Meetings: Economy, Regeneration and Climate Change Committee – 18 January 2024
Cabinet – 30 January 2024
Council – 22 February 2024

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT LEVELS FOR 2024/25

Joint Report of the Corporate Director (Corporate and Support Services) and Deputy Chief Executive, Director of 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 30 January to recommend to Council a HRA budget for 2024/25, including the level of rent and service charges. The illustrative budget is based on a number of key assumptions set out in the report, which includes income from rent and service charges, expenditure commitments contained within the HRA 30-year Business Plan and Asset Management Strategy, indicative spending requirements to support inflationary pressures, and identified investment priorities.

1.2 This report recognises that the country is still in the midst of a cost-of-living crisis which will impact upon HRA customers. This is against a backdrop of significantly increasing costs to deliver HRA services. The proposals of the report have considered these pressures in continuing to deliver quality services and the corresponding impact upon customers. The report details the numerous ways in which the Council and Stockport Homes work to support customers to maximise their income, and to offer help and support with any affordability issues.

1.3 Increased cost pressures for the HRA need to be carefully considered. There are numerous conflicting demands on resource expenditure in the HRA, with gaps in funding over the longer term for Decent Homes and delivering the wider ambitions of the Asset Management Strategy, including meeting carbon reduction aspirations. Even with a 7.7% rent increase, there is still a funding gap of £141m to fund the current Asset Management Strategy, with Decent Homes not being able to be maintained for the full 30 years, based on current rent policy. The importance of setting rents that protect future income is critical, particularly in an operating environment that is experiencing significant increased costs of repairs, and additional investments required such as future proofing damp, mould and condensation works, building safety investments, and increased customer requirements linked to the new Consumer Regulation standards and associated fees, which are discussed further in the report. Consumer regulation requirements will bring further accountability for both the Council and Stockport Homes.

AGENDA ITEM

2 THE HRA BUSINESS PLAN AND RENT LEVELS - BACKGROUND

2.1 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 HRA Business Plan and associated Asset Management Strategy which provided for a longer-term planning framework. The Business Plan is refreshed each year to ensure assumptions are up-to-date and reasonable, and that future gaps and pressures are identified and understood. The Asset Management Strategy has been subject to a detailed review resulting in an updated 5-year Strategy. A full stock condition survey is currently being undertaken, the outcomes of which may lead to further investment required in the stock.

2.4 Since the implementation of Self-Financing there have been several policy changes regarding rent policy, which have all significantly adversely impacted rental income expectations. The previous rent policy changes are detailed below:

2.5 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 meant that from April 2015 rents in the social sector had to 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) 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.

2.6 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.

2.7 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, and a HRA Rent Strategy was approved in alignment with this.

2.8 However, in 2023/24 the proposals of the five-year HRA Rent Strategy were not permitted as the Government imposed a cap to rent increases instead of using the CPI + 1% methodology. In November 2022 the Government announced a rent increase cap of 7% to be applied to existing social and affordable rents, instead of the previously permitted annual increase of up to CPI + 1%. This was applied from April 2023 to March 2024. CPI in September 2022 was 10.1%, so an uncapped rent increase would have been up to 11.1% for social and affordable rents.

2.9 The first policy change resulted in the ending of rent restructuring a year earlier than the HRA Business Plan, resulting in a significant number of rents being below the formula rent, as well as future rent increases being linked to the CPI rate rather than the higher RPI rate.

2.10 The second policy change significantly 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 was therefore significantly lower than that set out in the original plan and further and ongoing efficiencies needed to be sought as a result of these changes.

2.11 The third policy change was welcomed on the basis that it provided for more certainty to aid future planning and that it recognised 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 was approved by Cabinet on 20 August 2019 which set 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.

2.12 The fourth change, the cap of 7%, resulted in a rent increase for the period April 2023 to March 2024 which was less than the 10.1% CPI inflation. This had a negative effect on the Business Plan as cost increases including management, energy, maintenance and building costs, were significantly higher than 7%. In particular, building costs measured through BCIS were 18.3% higher than the previous year, combined with significantly higher energy costs.

