

Appendix A

Summary of HRA business plan

1. Introduction

- 1.1 This report includes proposal for HRA rent setting for 2020/21 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 Councils income and expenditures involved to manage a landlord function and at the same time work towards the Councils 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 to highlight those areas where particular issues should be noted and to consider options for future budget strategy.

2. Background

- 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.
- 2.2. HRA self-financing is intended to allow local authority landlords to manage and maintain their own stock from the rental income they generate.
- 2.3. The Welfare Reform Act 2016 imposed 1% rent reductions for 4 years from April 2016 to March 2020. The final year of reductions being 2019/20.
- 2.4. The loss of rental income over the period of reduction on Brent has been £23 million when compared to the income there would have been if this was not imposed.
- 2.5. It was therefore necessary to make revenue savings in the HRA to compensate for the rental income loss, both in 2016/17 and in subsequent years so that the HRA can achieve a balanced budget as required by legislation.
- 2.6. The Housing Service Transformation Programme contributed towards delivering £3.6m of savings in the HRA, part of this involved bringing the Council's ALMO BHP back in-house in October 2017, the reorganization of the service to make it more efficient and the implementation of CRM system, including self-service access for tenants and leaseholders..
- 2.7. It was also necessary to use HRA reserves in order to maintain a balanced budget. Before the implementation of rent reductions in 2016/17, the HRA operating reserve balance was £6.2m which is used for contingency and smoothing of short term budget deficits. As at the end of 2018/19, the operating reserve balance has reduced by £4.8m to £1.4m due to the need to smooth out budget shortfalls as a result of rent reductions.
- 2.8. The major repairs reserve balance before rent reductions in 2016-17 was £11.5m, this was used to fund major works, as at end of 2018/19 the major repairs reserve balance has been fully depleted in order that improvement works can be carried out on Council homes.

- 2.9. As the major repairs reserve has been fully depleted, the fund available was not enough to deliver some essential maintenance and improvements; such as cyclical decorations, security improvements and communal heating replacements. Other improvements requested by tenants were also not delivered. This has led to a significant reduction in the satisfaction levels of both tenants and leaseholders.
- 2.10. In October 2017 the government announced a return to rent increases option, for all local authorities, of CPI plus 1% for 5 years starting in April 2020.
- 2.11. A return to the CPI plus 1% model for five years from April 2020 will provide some stability and certainty over planned investment in the current stock, service improvement and new development, at least in the medium term. The approach to be taken by 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 increase by CPI after 2025.
- 2.12. Increasing rents by CPI plus 1% over the next 5 years and then CPI for the remaining 25 years of the business plan allows major works profiling to be funded without the need to borrow in the long term, this allows the option for a borrowing strategy to be exclusively aimed towards new build 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.
- 2.13. Increasing rents by CPI plus 1% will enable the Council to deliver its promise on fire safety improvement works, address the gaps identified from the stock condition survey, cyclical maintenance and improvements tenants and leaseholders expect and to pay for the agreed uplifts in contracts and staffing costs, without affecting the delivery of essential services.

3 Rent setting proposal for 2020/21

- 3.1 The table below shows the average rent levels before the 1% rent reductions compared to current rates and the proposed increase of CPI plus 1% which equates to 2.7% for 2020/21. All new re-lets are charged at Target rent, therefore the current average rent will not be a direct reduction against 2015/16.

Bed Size	Average Net Rent 2015/16 (before rent reductions)	Current Average Net Rent 2019/20	Proposed Average Net Rent 2020/21 (2.7%)	Proposed v 2015/16 Rent
	£	£	£	£
Bedsits	88.12	84.59	86.87	(1.25)
1	102.06	98.46	101.12	(0.94)
2	115.66	113.59	116.65	0.99
3	127.73	125.55	128.94	1.21
4	138.95	135.96	139.63	0.68
5	148.83	147.63	151.61	2.78
6	152.56	155.39	159.59	7.03

