Meetings: Communities and Housing Scrutiny Committee – 25 January 2021
Cabinet – 9 February 2021
Council – 25 February 2021

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT LEVELS FOR 2021/22

Joint Report of the Deputy Chief Executive and the Deputy Chief Executive (Section 151 Officer).

1 INTRODUCTION

1.1 The purpose of this report is to provide the Scrutiny Committee with the opportunity to comment on an illustrative Housing Revenue Account (HRA) Budget. The Cabinet will be meeting on 9 February to recommend to Council a HRA budget for 2021/22, including the level of rent and service charges. The illustrative budget is based on a number of key assumptions set out in the report regarding income from rent and service charges; expenditure commitments contained within the HRA 30 year Business Plan and Asset Management Strategy and indicative spending requirements to support inflationary pressures and identified investment priorities.

1.2 This report takes account of the HRA Rent Strategy 2020 - 2025 which was approved by the Cabinet on 20 August 2019.

2 SELF FINANCING AND RENT LEVELS

2.1 As members are aware a new system for Council Housing Finance, Self Financing, was introduced for 2012/13. This replaced the system which was based on a national subsidy system.

2.2 The Self Financing offer from Government was based on a Government valuation of the Stockport HRA. This was calculated by estimating how much borrowing could be sustained by the HRA under the new finance system, based on Government assumptions on the amounts of income and expenditure to be received / borne by the HRA over the next 30 years.

2.3 In February 2012 the Executive agreed a 30 year Asset Management Strategy and Business Plan which provide for a longer term planning framework within which the rent levels and HRA budget for 2021/22 need to be agreed.

2.4 Since the implementation of Self Financing there have been three policy changes regarding rent policy:

1. Announcements included with the Budget for 2013 and the spending round for 2013 included changes to rent policy. A new rent policy for social rents was announced for a ten year period from 2015/16. The new policy was that from April 2015 rents in the social sector would increase by Consumer Price Index (CPI) inflation (as at September in the preceding year) + 1% annually. Previously, rents could increase by up to Retail Price Index (RPI)

AGENDA ITEM

Inflation (as at September in the preceding year) + 0.5%, plus up to an additional £2 where the rent was below the formula rent for the property;

2. The summer budget of 2015 superseded the above and announced that the Government would reduce rents paid by tenants in social housing in England by 1% a year, for 4 years from 2016.

3. In October 2017 the Government announced a return to annual rent increases of up to CPI + 1% for five years from 2020/21 to 2024/25.

2.5 The first policy change resulted in the ending of rent restructuring a year earlier than the HRA business Plan as well as a rent increase being linked to the CPI rate rather than the RPI rate.

2.6 The second policy change altered funding assumed within the HRA Business Plan again. Rent increases in the Business Plan were assumed to increase by 2.5% per annum. Rental income is therefore lower than that set out in the original plan and further and ongoing efficiencies will need to be sought as a result of these changes.

2.7 The third policy change is welcomed on the basis that it provides for more certainty to aid future planning and that it recognises that HRA Business Plans and the investment requirements to maintain the existing housing stock were predicated on future rent increases. A HRA Rent Strategy 2020 – 2025 has been approved by Cabinet on 20 August 2019 which sets out a framework over the five years to align to the Government's rent settlement of annual rent increases up to CPI + 1% over the same period.

2.8 The CPI rate as at September 2020 was 0.5%.

2.9 It is important to note that the Business Plan was indicative and contained assumptions regarding both income and expenditure. The effects of the rent reduction were modelled and while the HRA remains viable in the short-medium term it will face significant financial challenges compared to the original assumptions within the self-financing settlement as a result of:

- Cessation of rent convergence;
- Social Rents increasing by CPI rather than RPI;
- Social Rent reduction of 1% per annum for the four years beginning in 2016/17;
- Changes in Right to Buy discounts;
- Wider Welfare Reform Implications including Universal Credit;
- Potential future additional resource requirements relating to carbon neutrality and changes to building standards following the Grenfell enquiry.

