Appendix D: Summary of the HRA Business Plan

1. Introduction

1.1 This report includes proposal for HRA rent setting for 2022/23 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 could 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 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 in 2021/22. 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. Currently, 35% of Brent's council housing stock is performing better than the national average of Energy Performance Certificate (EPC) band D. However, 100% of housing stock falls short of EPC band B. 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 currently underway, and will form part of 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 2021, 262 homes have already been delivered, with more in pipeline. The current baseline business plan has incorporated the expected delivery of an additional 700 new homes, along with the associated income and expenditure.

2.16 Following the identification of urgent remedial works required to Granville New Homes, Cabinet reviewed the proposed options presented in October 2021. It was agreed to dispose of the blocks at Granville New Homes owned by First Wave Housing (FWH) to the Council's Housing Revenue Account, subject to a consultation with residents. The transfer involves 110 properties, along with associated income and expenditures to maintain the stock.

3. Rent setting proposal for 2021/22

3.1 The table below shows a snapshot of current average rent levels from occupied properties and the proposed increase of CPI plus 1%, which equates to 4.1% for 2022/23. All new re-lets are charged at Formula rent and new builds are charged at Formula or Affordable rent, updated rent levels are reflected in the current average rent for 21/22, therefore average rent can change depending on time of reporting.

Bed Size	Current Average Rent 2021/22	Proposed Average Rent 2022/23 (4.1%)	Proposed v Current Rent
	£	£	£
Bedsits	88.51	92.14	3.63
1	103.95	108.21	4.26
2	120.61	125.55	4.94
3	132.20	137.62	5.42
4	144.61	150.54	5.93
5	156.82	163.24	6.43
6+	176.23	183.46	7.23
Average Rent	**118.74**	**123.61**	**4.87**

3.2 The proposed rent rates for 2022/23 will be £4.87 per week (4.1%) higher, on average, when compared to the previous financial year.

3.3 A rent increase of 4.1% is estimated to result in an additional £2.0m of income when compared to 2021/22. This is predominately to fund inflation led growth in contract costs and salaries, due to national inflation increasing by 2.6% when compared to last year, which is a reflection of current economic climate. The increase will also allow to ensure that there are sufficient funds to deliver the required capital investment in the Council's existing housing stock.

3.4 Brent Housing Management provide appropriate support to tenants who are struggling to pay their rent. The primary objective is to ensure that tenants have all the support that they can get, rather than persuing an eviction. Officers liaise with tenants in order to establish the reason why they may be struggling to pay their rent and from the information received, assess what support can be provided. Support options include assessing whether the tenant is claiming and/or receiving all the welfare benefits that they are entitled to, assisting them to claim from the resident support fund and/or negotiating a suitable payment plan with them. After the onset of the COVID-19 pandemic, Brent Housing Management endeavoured to identify vulnerable tenants and have since kept in contact with them in order to ensure that they continue to get the required support to sustain their tenancy.

3.5 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.

3.6 Two other scenarios have been modelled:

i. Rents increased by just CPI (3.1% in September 2021). This is estimated to increase rental income by £1.5m. However, this would result in a £1.0m deficit (as per the table below), which will need to be covered by the operating reserve.

ii. Rents frozen at current rates. However, this will result in a shortfall of £2.5m and will not be absorbed by operating reserve of £1.4m.

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

3.7 The table below illustrates the different options for rent setting and the projected outturn for 2022/23 as a result of indicative budget requirements to specific expenditure lines:

3.8

	Budget Requirements		Rent Setting Scenarios		
Rent Setting Scenarios 2022/23	Budgets 2021/22	Indicative Budget 2022/23	4.1%	3.1%	Freeze
	£m	£m	£m	£m	£m
Net Rent	(48.4)	(50.4)	(2.0)	(1.5)	0.0
Rent related expenditure (not recoverable through service charges)					
Supervision and management	12.0	12.5	0.5	0.5	0.5
Repairs and maintenance	12.6	13.4	0.8	0.8	0.8
Efficiency savings	0.0	(0.5)	(0.5)	(0.5)	(0.5)
Major works	13.5	14.7	1.2	1.2	1.2
Provision for bad debts	0.7	0.7	0.0	0.0	0.0
Rents rates and other charges	0.4	0.4	0.0	0.0	0.0
Debt management & financing	9.2	9.2	0.0	0.0	0.0
Net (Surplus) / Deficit	**0.0**	**0.0**	**0.0**	**0.5**	**2.0**

3.9 Supervision and management costs include allowances for pay inflation uplifts in the business plan. An assumed 4% inflation in 2022/23 will amount to an additional £0.5m budget requirement compared to previous year.

3.10 Repairs and maintenance contracts include an annual RPI inflationary uplift assumed at 4%, this amounts to additional budget requirement of £0.5m. There is an additional budget requirement for cyclical maintenance of fire safety monitoring devices £0.3m.

3.11 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 2022/23.

3.12 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.

3.13 The provision for bad debt is maintained at the same levels as previous year, it 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 2020/21 was 99%%, which led to a £0.5m increase (from £4.8m to £5.2m) in rental arrears as at 31st of March 2021.

3.14 The HRA business plain aims to set aside appropriate funds and incorporate a voluntary debt repayment policy that mirrors the General Fund approach. The calculations involve profiling debt repayments for new builds over 60 years, and debt repayment for major works over 25 years, based on the rate of borrowing for the debt. The repayment modelling commences from debt incurred in 2019/20 onwards, reflecting the period when HRA borrowing exceeded a previously set debt cap of £199.3m. Repayments will be possible in years where there is sufficient capacity within the accumulated operating reserve.