Average Rent	114.53	112.06	115.08	0.55
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- 3.2 The proposed rent rates for 2020/21 will be on average £0.55 per week (0.48%) more than they were in 2015/16. The average rent increase compared to the current financial year is estimated to be £3.02.
- 3.3 A rent increase of 2.7% is estimated to result in £1.2m increased income compared to 2019/20.
- 3.4 The net rent amounts are excluding service charge. The service charges are a recharge to tenants and leaseholders based on actual costs incurred for providing specific services, for example, estate cleaning.
- 3.5 Two other options have been modelled:
- Rents could be increased by just CPI (1.7%). This is estimated to increase rental income by £0.8m. However, this would result in £0.3m deficit (as per the table below) which will need to be covered by operating reserve.
 - Rents could be frozen at current rates. However, this will result in a shortfall of £1.1m and could potentially result in using up most of operating reserve to balance the budgets.
 - Both of these options will have the impact of a reduced maintenance and improvement service to tenants and leaseholders.
- 3.6 The table below shows the different option for rent setting and the projected outturn for 2020/21 as a result of indicative budget requirements to specific expenditure lines:

	Budget Requirements		Rent Setting Scenarios		
	Net Budgets 2019/20	Indicative Budget 2020/21 (2.7% increase)	2.7%	1.7%	Freeze
Rent setting Scenarios 2020/21	£m	£m	£m	£m	£m
Additional Income:					
Net rent	(45.4)	(46.6)	(1.2)	(0.8)	0.0
Rent related expenditure (not recoverable through service charges)					
Supervision and management	11.4	11.7	0.3	0.3	0.3
Repairs and maintenance	11.5	11.9	0.4	0.4	0.4
Efficiency savings target	-	(0.5)	(0.5)	(0.5)	(0.5)
Major works	13.7	14.3	0.6	0.6	0.6
Provision for bad debts	0.4	0.7	0.3	0.3	0.3
Rents rates and other charges	1.0	1.0	0	0	0
Financing costs	7.4	7.4	0	0	0
Net (Surplus) / Deficit	0.0	(0.1)	(0.1)	0.3	1.1

- 3.7 Supervision and management costs include allowances for pay inflationary uplifts in the business plan. An assumed 3% cost inflation in 2020-21 will amount to £0.3m budget requirement compared to previous year.
- 3.8 Repairs and maintenance expenditure profiling includes annual RPI inflationary uplifts for repairs contracts. Contract inflations assumed at 3.5% increase to existing repairs budgets will mean £0.4m budget increase.
- 3.9 Efficiency saving targets are incorporated into the budget setting process in line with the Council's budget challenge. An assumed 2% efficiency target across management and repairs will result in £0.5m budget reduction.
- 3.10 Major works expenditure provision needs to increase for two reasons:
- The initial findings from the stock condition survey report indicates an average spend requirement of £13m per annum over the next 5 years, £16m average from years 6 to 10, £36m on average from years 11 to 30 after adjusting for year on year RPI inflationary uplifts
 - There is an additional £10m budget requirement to undertake fire safety works across Brent's housing stock. The safety works currently cannot be funded without borrowing, the rent increases will contribute towards this safety work on tenanted properties.
- 3.11 The Asset Management Strategy for Brent is currently being worked on by Property Services to refine the stock condition findings and prioritise works to improve the condition of housing stock. The Asset Management Strategy is likely to increase the budget requirements indicated in the stock condition survey. The medium term investment plan will need to be aligned as closely as possible with affordability within the business plan.
- 3.12 Provision for bad debt also need to be increased. The Welfare reform act 2012 introduced radical changes to the welfare system:
- Reduction of housing benefit for social tenants if accommodation is considered larger than they need.
 - Introduced a new universal credit to be phased in eventually, which will provide benefit payments direct to the tenant rather than the landlord.
- 3.13 The impact of universal credit will be on rental income collection rates, which in-turn means the likelihood of increased bad debts. The arrears balance as at 31st of March 2019 was £4.2m, an increase of £0.6m from previous year.
- 3.14 The bad debt provision going forward is estimated to increase by £0.3m (0.6% of rental income) due to uncertainties on the level of impact from universal credit rollout and general rent levels. The arrears balances will be monitored closely to reflect changes in rent collection rates.
- 3.15 The HRA operating reserve balance outturn as at March 2019 was £1.4m and is not anticipated to be used while rent increases are set at CPI plus 1%. Currently the minimum in the business plan model is to reach an operating reserve balance estimated at £200 per unit, which is approximately £1.6m. The operating reserve is necessary for unexpected deficits or used 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.

