Meetings: Communities and Housing Scrutiny Committee – 17 January 2022
Cabinet – 1 February 2022
Council – 24 February 2022

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT LEVELS FOR 2022/23

Joint Report of the Deputy Chief Executive (Section 151 Officer) and the Director for Place Management.

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 1 February to recommend to Council a HRA budget for 2022/23, 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 2022/23 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

AGENDA ITEM

Price Index (RPI) 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 2021 was 3.1%.

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;
- Building repairs and maintenance costs increasing by much more than CPI, in conjunction with potential future additional resource requirements relating to carbon neutrality and changes to building standards following the Grenfell enquiry.
- Public Sector pay award settlements.

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.

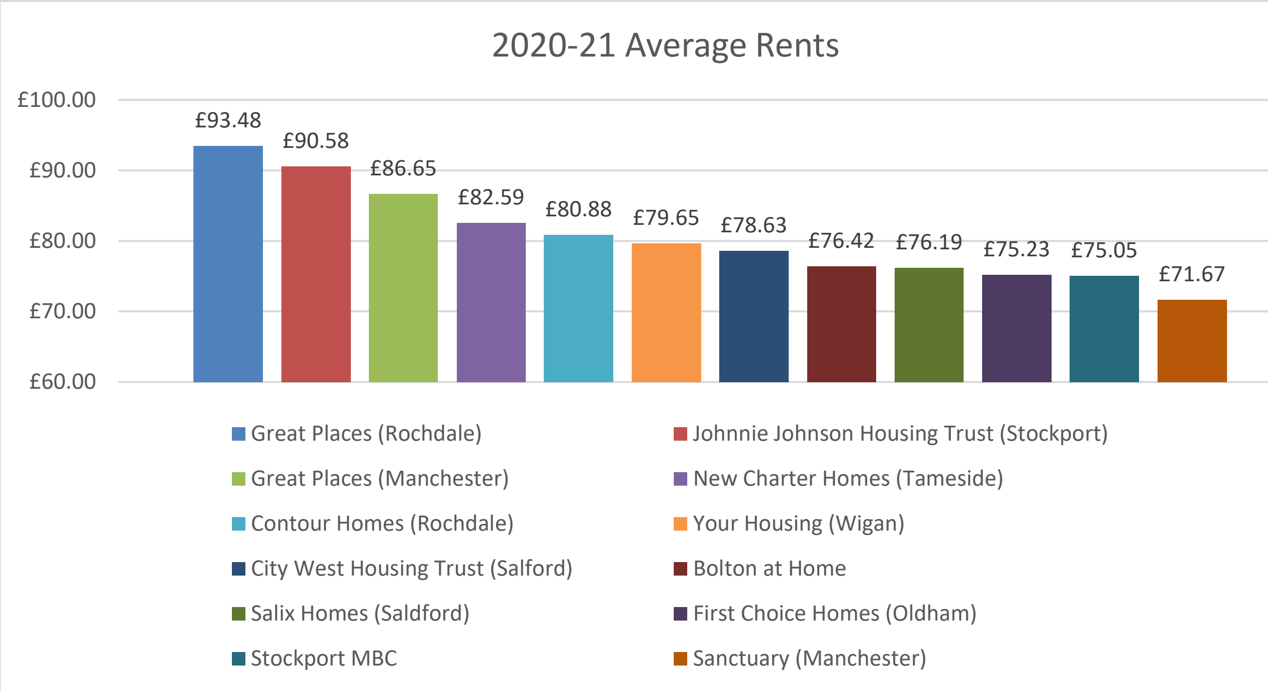
2.11 Rent caps apply as a maximum ceiling for formula rents. Where the formula rent calculation would be higher than the rent cap for a particular size of property, the rent cap must be used instead. Following a CPI + 1% increase (4.1%) in April the proposed average social rent would be £78.91. There 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 2022/23 will only be on average £3.51 (5%) per week higher than the charges were 7 years previously, whilst building costs have increased by more than 30% over this period.

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, 48 in 2020/21 and the forecast for 2021/22 is for 50 based on sales to date. The illustrated HRA budget includes for 70 sales in 2022/23.

2.14 It is recognised that tenants are currently facing increases in many household costs and that these proposed rent and service charge increases will add to this, however, inflation has continued to increase since September, with November's CPI standing at 5.1%, hence the proposed 4.1% rent increases would represent below inflationary increases based on current forecasts, and would be significantly below building/maintenance inflation. Stockport's HRA has rents which are one of the lowest in not only the Borough, but also Greater Manchester. Out of a sample of 127 housing providers across different GM Boroughs, Stockport had the 10th lowest rent. The below graph depicts some of the sample and illustrates the 2020-21 social rents excluding affordable rents, with the Stockport MBC rents at £75.05. Housing Benefit (HB) and Universal Credit (UC) claims support tenants to pay their rent if they are unemployed, on a low income or claiming other benefits, with 8,713 or 77% of households currently receiving HB or UC. Where rents increase, entitlement levels to housing cost benefits increase by the same amount.