2.13 The Business Plan is indicative and contains assumptions regarding both income and expenditure. The effects of the adverse changes to rents detailed above are modelled. The HRA faces some significant challenges, and a 7.7% rent increase will still leave funding gaps of £141m for the current Asset Management Strategy. In the main, the financial challenges have arisen as a result of:

- Cessation of rent convergence;
- Rent increases linked to CPI rather than RPI;
- Rent reduction of 1% per annum for the four years beginning in 2016/17;
- Less than inflationary rent increase in 2023/24
- Increases in Right to Buy discounts, with a maximum discount up to 70% or £87,200;
- Wider welfare reform implications including Universal Credit;
- Building repairs and maintenance costs previously 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, and Damp, Mould and Condensation works.
- Public Sector pay award settlements.
- Higher inflation.

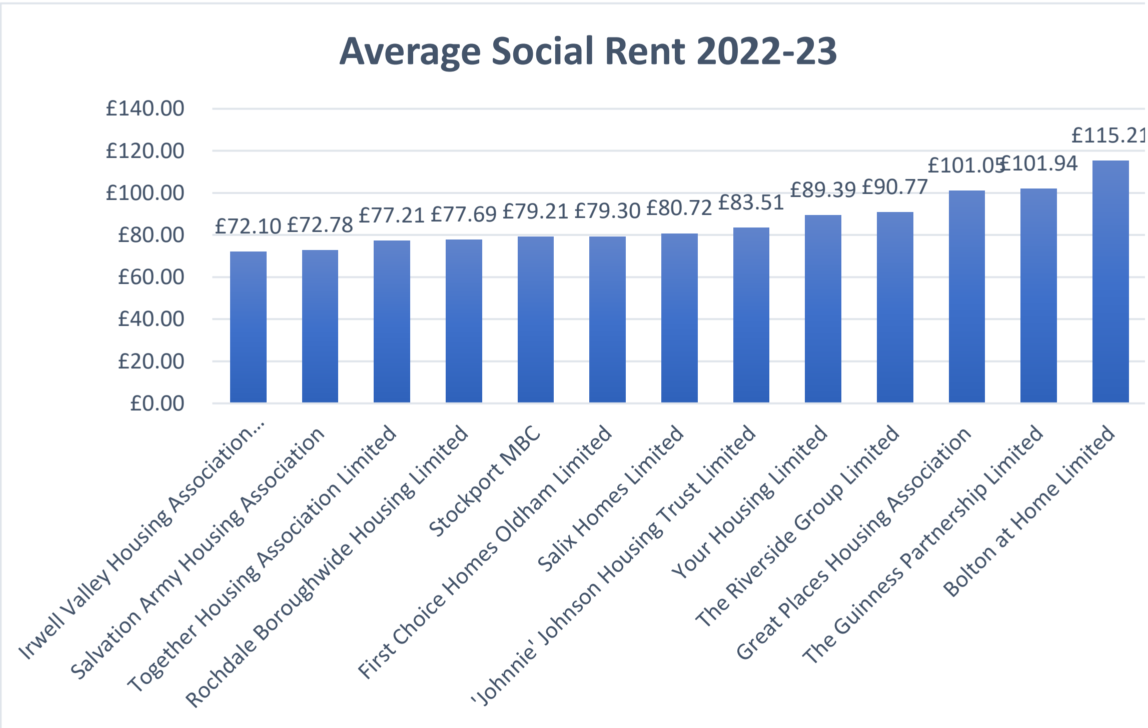
2.14 For the HRA to maximise resources, it will need to rely on continued excellent management and performance. Stockport Homes continue to be a top performer in maximising rent collection and reducing void periods of properties. The future sustainability of the HRA will be reliant on the following areas:

- Ongoing high, focussed performance of financial and delivery plan 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;
- Implementation of rent policy; and
- Alignment between the HRA and general fund services in delivery of locality services.

RENT SETTING

2.15 Stockport's HRA has rents which are one of the lowest in not only the Borough, but also Greater Manchester. This is the case both in comparison to other social housing providers, and even more starkly when compared to private market rents in Stockport. It is testament to the management and performance of the HRA that significant stock investment continues against this backdrop of a low rental base and the rental increases proposed further below are paramount in supporting this going forward..

2.16 Out of a sample of 108 housing providers across different GM Boroughs, Stockport had the 5th lowest rent. The graph below depicts some of the sample (Stockport Partner RPs and comparable housing providers to Stockport Council across GM) and illustrates the 2022/23 social rents excluding affordable rents, with Stockport's HRA average rents at £79.21.