3.15 HRA operating reserve as at 31st March 2021 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 Covid-19 pandemic has further stressed the importance of maintaining adequate level of reserves.

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 movements	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
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 2% reducing to 1.5% from year 5. RPI 4% reducing to 3.5% from year 5
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 £118 per week. Rent is adjusted as per government policy. Assumed CPI+1% in 2022/23 (4.1%).
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 1.6% of rent

Description	How it impacts the Business Plan	Assumptions used in the Business Plan
Bad Debts	Rent arrears that are not collected results in loss of income	Assumed on average 1.5% 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 16 sales per annum
Interest rate on borrowing	Rental income is allocated to financing debt	New debt is assumed at 3% interest
Capital Programme - Major Works	Investment to maintain housing stock	Profiling over 30 years based on affordability of £15 per annum. This will be updated with ongoing updates to Asset Management Strategy
HRA Debt Balance	The HRA debt balance as at 31st of March 2021 was £245m.	Accumulated reserve balances will determine capacity for debt repayments
RTB Receipts	Rolling five 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 to achieve 1-4-1 replacement of homes
Affordable Housing Supply	The Council has committed to providing 1,000 affordable homes by 31 March 2024	The current baseline business plan assumes 700 new affordable homes with an estimated cost of £172m
Efficiency Savings	Savings contribute towards offsetting budget pressures	2% efficiency savings target across revenue costs on management and repairs

5. Sensitivity Analysis

5.1 Alongside the baseline assumptions, sensitivity analysis have been undertaken to explore the impact of a range of assumptions. Considering each of these in turn enables to read the baseline financial projections in the context of potential changes, and so gives an indication of key risks. The key sensitivities analysed are:

- RPI cost inflation 1% higher, at 5% in years 2 to 4
- Repairs and major works 1.5% higher than inflation in years 2 to 4
- Rent freeze imposed from 2025/26 for 4 years
- Voids and bad debts 1% higher from year 2 onwards
- CPI reduction by 1% from year 5 onwards

5.2 The sensitivity analysis demonstrates that:

A) The baseline assumptions avoid deficits over 30 years with projected reserve balance of £67.33m in year 30.

B) Cost inflations to RPI between years 2 to 4 from current economic uncertainties absorbs inflations in the short term at 1% higher than baseline (4%), however, it is projected to result in a deficit of (£7.27m) in the long term by year 30, as uplifts in rental income are not sufficient to keep up with rising costs.

C) Repair cost inflations of 1.5% (total inflation 5.5%) from year 2 to 4, is projected to be absorbed within business plan model, if all other assumptions in the baseline remain consistent. The reserve balance in year 30 is projected at £17.46m (£49.87m less than baseline).

D) Rent freeze 4 years from 2025/26 can have a significant impact on the health of the business plan, particularly in the medium to long term, resulting in deficits from year 20 onwards, with a negative reserve balance of (£60.28m) projected in year 30.

E) Rental income inflations assumed in the baseline is projected to absorb 1% increases to voids (1.6% baseline) and bad debts (1.5% baseline) over the life of the business plan. The projected 30-year reserve balance is £25.93m (£41.4m less than baseline).

F) If CPI was to reduce by 1% to 0.5% from year 5 onwards, rental income inflation will be 1.5% per annum. The impact of this will lead to a deficit from year 18 and business plan unviable over 30 years. The projected 30 year reserve balance is a deficit of (£160.05m).

6. Risks

6.1 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.

6.2 The main variables that could affect the long-term viability of the Business Plan are rent levels and long-term major works and repairs. Whilst currently the Council has the power to increase rents annually up to a maximum of CPI plus 1%, after April 2025, the implications of future Government regulated rent policy remain uncertain. The Coronavirus pandemic is also likely to have a long-term impact, a potential severe or prolonged recession which impacts employment can affect the collection rates and increase the levels of bad debts incurred by the HRA. The pandemic has prompted a major recession and is likely to accelerate the implementation of digital solutions. Cost pressures and income losses are continuously monitored and updated in the Council's Covid-19 Budgetary Impact Tracker.

6.3 The impacts of Universal Credit can affect the HRA Business Plan, as the number of rent arrears may increase considerably. 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

6.4 As the Council adds more stock to its portfolio and complexities of new additional requirements to building standards are increasing, such as fire safety works and climate change, the cost of major works is rising. At the moment, there is no government subsidy available to address these changes. The asset management strategy and investment plans must be approached cautiously and allow for flexibility.

6.5 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.

6.6 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 2021 is 4.9%, the business plan has built in an annual uplift on costs of 4% as an estimated average projection over 30 years.

6.7 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 2021 and the business plan has built in an annual interest rate of 3% on average to cover any fluctuations.

6.8 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 5 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.

6.9 There are also demographic changes and a general recognition that there should be better integration of housing, social care and health services. As time goes on, the proportion of the population who are elderly and / or vulnerable increases and there is an increased need for appropriate housing. However, with limited clarity on the government's funding of supported housing, it is likely that the problem of how to house vulnerable elderly people will intensify.

6.10 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.

6.11 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).

6.12 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 cost of refund is estimated to be £7.2m. Brent have set aside provisions for this in the accounts.