2.15 Money Advice services provided through Stockport Homes continues to be invaluable in providing support, help and reassurance to any tenants struggling financially to access financial support schemes, additional benefits and to challenge incorrect benefit decisions. During 2020/21 the team supported 2,714 tenants to obtain additional income totalling over £7m, and as a result Stockport Homes was the 2nd best performing ALMO and 10th ranked housing provider in the country for low levels of rent arrears. These support services will continue to work to proactively support tenants throughout 2022/23.



2.15 In addition, analysis on private market rents shows that Stockport's HRA social rents are less than 50% of the private market rent levels. The below illustrates the average private rent in Stockport for 2020-21.

Property Type	HRA Rents	Stockport Private Rent
Bedsit	£61.22	£144.23
1 Bed	£65.92	£132.69
2 Bed	£75.43	£160.38
3 Bed	£84.34	£196.15
4 Bed+	£92.32	£294.23

2.16 It should be noted that for rents in shared ownership properties (63 properties) the rent element will increase by RPI plus 0.5% (5.4%) as per the agreements in place with these residents.

2.17 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 2022/23.

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. It should be noted that most service charges attract Housing Benefit/Universal Credit, though with notable exceptions including communal heating. 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.

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. In recent months significant media coverage has been given to cost increases across the wider energy market resulting in significant price increases to UK customers. It is positive to note that due to the combination of effective procurement and service charge management, the service charge proposals for 2022/23 recommend increases much lower than in the wider market. The service charge proposals incorporate a forecast 7% cost increase for both electric and gas, and 5% increase for biomass, which are significantly less than recent market cost increases, and the proposed service charge changes for many customers are even less.

3.3 The general principle proposed and illustrated for service charges in 2022/23 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 2022/23. Electricity is an area where external market forces have a significant influence on the cost of the service (see 3.2 above), 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 recent years 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	2022/23 – Number of Customers	2021/22 – Number of Customers	2020/21 – Number of Customers
£0.00	2,646	1,974	356
£0.01 - £0.50	1,031	1,099	687
£0.51 - £1.00	571	1,175	3018
£1.01 - £1.50	0	0	107
£1.51 - £2.00	0	0	15
£2.01 - £2.50	0	0	65
	4,248	**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 have been frozen for the previous two years, and an increase of 3.25% which is broadly in line with CPI inflation is recommended for 2022/23.

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. This shows that the majority of total charges are proposed to increase by less than £1 per week. The maximum increase per week is £3.46.

3.7

Weekly overall change	Number of Customers
Freeze	70
Increase:	
< £1	5649
£1 - £2	1044
£2 - £3	348
£3 - £3.46	31
Total	**7142**

4 CUSTOMER CONSULTATION

4.1 A customer consultation event took place during November, where the proposals outlined in this report were communicated to customers for comment. Unlike previous years where this was done via a face-to-face Customer Hub, customers could access the proposals online over a longer time period via a link to an animated video hosted on YouTube and Facebook. To support customers without digital access, customers could also contact SHG to request a printed transcript or give feedback over the telephone. In addition to general promotion, customers who had previously shown an interest in rents and service charge consultation were targeted via an email link to the video. The consultation was also publicised on the digital screens and notice boards across the Borough and in the customer newsletter.

4.2 The social media site used (Facebook) reached 4,700 people, with the link to the survey being clicked by 250 people. 2,404 people engaged with the post and the animated video was watched by 89 different individuals on YouTube. Some of these viewings may not have been SHG customers, but indicate the video was widely distributed. A total of 30 people left comments on the survey, double the number who commented in 2020 but representing a very small proportion of those who viewed the material. The majority of customers who viewed the video chose not to leave a comment.

4.3 Many of the comments related to feedback on specific service areas. Where the customer leaving the comment can be identified, they will be contacted with a view to gathering further information and resolving their concerns. Feedback on specific services will be passed to service managers to review and act upon. There was also a strong emphasis in the comments on the financial difficulties many households face due to the pandemic, combined with rising utility and food prices. SHG's support services such as money advice, energy advice, the pantries and partners Stockport Credit Union will be further publicised to customers to ensure their household income is maximised and expenditure reduced where possible.

5 HRA BUDGET 2022/23

5.1 An illustration of the budget for the HRA for 2022/23 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 £0.291m (an increase of 1%) which includes increases to reflect the recurrent nature of previously agreed delivery plan initiatives, and delivery of a 3% efficiency. The management fee for 2022/23 will therefore have increased by less than inflation but continues to face pressure from rising costs, particularly in relation to staffing (pending pay increases and national insurance changes) and repairs and maintenance inflation, which, in total, are expected to increase by substantially more than the management fee increase.

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.