2.17 In addition, analysis on private market rents shows that Stockport's HRA social rents are significantly lower than the private market rent level. The below illustrates the average private rent in Stockport for 2022-23, and the difference between the HRA rents.

Property Type	HRA Rents	Stockport Private Rent	Weekly Difference
1 Bed	£69.64	£239.77	£170.13
2 Bed	£79.64	£256.38	£176.74
3 Bed	£89.07	£331.15	£242.08
4 Bed	£96.56	£455.31	£358.75
5 Bed	£130.90	£628.38	£497.48

2.18 HRA social rents will continue to be charged at the Government's formula rent upon re-let. Each social rent property has its own formula rent which is calculated based on the relative value and size of the property. The formula rent is the maximum rent that can be charged for the property. This brings additional income into the HRA as properties which are re-let in the future can move from the existing rent (if lower) up to the higher formula rent. Formula rents are higher than current rents for the majority of properties, as a result of formula rents increasing by CPI + 1% (11.1%) in April 2023 but actual rents increasing by the lower rent increase cap of 7%. As properties are re-let, the majority, or all properties, would eventually be set to the formula rent.

2.19 Rent increases are bound by social rent policy (usually restricting to a maximum annual increase of CPI + 1%), but if a rent convergence policy were to be re-introduced by the Government, similar to the previous mechanism, this could see rents increase to formula rent at a faster pace by allowing increases above CPI + 1%, which would be of benefit to the HRA. The table below illustrates the difference in formula rent and actual rents at September 2023, and shows that £2.294m of annual rental income is currently not received in the HRA as a result:

HRA Social Rented Properties	Total annual actual rent for social rented properties	Total annual formula rent for social rented properties	Additional annual income if all social rents were set to formula rent	Average difference between actual and formula rent at September 2023
10,537	£46.392m	£48.686m	£2.294m	4.97%

2.20 The Government issue rent caps, which apply as a maximum ceiling on the formula rent. 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. The rent cap will continue to increase by CPI + 1.5% annually. There are no HRA rents which are at the level of the rent cap.

2.21 Social rents make up the vast majority of customer rents, with around 97% of customers being charged a social rent. Since the commencement of the four-year annual 1% rent reduction in 2015/16, rents have increased by much less than costs. The average social rent will have increased by around 22% to 2024/25, whilst over this same period, cost inflation measured through CPI has increased by around 32%, and building costs by around 60%.

2.22 In terms of Right to Buys (RTBs), the original Business Plan assumed 20 RTBs per annum. As a result of increases to the discounts available (with the maximum discount up to 70% with a cap of £87,200 which is increased annually) the Council has seen an increase in the number of RTB sales, as seen in the table below:

Year	No of sales
2013/14	82
2014/15	57
2015/16	57
2016/17	61
2017/18	97
2018/19	58
2019/20	63
2020/21	48
2021/22	59
2022/23	55
2023/24 forecast	32

2.23 The illustrated HRA Budget includes for 50 sales in 2024/25.

2.24 Shared Ownership rents - for rents in shared ownership properties (75 properties), the rent increase that is permitted is RPI plus 0.5% as per the leases in place with these residents. RPI at September 2023 was 8.9% equating to an increase for these properties of 9.4%. On 12th October, the Government announced that all new leases would be uplifted by CPI + 1%.

2.25 The table below summarises the range of total weekly cost increases for customers in terms of their rents. Currently 81% (78% in previous year) of customers are in receipt of Housing Benefit or Universal Credit benefits to support with payment of housing costs, with further details on this contained within section 4:

Weekly Increase on a 52 week basis	Number of Properties
£0.00 - £4.99	140
£5.00 - £5.99	2,730
£6.00 - £6.99	4,608
£7.00 - £7.99	2,595
£8.00 - £8.99	470
£9.00 - £9.99	66
>£10.00 (max £17.23)	197
Total	10,806

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, with the most notable exception being individual property 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 rising costs or 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 to ensure that services remain sustainable. CPI stands at 6.7% at September 2023, which continues to impact upon the costs of providing services. Though overall forecast cost increases are not as high as in the previous year's proposals, it remains crucial to ensure a continuing focus on these services remains, to demonstrate the positive initiatives underway, to recover costs and avoid increasing deficits, maximise VFM, and stand up to customer scrutiny.

3.3 Gas and electricity remain the most significant and volatile areas in terms of charges and changes, though forecast cost increases for 2024/25 are much less significant than in the previous year. This has resulted in some charges proposed to decrease for 2024/25, particularly for individual heating charges, which are not HB or UC eligible.

