will need to reimburse all social housing tenants for any overcharged amounts. Brent had two such water collection agreements in respect of water charges, one with Thames Water and another with Affinity Water (formerly Three Valleys).
- 5.9 As these sums were received into each authorities' Housing Revenue Account, the money for these reimbursements will need to come out of local authorities' Housing Revenue Accounts as well. For Brent, the financial exposure has been estimated to be between £3m and £7m, depending on the calculation methodology and reimbursement period applied.
- 5.10 In 2019/20, Brent has taken a prudent action, consistent with other providers of social housing, to set aside a provision of £2.8m for the water case to cover the cost of making payments to residents, should this be required. The Council is also considering other mitigating actions, such as re-profiling planned works to achieve revenue cost reductions and utilising unreserved capital receipts.