- The HRA budget is illustrating an in-year surplus of £0.029m. It is recommended that this surplus and any additional surpluses arising during 2022-23 should be prioritised to funding the pay award, additional service investment and the continued investment into Project Phoenix. These allocations will be agreed with the section 151 officer during the year.

5.6 The capital programme for the HRA in 2022/23 and future years, based on the HRA Business Plan would be as follows:

Table Two – Illustrated HRA Capital programme 2022/23 – 2023/24

	2022/23 £000s	**2023/24 £000s**
HRA Capital programme		
General Capital Programme	13,076	12,653
New Build programme *	19,573	21,327
Total HRA Capital Programme	**32,649**	**33,980**
Funded By:		
Grants / Other receipts	11,703	8,569
Directly Funded Borrowing	7,716	10,867
RCCO – including depreciation charge	13,230	13,732
HRA Capital Reserves	0	812
Total Funding for Capital Programme	**32,649**	**33,980**

* Identified schemes as at December 2021. An allocation of £49.2m for aspirational scheme capital expenditure is included within the HRA Business Plan over 2024/25 to 2026/27

The New Build Programme figures have changed slightly since the Quarter Two report because of slippage between years. The programme for 2021/22 to 2023/24 (3 years) remains at the same level.

5.7 The HRA capital programme for 2022/23 – 2023/24 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 2022/23.

6 RECOMMENDATION

The Scrutiny Committee is asked to comment on the report and the illustrative HRA Budget for 2022/23.

The Cabinet is asked to recommend that the Council meeting approves:

a) An increase of 4.1% for social rent;
b) An increase of 5.4% for rent of shared ownership properties;
c) Service charge increases as outlined in section 3;
d) The Housing Revenue Account Budget for 2022/23 as set out in Appendix 1

The Council to approve:

a) An increase of 4.1% for social rent;
b) An increase of 5.4% for rent of shared ownership properties;
c) Service charge increases as outlined in section 3;
d) The Housing Revenue Account Budget for 2022/23 as set out in Appendix 1

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 2022/23			
Expenditure	**Budget 2021/22 £000**	**Forecast 2021/22 £000**	**Illustrative Budget 2022/23 £000**
Management Fee	28,783	29,142	29,433
Council HRA Costs	1,380	1,380	1,380
Rents, rates, taxes & other charges	193	223	258
Total management & maintenance	**30,356**	**30,745**	**31,071**
HRA share of interest charges (Per Item 8 Debit)	5,463	5,427	5,529
Depreciation of fixed assets	11,907	11,907	13,230
Debt management costs (Treasury Management)	65	65	65
New Build MRP, Interest and other	1,136	1,124	1,494
Bad debts provision	527	300	409
Solar PV Interest	98	98	93
Solar PV Voluntary MRP	126	126	157
Water Charges	4,597	4,498	4,588
	23,919	23,545	25,565
Total expenditure	**54,275**	**54,290**	**56,636**
Income			
Rents of dwellings	(43,877)	(43,953)	(45,485)
Rents (non dwellings) shops/garages/office rents	(300)	(300)	(300)
Charges for services & facilities	(4,199)	(4,245)	(4,455)
Solar PV FIT Income	(1,350)	(1,350)	(1,350)
Renewable Heat Incentive	(384)	(366)	(366)
Appropriations / Retained Income from RTBs	(91)	(65)	(91)
Water Charge Debit	(4,597)	(4,498)	(4,588)
Total	**(54,798)**	**(54,777)**	**(56,635)**
Net cost of services	**(523)**	**(487)**	**1**
Investment income	(30)	(30)	(30)
	(30)	**(30)**	**(30)**
Net operating expenditure	**(553)**	**(517)**	**(30)**
Capital met from revenue – Business Plan	0	0	0
Voluntary MRP	0	0	0
Contribution from Reserves	0	0	0
(Surplus)/Deficit for year	**(553)**	**(517)**	**(29)**
(Surplus)/Deficit brought forward - HRA	**(1,000)**	**(1,441)**	**(1,000)**
Additional RCCO	**0**	**0**	**0**
Future investment reserve	**553**	**958**	**29**
Accumulated (surplus)/deficit at year end	**(1,000)**	**(1.000)**	**(1,000)**

Note. Since the Quarter Two report the forecast has changed:

- The Management Fee has increased for recurrent expenditure from the Future Investment Reserve £0.359m
- The Bad Debt Provision Forecast has reduced by £0.050m
- Income from Rents which has increased by £0.050m.
- Income from Charges for Facilities & Services has increased by £0.025m

Appendix 2

2022/23 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 2021/22	0	20%	0
Pay & Prices			
N/A – contained within management fee payable to Stockport Homes Limited			
Income			
Yield from Rental and Service Charge Income	50,241	1.5%	754
Void Rate	0.75%	0.25%	126
Investment Income	30	0%	0
Interest rates / other changes			
Interest and other expenditure (excluding Water charges)	20,977	0.57%	120
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.