3.4 Energy service charges have been compared across wider trends. Annual energy bills for households across England, outside of the HRA, are likely to range from £2,000 to £3,200. This is based on prices around the Northwest on standard variable tariffs. In comparison, based on the proposals in this report, the vast majority of customers will pay less than or equivalent to the Northwest average. Less than 1% of customers will pay more than the average, and these are historic legacy issues where customers have refused replacement of old electric heating systems, which have been factored into future heating upgrades where a tougher stance will be taken to install more modern and efficient heating systems.

3.5 The most significant energy service charge recommendations are:

3.6 Individual Property Heating (not eligible for UC or HB) – 1,228 customers. Proposals are to reduce charges for 32% of customers, with increases to recover costs for the remainder.

3.7 Communal electricity – 4,648 customers. Similar to the Individual Property Heating proposals, proposal are to reduce charges for 32% of customers, with increases to recover costs for the remainder.

3.8 In addition to the energy proposals above, other service charges are proposed to change as follows:

3.9 Charges to be ***reduced***:
Wi-fi – 1,040 customers
Laundry – 288 customers

3.10 Charges increasing by ***less than CPI:***
Concierge – 2,040 customers
Window Cleaning – 1,504 customers

3.11 Charges increasing by ***more than CPI:***

3.12 Some other services are proposed to increase by more than CPI in line with the charging principles of cost recovery, and to ensure HRA tenants who don't receive that particular service are not subsidising those that do. These include:

3.13 Grounds Maintenance - 7,877 customers. The proposal is to increase charges by 10.75%. The Grounds Maintenance contract was recently re-procured, with a fixed price over several years. It is proposed to phase the recovery of the costs of the new contract over 2 years, rather than all in the first year, following which cost increases are expected to be lower.

3.14 Entry Phone – 2,378 customers, with the proposal to increase charges by 11%

3.15 Caretaking – 4,712 customers with the proposal to increase charges by an average of 11%.

New Charges

3.16 In addition to the recommendations above, it is proposed to introduce three new service charges which currently have an annual cost of £413,000. 4,845 customers would be impacted. All three of the added charges proposed are eligible for HB or UC, with 81% of customers currently in receipt of these benefits. The charges proposed relate to Lifts, Building Maintenance and Safety Checks. Legal advice has been taken around the introduction of these charges which includes the required consultation process.

3.17 Service charges for Lifts have historically only been applied to leaseholders and shared owners. It is proposed to extend this to rental customers to cover the annual cost of £79,000, which for 2024/25 would result in a charge of 77p per week. This would cover the forecast annual maintenance and service costs.

3.18 Building maintenance charges are currently only paid by leaseholders, shared owners and hostels. This charge typically covers the maintenance and repairs of communal doors, gates and barriers. All customers living in these properties benefit from these services and the costs vary depending on the nature and type of block. The cost of these services is £84,000 per annum. 93% of customers would incur a new charge of less than £1 per week.

3.19 Safety check charges are currently only paid by leaseholders, shared owners, and hostels. This charge covers health and safety costs including legionella monitoring, emergency lighting, fire prevention and other charges which may be incurred as legislation changes. All customers living in these properties benefit from these services and the costs vary depending on the nature and type of block. The cost of these services is £250,000 per annum. 92% of customers would incur a new charge of less than £2 per week.

Summary of total service charge changes

3.20 The summary of the proposed changes is presented in the three tables below. To clearly show the impact of implementing the new service charges, tables are included to show this separately to existing service charges, as well as a table showing the impact of all the service charge recommendations collectively.

3.21 These tables show that for existing charges, the proposals above would result in an overall reduction for around 7% of customers; around 90% of customers would see an increase of less than £5 per week; and around 3% an increase above this. Incorporating the new proposed charges, around 3% of customers would see an overall reduction; around 88% an increase of less than £5 per week; and around 9% an increase above this.

3.22 Approximately 41% of the charges increasing more than £5 per week are Temporary Accommodation, where the weekly charge is higher due to the increased level of service required, including a number of charges which would be paid directly by general needs customers, e.g. council tax and water. A further 21% results from energy costs from previous years where customers have been undercharged. The remainder are leasehold and shared ownership properties where the increases reflect the actual cost of the services.