2.10 The HRA commences this period in a strong position due to the continued excellent management and performance. Stockport Homes continue to top perform in maximising rent collection and reducing void periods of properties. The future sustainability of the HRA will be reliant on the following areas:

- Ongoing over/top performance of financial targets by Stockport Homes;
- Effective treasury management by the Council and resultant interest rate gains;
- Efficient procurement and delivery of the capital programme of works by Stockport Homes including the prioritisation and optimal programming of works;

- On-going programme of Management Fee efficiencies;
- Continuation of invest to save projects; and
- Alignment between the HRA and general fund services in delivery of locality services.

2.11 Rent caps apply as a maximum ceiling for formula rents. Where the formula rent calculation would be higher than the rent cap for a particular size of property, the rent cap must be used instead. Following a CPI + 1% increase (1.5%), in April 2021 the average social rent would be £75.97. There are no individual rents within the HRA stock which are above the rent cap.

2.12 Social rents make up the vast majority of customers rents, with around 97% of customers being charged a social rent. It should be noted that the average social rent in 2015/16, before the commencement of the annual 1% rent reduction, was £75.40 per week, hence the proposed rents for 2021/22 will only be on average £0.57 per week higher than the charges were 6 years previously

2.13 In terms of Right to Buys (RTBs) the original Business Plan assumed 20 RTBs per annum. As a result of changes to the discounts available the Council has seen an increase in the number of RTB sales. In 2013/14 there were 82 sales, 57 sales in both 2014/15 and 2015/16, 61 in 2016/17, 97 in 2017/18, 58 in 2018/19, 63 in 2019/20 and the forecast for 2020/21 is for 40 sales which is reduced due to the lower sales in the first quarter as a result of inability to complete valuations due to Covid-19. The illustrated HRA budget includes for 70 sales in 2021/22.

2.14 It should be noted that average Council rents in Stockport are still relatively low when compared to other social housing across GM. Stockport has relatively high house prices, and the Council's social rent levels are less than half that of market rents.

2.15 It should also be noted that for rents in shared ownership properties (66 properties) the rent element will increase by RPI plus 0.5% (1.1%) as per the agreements in place with these residents.
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2.16 At the time of this report, approximately 76% of tenants are in receipt of benefits towards their housing costs (Housing Benefit or Universal Credit) and it is expected that this level of tenants in receipt of housing cost benefits will continue during 2020/21.

3 SERVICE CHARGES

3.1 Service charges were un-pooled, i.e. separated out from the basic weekly rents a number of years ago. Service Charges are costs for specific services provided to certain properties rather than all the housing stock. A housing authority cannot profit from the recharging of services, although the cost of services should be met by service charge income. Stockport Council endeavours to keep annual service charge increases to CPI + 1% where possible, but there are occasions where greater increases are required to address service charge deficits. Communal electricity has historically been the most significant example of this, which is discussed in more detail at section 3.4 below. It should be noted that most service charges attract Housing Benefit/Universal Credit.

3.2 Over the course of the current year, detailed service charge reviews have been carried out by the Service Leads for all services. This allowed the expected financial position for each service to be reviewed and highlighted the changes which would be required in order to ensure that services are sustainable.

3.3 The general principle proposed and illustrated for service charges in 2021/22 is to freeze charges for services where charges are expected to be sufficient to meet costs and recommend an increase otherwise. This supports the principle that service costs should be met by service charges and should not be subsidised by the wider customer base who do not benefit from those services. For those customers who are property owners, the full cost of services will be recovered in line with the agreements which are in place.

3.4 Though the aspiration is for annual service charge increases to be contained within CPI+1%, this cannot always be achieved if services are to remain financially sustainable. Communal electricity has historically been the service with the largest financial deficit, though this position has improved significantly in recent years, and the recommendations below are forecast to result in income and costs being close to aligning during 2021/22. Electricity is an area where external market forces have a significant influence on the cost of the service, which have historically resulted in costs rising by more than had been expected. A scaled range of increases are proposed to help reduce the deficit, which are based on the financial position for each area. The comparison to the increases implemented in the previous year are also shown which demonstrates the progress being made to balance the financial position in this service. Electricity proposals are summarised as:

Increase per week	**2021/22 – Number of Customers**	**2020/21 – Number of Customers**
£0.00	1,974	356
£0.01 - £0.50	1,099	687
£0.51 - £1.00	1,175	3018
£1.01 - £1.50	0	107
£1.51 - £2.00	0	15
£2.01 - £2.50	0	65
	4,248	**4,248**

3.5 Another significant area where a CPI +1% increase is not proposed, is for those 1437 tenants who receive their heating via a district heating system. These charges are proposed to be frozen for 2021/22.