4 Summary of key assumptions in the HRA Business Plan

- 4.1 The HRA business plan provides long term financial forecasts of the effects 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 incomes might change in 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 helping the Council to make early decisions that help keep the HRA in balance, while delivering substantial levels of investment in Council housing.
- 4.3 Summary of key assumptions that underpin the 30 Year Business Plan are shown below:

Description	How it impacts Business Plan	Assumptions used in Business Plan
HRA Stock	Projected rental income is based on stock numbers	Opening stock of 7,751 based on year end accounts. This is adjusted for projected RTB sales and new affordable housing supply over the 30 years.
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 assumed at RPI. CPI 1.7% and RPI 3.5%
Minimum Working Balance	Target level of minimum reserve for any overspends	Working balance requirements assumed at £200 per unit 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 £112 per week. Rent is adjusted as per government policy. Currently 1% reduction up to 2019/20, assumed CPI+1% from 2020/21, CPI from 2026/27
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 in line with anticipated costs 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%, 1.10%, then 1% from 2022/23
Bad Debts	Rent arrears that are not collected results in loss of income.	Assumed increase of 0.6% from 2020/21 to reflect universal credit roll out and increased rents
Repairs and Maintenance Costs	Rental income is allocated to repairs budgets	Expenditure adjusted in line with RPI and stock movements
Right to Buy Sales	stock reductions reduce rental income and sets a target for Council to	Projected 18 sales in Yr1, 16 sales in Yr2, then 15 sales from Yr3 to 30.

	achieve 1-4-1 replacements	
Interest rate on borrowing	Rental income is allocated to financing debt	New debt is assumed at 2.07% PWLB rates
Capital Programme - Major Works	Investment to maintain housing stock	Profiling over 30 years based on recent stock condition survey. This will be updated with Asset Management Strategy once finalised.
HRA Debt Balance	The HRA debt balance as at 31st of March 2019 was £159.9m. The 2018/19 outturn for debt financing as a percentage of net rental is 13%	Currently the business plan does not anticipate the repayment of debt over 30 years as it will not be affordable.
RTB Receipts	Brent has a target Gross spend of £51.2m by end of Dec 2021.	It is currently assumed that the annual target spend Pre-GLA agreement to ring fence receipts will be met through a combination of Council spend and grant funding Registered Providers.
Affordable Housing Supply	Brent's target is to increase affordable housing by 5,000 homes in the borough over the next 5 years. As part of this target, the Council has committed to providing 1,000 affordable homes.	The current baseline business plan has built in 164 new affordable homes with an estimated cost of £45.8m. Further schemes will be added into the business plan during the year when they have progressed to advanced stages after completing financial appraisals

5 Risks

5.1 The business plan is based on a set of assumptions and there will always be some element of risk of significant changes in the cashflow projections in the revenue and capital accounts if any of the assumptions fail to materialise.

5.2 The impacts of Welfare Reform and Universal Credit will affect the HRA Business Plan as the number of rent arrears are expected to increase considerably. A number of mitigations are in place to help support tenants such as:

- Raising awareness with residents about Universal Credit, including what it means for them
- Develop future delivery partnership with DWP
- Establish delivery partnership agreement that supports the most vulnerable,
- Increase provision for digital inclusion and improve capacity for residents to manage accounts independently
- Continue 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 The impacts of national housing policies and any changes proposed in future Green Papers can have an adverse impact on the HRA Business and could require additional resources to deal with any unexpected changes. Uncertainty surrounding Brexit can also lead to delays in housing policy decisions.

- 5.4 The findings from the Grenfell inquiry and the Hackitt review, are also likely to have an impact on the HRA business plan, by requiring improvements yet unknown and increasing maintenance responsibilities.
- 5.5 The HRA debt cap is removed and significant borrowing is required to increase housing supply in Brent. Borrowing levels risk exposure to interest rate fluctuation which can have a significant impact on revenue budgets and overall business plan.
- 5.6 The HRA Business Plan assumes an ongoing inflation rate on expenditures over the 30-year period. If inflation rates were to exceed the assumed rate in the business plan, it will have a negative impact on both capital and revenue expenditures.
- 5.7 Spend targets for 1-4-1 receipts means the Council will incur interest charges if targets are not met. There is currently a plan in place to grant fund Registered Providers, however there still remains a risk of not achieving targets on time.