Weekly overall change excluding new charges	Number of customers
-£15 to -£20	10
-£10 to -£15	6
-£-5 to -£10	55
£0 to -£5	469
£0 to £5	7379
£5 to £10	169
£10 to £15	82
Total	8170

Impact of new charges	Number of customers
£0 to £1	2031
£1 to £2	476
£2 to £3	1717
£3 to £4	449
£4 to £5	79
£5 to £6	0
£6 to £7	38
£7 to £8	55
Total	4845

Weekly overall change including new charges	Number of customers
-£10 to -£15	10
-£-5 to -£10	22
£0 to -£5	215
£0 to £5	7196
£5 to £10	611
£10 to £15	102
£15 to £20	14
Total	8170

3.23 The service charges detailed in this section have been calculated based on relevant estimated costs. As the costs are finalised the service charges may reduce if necessary, so that forecast income received does not exceed the cost of the services.

4 CUSTOMER AFFORDABILITY CONSIDERATIONS

4.1 Currently 80% of residents are in receipt of Housing Benefit (HB) or Universal Credit (UC) benefits to support with payment of housing costs. Of this, 36% are receiving HB and 44% are receiving UC. The HB customers are split between 67% receiving full benefits, and 33% receiving partial benefits. As UC is paid directly to the customer it is unknown what percentage receive full benefit and what percentage receive partial benefit. Both HB and UC housing costs increase at the same rate as the rent increase. Residents on partial benefits have their awards increased to cover the full amount of any rent increase, providing their income hasn’t increased, for example: In year 1 if the rent is £75 of which £50 is covered by benefits and £25 customer contribution based on personal income, in year 2 if the rent increases to £100, and if the customer’s personal income does not increase, then the benefits would be increased from £50 to £75 as the customer’s income hasn’t changed, and the calculation of what the customer can afford remains the same.

4.2 Investment in effective money and benefit advice has been and will continue to be key to sustaining tenancies and maximising income for both customers and the HRA. In 2022/23, the Money Advice Team, supported by water commission monies, supported customers to maximise their household incomes, assisting with claims for new or additional benefits, challenging incorrect benefit decisions and applying for trust funds and grants. This resulted in £7.1 million of additional income for customers.

4.3 Support is targeted to customers affected by significant welfare benefit changes and reductions to benefit entitlement, in particular those claiming Universal Credit, affected by under-occupancy charges, the Benefit Cap and changes to disability benefits.

4.4 As more customers transition to claiming Universal Credit instead of Housing Benefit, specialist officers continue to support people during the first six weeks of their claims to help ensure every opportunity is taken to reduce financial hardship as a result of claiming the new benefit.

4.5 In cases where financial hardship is evident Money Advisors working in collaboration with the Council’s Support Funds Team can apply for, and award, Discretionary Housing Payments to temporarily cover any shortfall between housing costs entitlement and weekly rent.

4.6 At the end of 2022/23, 91% of residents had clear rent accounts or managed payment plans in place to address any arrears.

Cost of Living Financial Support

4.7 The Government has put in place a wide-ranging financial package to support households across the UK with rising living costs. A large proportion of households on low incomes or in receipt of certain benefits will have been eligible for support.

4.8 During 2023/24, cost of living support is limited to households receiving benefits, with households claiming means tested benefits receiving a £900 additional payment in their benefits split over three £300 payments (with payment made in Spring 2023, Autumn 2023, and Spring 2024) with additional payments to disabled customers (£150) and pensioners (£300).

4.9 For those customers who pay the full or partial costs themselves, the following positive measures announced by the Government will support rent payers with the increase to rents and service charges from April 2024:

- State Pension payments will rise by 8.5% from April 2024
- A 2% reduction in employee National Insurance contributions from January 2024
- The national living wage will increase by 9.8% from April 2024

4.10 During 2023/24 the HRA set aside a hardship fund in light of significantly increasing cost inflation and unknowns in terms of additional government support that could become available. This fund, which is needs assessed, will not be fully utilised in 2023/24, and therefore provision will be carried forward into 2024/25. The Money Advice Team continue to support customers to maximise their income and support customers to claim any unclaimed benefits. Targeted support will be provided to any full rent payers already struggling to meet their current rent charge. Any increased hardship demand in 2024/25 will be considered from available resources within the year.