3.6 Following the principles outlined above, the proposed changes to all existing service charges are summarised in the table at 3.7 below. This shows the overall impact per customer in bandings of weekly changes, split between the increase eligible for benefit and not eligible for benefit. This shows that the majority of total charges (whether eligible for benefit or not) are proposed to increase by less than £1 per week. The maximum increase to customers who are eligible for benefit is £1 per week, and £3 per week for those customers not eligible for benefit.

3.7

	Number of Customers	
Weekly Increase	**HB/UC Eligible Charges**	**Non HB/UC Eligible Charges**
Charges Frozen	57	1513
< £1	5429	79
£1 - £2	1643	0
£2 - £3	78	0
Total	**7207**	**1592**

3.8 In addition to the changes to existing charges listed above, a new charge of 96p per week is proposed to be introduced to provide an affordable Wi-fi service to 12 tower blocks across the borough, following a successful pilot in Brinnington and customer consultation earlier in the year. This will be introduced for all new tenants and existing tenants wishing to opt in straightaway. For those households with an existing contract with a commercial provider, the charge will be introduced on the expiry of such arrangements.

4 CUSTOMER CONSULTATION

4.1 A customer consultation event took place from 9th – 20th November where the proposals outlined in this report were communicated to customers, and customers were asked to give their comments on the proposals. Unlike in previous years where this was done via a face to face Customer Hub, customers were able to access the proposals on-line over a longer period of time. This was done via a pre-recorded presentation by the Council’s Strategic Housing Lead, which customers were able to access on-line. To support customers who may not have digital access, customers also had the opportunity to contact SHG to request a printed copy of the presentation be posted to them, and to ring the Customer Engagement Team to provide feedback.

4.2 The presentation video was hosted on YouTube and a link to this was posted on all SHG social media channels and a dedicated news page on the SHG website. Customers were asked to click on a link to give their feedback on the proposals.

4.3 In addition to general promotion for all customers, customers who have previously shown an interest in rents and service charge consultation were emailed a link to the presentation and asked to comment.

4.4 Information was also produced for the digital screens and notice boards across the Borough to inform customers of the consultation, and that they were being asked to comment on the proposals. An FAQ’s document was produced to go alongside the presentation.

4.5 The results of the consultation are detailed below:

4.6 A total of 14 different customers made comments in relation to the Rent and Service Charge consultation. Comments were either given on the SHG Facebook page or in an email to the Customer Engagement Team as requested. There was a wide variety in the comments given, some supportive of the proposed rent and service charge increase, and others against this for various reasons. The main reasons cited were the effects on household income from Covid-19, or levels of service quality that the customer isn't happy with. SHG will continue to support customers generally and throughout the Covid-19 crisis, e.g. through the money advice service, and continues to focus on providing excellent services to its customers.

4.7 The social media sites used (Facebook and Twitter) reached a large number of people. Facebook posts reached 14,300 people and Twitter reached 61,300 people. Lots of these viewings may not be SHG customers, however these numbers do demonstrate that the messages were widely distributed. Instagram was only viewed by 4 customers but was only posted on there once as the audience numbers who access this channel is low.

4.8 The YouTube video presentation was watched by 78 different individuals and a total of 84 times meaning some people watched the presentation more than once. This compares favourably with the 12 customers who attended the previous customer hub in November 2019.

4.9 The information was also displayed on the digital screens in all the tower blocks. No phone calls or requests for information in alternative languages, printed copies etc, were received.

4.10 Analysis of the comments provided can be summarised as follows, with some customers providing comments on more than one area:

- 6 comments requesting no rent increase/rent freeze. These requests mainly cited the impact of the pandemic as the reason for this request
- 7 comments requesting no increase/not supporting the proposed service charge increase
- 2 comments supporting the proposed rent increases
- 2 comments supporting the proposed service charge increases
- 7 comments raising other issues which are being addressed/responded to separately

5 HRA BUDGET 2021/22

5.1 An illustration of the budget for the HRA for 2021/22 is set out in Appendix 1. It illustrates a rent increase of CPI + 1% for social and affordable rented properties, and RPI + 0.5% for shared ownership properties. The illustrative budget provides for a level of balances of £1m which is viewed by the Deputy Chief Executive (Section 151 Officer) to be the minimum considered necessary to support the illustrated HRA budget. This is based on an initial assessment of risk and the robustness of the estimates as detailed in the calculations contained at Appendix 2. Should any substantial changes be made to the illustrative budget a further risk assessment would have to be undertaken.

5.2 There are some key budget lines within the HRA that through extensive performance management have improved the revenue position within the HRA year on year, and have enabled the HRA to face the challenges ahead in the best possible position. Whereas lines such as external interest rates are harder to influence, the management of the stock is key to ensuring the on-going viability of the HRA. The management by Stockport Homes of void and rent collection has resulted in significant extra resources for services to tenants based on improved collection levels and much reduced void loss. Coupled with the management of procurement efficiencies via the Capital Programme, which has resulted in significant levels of savings, the HRA remains in a strong position to continue to deliver quality services and stock investment to tenants while facing the financial challenges ahead. It is important that the performance management in these key areas continues to be maximised if the HRA is to operate at optimum efficiency.

5.3 The management fee paid to Stockport Homes will see an overall cash increase of £0.142m, in accordance with the Management Agreement, which includes increases to reflect the recurrent nature of previously agreed delivery plan initiatives, recognition of pay and inflationary pressures and delivery of a 3% efficiency.

5.4 Stockport Homes continues to maintain a focus on delivering value for money to ensure that efficiencies are released and services to customers are not adversely impacted and the best possible outcomes for customers are delivered within the resources available. The commitment to maximise the impact of the resources available are documented and demonstrated through Stockport Homes' continuous improvement framework, Delivery Plan, the HRA Business Plan and the Value For Money strategy.

5.5 The main features of the illustrated spending plan for the HRA are as follows:

- The Stockport Homes management fee reflects the delivery of 3% efficiencies, inflation expected on repairs and maintenance expenditure, the forecast cost of the pay award for employees earning less than £24,000, and a provision for the increased insurance costs.

- After allowing for the above commitments the HRA budget would have an in-year surplus of £0.553m. This allows for a £0.209m recurrent investment into the new building safety team, with the remainder supporting the property MOTs and Project Phoenix which will contribute towards the significant investment that is required for the modernisation of the HRA's Housing Management System. It is recommended that any further in-year surpluses within the HRA are ring-fenced and allocated to Project Phoenix.

5.6 The capital programme for the HRA in 2021/22 and future years, based on the HRA Business Plan would be as follows:

Table Two – Illustrated HRA Capital programme 2021/22 – 2022/23

	2021/22 £000s	2022/23 £000s
HRA Capital programme		
General Capital Programme	17,093	13,076
New Build programme *	23,827	21,136
Total HRA Capital Programme	**40,920**	**34,212**
Funded By:		
Grants / Other receipts	9,880	6,448
Directly Funded Borrowing	19,123	14,799
RCCO – including depreciation charge	11,907	12,145
HRA Capital Reserves	10	820
Total Funding for Capital Programme	**40,920**	**34,212**

* Identified schemes as at December 2020. An allocation of £49.5m for aspirational scheme capital expenditure is included within the HRA Business Plan over 2022/23 to 2024/25.

5.7 The HRA capital programme for 2021/22 – 2022/23 is in line with the HRA Asset Management Strategy and also takes account of the new build pipeline programme within the Housing Revenue Account.

5.9 Based on the illustrations contained within the report total balances expected to be held within the HRA would be £1m in 2021/22.