4.11 The water collection agreement with United Utilities ensures that all customers receive a £10 annual discount off their water bill. More importantly the collection agreement allows targeted work to be carried out to ensure that customers are paying by the lowest possible tariffs. Currently around 18% of properties have a water meter installed and 18% of customers have been supported to apply for an affordability tariff. Support will be targeted to full rent paying customers with high water charges.

Rent and Service Charge Combined Weekly Increase

4.12 The table below shows the combined rent and service charge increases per week, for properties currently occupied. This shows that 97% of customers would receive a total increase of £10 per week or less.

Proposed Total Rent and Service Charge Increase per week on a 52 Week Basis	Number of Occupied Properties	Total Housing Benefit Claimants (HB/UC)		Self Payers		Average Age
		No	%	No	%	
£0.00 - £5.00	87	75	86%	12	14%	49
£5.00 - £10.00	10,392	8,254	79%	2,138	21%	52
£10.00 - £15.00	288	257	89%	31	11%	46
£15.00 - £20.00	5	5	100%	0	0%	51
Total	10,772	8,591	80%	2,181	20%	

5 CUSTOMER CONSULTATION

5.1 A customer consultation took place for two weeks between 13th and 24th November 2023. The consultation was publicised in the SHG digital customer newsletter and the Stockport Review, on the Stockport Homes website and social media channels, on digital noticeboards and AV screens and via posters in the sheltered schemes, community centres and Your Local Pantry sites across the Borough. 6,292 customers received the customer newsletter and social media posts reached 2,360 people with 235 people engaging with the posts.

5.2 The proposal was shared as a video with a voiceover accompanied by a text version in a dedicated area on the Stockport Homes website. The website's 'Recite Me' tool enabled the information to be adapted into accessible versions and translated into different languages. The webpage was viewed 719 times and the video was viewed 239 times. Invites to view and comment on the proposals were sent to 12,645 customers: 8,252 customers received an email invitation, 2,810 customers without an email address were invited by SMS and a further 1,044 customers, lacking both a valid email address and phone number, were mailed a copy of the proposals with a pre-paid response envelope.

5.3 521 people (4%) responded which, although a low %, is high in numbers, and is a significantly higher figure than previous years. Of the 521 responses, 328 were via email, 97 were through the website, 48 were by SMS and an additional 48 were via paper copy.

5.4 Of the 521 people that responded there were a mixture of responses with some people leaving comments with multiple themes. Comments were tagged by sentiment with five core themes identified, which were: accepting the proposal, concerns about the cost of living, feeling the increase was unjustified or too high, or rejecting an increase.

5.5 165 comments were made accepting or agreeing with the proposals. 250 comments expressed concerns, with 62 comments rejecting the proposal or requesting a decrease, and 188 comments about the increase being too high or unjustified with levels of service delivery cited as reasons. The services mentioned most were repairs and investment in homes, grounds maintenance, caretaking, concierge and damp and mould. 54 people commented negatively about service charges where they felt they weren't receiving the level of service for what they are currently charged.

5.6 A proportion of comments (73) mentioned the Cost of Living, although some comments referenced this as a concern for others rather than specifically referencing themselves. Some general concerns were state pensions and wages not increasing in line with inflation and the rising costs of food, utilities, and energy. Of the 13 customers that mentioned damp and mould, all were escalated to Stockport Homes' rapid response team to make contact. 67 customers have been referred to the Customer Finance team and will be triaged for money advice.

5.7 A Frequently Asked Questions document will be produced and shared with customers who participated to provide feedback on the comments and themes customers raised. Rent increases is always a difficult and emotive subject, but the relatively low numbers opposing would not be a reason to refrain from following the rent policy, and the high numbers of those accepting or agreeing is reassuring in that it shows a large number of customers understood the context and reasons for the increase.

6 HRA BUDGET 2024/25

6.1 Increased cost pressures for the HRA need to be carefully considered. There are numerous conflicting demands on resource expenditure in the HRA and significant cost pressures for Stockport Homes, with gaps in funding for Decent Homes and the wider ambitions of the Asset Management Strategy, including meeting carbon reduction aspirations. Even with the proposed 7.7% rent increase for 2024/25, a funding gap of around £141m currently exists to fund Decent Homes across the next 30 years. This is as a result of the significant inflationary cost increases, coupled with materials shortages, which the construction market generally has experienced over the past couple of years, and continues to do so. Setting rents that protect future income is more important than ever, particularly in this operating environment that is experiencing significant increased costs of repairs, the need for additional investments required such as the implementation of the new housing management system being delivered by Stockport Homes, future proofing damp, mould and condensation works, building safety investments, and continued investment in communal areas.