6 RECOMMENDATION

The Scrutiny Committee is asked to comment on the report and the illustrative HRA Budget for 2021/22.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Michael Cullen on Tel: 0161 474 4631 or by email on michael.cullen@stockport.gov.uk

Appendix 1

Illustrative Housing Revenue Account 2021/22

Expenditure	Budget 2020/21 £000	Forecast 2020/21 £000	Illustrative Budget 2021/22 £000
Management Fee	28,641	28,641	28,783
Council HRA Costs	1,362	1,380	1,380
Rents, rates, taxes & other charges	180	180	193
Total management & maintenance	**30,183**	**30,201**	**30,356**
HRA share of interest charges (Per Item 8 Debit)	5,376	5,325	5,463
Depreciation of fixed assets	12,533	12,376	11,907
Debt management costs (Treasury Management)	65	65	65
New Build MRP, Interest and other	601	593	1,136
Bad debts provision	524	425	527
Solar PV Interest	123	98	98
Solar PV Voluntary MRP	0	0	126
Future Development Provision	255	262	0
Water Charges	4,851	4,530	4,597
	24,328	23,674	23,919
Total expenditure	**54,511**	**53,875**	**54,275**
Income			
Rents of dwellings	(43,459)	(43,511)	(43,877)
Rents (non dwellings) shops/garages/office rents	(300)	(300)	(300)
Charges for services & facilities	(4,125)	(4,125)	(4,199)
Solar PV FIT Income	(1,250)	(1,350)	(1,350)
Renewable Heat Incentive	(376)	(320)	(384)
Appropriations / Retained Income from RTBs	(91)	(52)	(91)
Water Charge Debit	(4,851)	(4,530)	(4,597)
Total	**(54,452)**	**(54,188)**	**(54,798)**
Net cost of services	**59**	**(313)**	**(523)**
Investment income	(30)	(30)	(30)
	(30)	**(30)**	**(30)**
Net operating expenditure	**29**	**(343)**	**(553)**
Capital met from revenue – Business Plan	0	0	0
Voluntary MRP	0	0	0
Contribution from Reserves	250	250	0
(Surplus)/Deficit for year	**279**	**(93)**	**(553)**
(Surplus)/Deficit brought forward - HRA	**(1,592)**	**(2,123)**	**(1,000)**
Additional RCCO	**0**	**0**	**0**
Future investment reserve	**313**	**1,216**	**553**
Accumulated (surplus)/deficit at year end	**(1,000)**	**(1.000)**	**(1,000)**

Appendix 2

2021/22 Illustrative Housing Revenue Account Budget - Risk Assessment

Item	Budget Assumption £000s/%	Possible Variance from Assumption £000s/%	Impact Cost/ (Benefit) £000s
Previous Financial Year			
20% Variance between budget & forecast outturn for 2020/21	0	20%	0
Pay & Prices			
N/A – contained within management fee payable to Stockport Homes Limited			
Income			
Yield from Rental and Service Charge Income	48,376	1.5%	726
Void Rate	0.75%	0.25%	121
Investment Income	30	0%	0
Interest rates / other changes			
Interest and other expenditure (excluding Water charges)	19,322	0.79%	153
Minimum Level of HRA Balances			**1,000**

Risk Assessment Methodology & Commentary

1 Although the estimates contained in this report are based upon the best available information at the time of writing, it is important to recognise that a degree of uncertainty surrounds them. Estimates are prepared on the basis of judgements about what is thought to be the most likely outcome for a series of key events which are relevant to the budget.

2 The key assumptions underpinning the estimates in this report are based on the most likely outcome for a series of key events. The above risk assessment takes those key assumptions and calculates the financial impact of possible variations.

3 The risk assessment is therefore a 'sensitivity analysis' showing the financial impact of possible variations to key budget assumptions. The figure that is calculated is then used as the basis for a recommendation regarding the minimum level of general balances.

4 The key risks reflected in the above assessment include:

- Uncertainty regarding actual rates of interest, and yield from rental and service charge income; and,
- Potential for void rates to be higher at 1.00% than the 0.75% included within the financial assumptions.