6.2 An illustration of the budget for the HRA for 2024/25 is set out in Appendix 1. It incorporates a rent increase of 7.7% for social and affordable rented properties, and 9.4% for shared ownership properties. The illustrative budget provides for a level of retained balances of £1.097m 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.

6.3 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 high performance 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. It is crucial that the focussed performance management in these key areas continues to be maximised if the HRA is to operate at optimum efficiency.

6.4 The cost of delivering services is increasing, with significant cost rises seen in building repairs and maintenance, and energy costs, and these are reflected in the level of Management Fee paid to Stockport Homes to deliver services. In line with the formula set in the Management Agreement, the Management Fee paid to Stockport Homes will see an overall cash increase of £2.366m (an increase of 6.8%) from the 2023/24 forecast. This is made up of the costs of delivering the management agreement services, including energy costs, and previously agreed delivery plan initiatives, which are increasing by £3.212m, less the delivery of a 3% efficiency totalling £0.846m. £1.519m of this increase represents a one-off recovery of increased repairs and maintenance costs for 2023/24, therefore the annual recurrent increase is £0.842m. (£1.519m of this increase represents a one-off recovery of increased repairs and maintenance costs for 2023/24 (which will be subject to a final reconciliation and Council approval at year-end.)

6.5 Stockport Homes continues to maintain a focus on delivering value for money to ensure that the efficiencies expected as part of the Management Fee can be delivered in a way so that services to customers are not adversely impacted, and that the best possible outcomes for customers are delivered within the resources available. The housing sector generally is facing new pressures, in addition to cost pressures, with the Regulator, via the Social Housing (Regulation) Act 2023, increasing regulatory requirements via its focus on pro-active regulation, and the Housing Ombudsman increasing its spotlight on customer complaints. Stockport Council will be regulated by the new Consumer Standards from April 2024, and the housing service will become subject to on-site inspections by the Regulator, which will assess the governance of housing matters, as well as inspect compliance against the standards, which include a focus on Quality and Safety, Neighbourhood and Community, Tenancy and Transparency, and Influence and Accountability themes. Stockport Homes have set up the relevant governance working groups and theme leads to ensure the standards set out are evidenced once an on-site inspection occurs. Another pressure continues to be the competitive recruitment market within the housing sector, for housing skills, particularly in the face of new regulation. Key housing professionals have left for higher salaries at RSL's in the region. Stockport Homes, via its requirement for efficiencies, have not replaced all of the posts lost, and are focussing on ensuring the housing delivery teams remain highly engaged so as not to impact service delivery.

6.6 The commitment to maximise the impact of the resources available are documented and demonstrated through Stockport Homes' continuous improvement framework, which includes delivery of those objectives and requirements set out in the Delivery Plan agreed with the Council, the Stockport Homes Business Plan, the HRA Business Plan, and the Value for Money strategy. The HRA cannot currently fund the total cost of the new housing system implementation, therefore Stockport Homes will temporarily cash-flow it, with plans built into future years of the HRA for payment.

6.7 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, as well as increased costs of delivering repairs and maintenance.

- Delivery of the annual Capital Programme.

- The HRA budget is illustrating an in-year surplus of £0.263m. It is recommended that this is used to continue to fund the investment into the new housing management system.

6.8 The capital programme for the HRA in 2024/25 and future years, based on the HRA Business Plan would be as follows:

Table Two – Illustrated HRA Capital programme 2024/25 – 2025/26

	2024/25 £000s	2025/26 £000s
HRA Capital programme		
General Capital Programme as per HRA Business Plan	14,513	14,934
New Build programme *	25,595	11.299
Total HRA Capital Programme	40,108	26,233
Funded By:		
Grants / Other receipts	6,203	8,670
Directly Funded Borrowing	18,673	3,160
RCCO – including depreciation charge	13.898	14,349
HRA Capital Reserves	1,334	54
Total Funding for Capital Programme	40,108	26,233

* Identified schemes as at November 2023. An allocation of £38.5m for aspirational scheme capital expenditure is included within the HRA Business Plan over 2026/27 to 2028/29

6.9 The HRA capital programme for 2024/25 – 2025/26 is in line with the updated HRA Asset Management Strategy and also takes account of the new build pipeline programme within the Housing Revenue Account.

6.10 Based on the illustrations contained within the report total balances expected to be held within the HRA would be £1.097m in 2024/25.

7 FINANCIAL CONSIDERATIONS

7.1 Financial considerations are dealt with in the report and affect the Housing Revenue Account.

8 LEGAL CONSIDERATIONS

8.1 The Monitoring Officer has reviewed the report and is ready to support as necessary.

9 EQUALITY IMPACT ASSESSMENT

9.1 The report contains details of support provided to help mitigate the financial impact.

10 ENVIRONMENTAL IMPACT ASSESSMENT

10.1 There are no direct implications. The increases will enable some works to progress that will reduce the carbon impact of the housing stock.

11 RECOMMENDATION

11.1 The Scrutiny Committee is asked to comment on the report and the illustrative HRA Budget for 2024/25.

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

a) An increase of 7.7% for social and affordable rent;
b) An increase of 9.4% for rent of shared ownership properties;
d) Service charge increases as outlined in section 3, with authority delegated to the Deputy Chief Executive, in consultation with the Cabinet Member for Economy, Regeneration & Housing, to agree a lower increase should this be necessary;
e) The Housing Revenue Account Budget for 2024/25 as set out in Appendix 1

11.3 The Council to approve:

a) An increase of 7.7% for social rent and affordable rent;
b) An increase of 9.4% for rent of shared ownership properties;
d) Service charge increases as outlined in section 3, with authority delegated to the Deputy Chief Executive, in consultation with the Cabinet Member for Economy, Regeneration & Housing, to agree a lower increase should this be necessary;
e) The Housing Revenue Account Budget for 2024/25 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 2024/25

	Budget 2023/24 £'000	Forecast 2023/24 £'000	Illustrative Budget 2024/25 £'000
Expenditure			
Management Fee	36,206	34,872	35,719
2023/24 Additional Repairs Costs	-	-	1,519
Hardship Fund	180	60	90
Council HRA Costs	1,380	1,380	1,380
Rents, rates, taxes & other charges	258	258	355
Total management & maintenance	38,024	36,570	39,063
HRA share of interest charges (Per Item 8 Debit)	5,583	5,488	5,648
Depreciation of fixed assets	12,940	12,940	13,898
Debt management costs (Treasury Management)	65	65	66
New Build MRP, Interest and other	674	747	999
Bad debts provision	486	400	528
Solar PV Interest	87	68	57
Solar PV Voluntary MRP	0	0	0
Water Charges	4,588	4,792	5,113
	24,423	24,501	26,309
Total expenditure	**62,447**	**61,071**	**65,372**
Income			
Rents of dwellings	(48,572)	(48,722)	(52,218)
Rents (non dwellings) shops/garages/office rents	(300)	(300)	(300)
Charges for services & facilities	(7,511)	(5,728)	(5,978)
Solar PV FIT Income	(1,350)	(1,350)	(1,350)
Renewable Heat Incentive	(446)	(297)	(446)
Appropriations / Retained Income from RTBs	(65)	(65)	(65)
Water Charge Debit	(4,588)	(4,792)	(5,113)
Total	**(62,832)**	**(61,254)**	**(65,470)**
Net cost of services	**(385)**	**(183)**	**(98)**
Investment income	(30)	(75)	(75)
Net operating expenditure	**(415)**	**(258)**	**(173)**
Capital met from revenue – Business Plan	0	13	0
Voluntary MRP	0	0	0
Contribution from Reserves	0	0	0
(Surplus)/Deficit for year	**(415)**	**(245)**	**(173)**
(Surplus)/Deficit brought forward - HRA	(1,000)	(1,000)	(1,097)
Additional RCCO	0	0	0
Future investment – new housing system	318	148	173
Accumulated (surplus)/deficit at year end	**(1,097)**	**(1,097)**	**(1,097)**

Appendix 2

2024/25 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 2023/24	0	20%	0
Pay & Prices			
N/A – contained within Management Fee payable to Stockport Homes Limited			
Income			
Yield from Rental and Service Charge Income	58,496	1.35%	792
Void Rate	0.75%	0.25%	146
Investment Income	30	0%	0
Interest rates / other changes			
Interest and other expenditure (excluding Water charges)	21,196	0.75%	159
Minimum Level of HRA Balances			1,097

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:

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