Meetings: Economy, Regeneration and Climate Change Committee – 23 January 2025
Cabinet – 4 February 2025
Council – 27 February 2025

HOUSING REVENUE ACCOUNT (HRA) BUDGET AND RENT LEVELS FOR 2025/26

Joint Report of the Director of Finance (Section 151 Officer), Director of Place Management

AGENDA ITEM

1 INTRODUCTION

1.1 The purpose of this report is to provide the Scrutiny Committee with an opportunity to comment on an illustrative Housing Revenue Account (HRA) Budget for 2025/26 including the level of rent and service charges. Cabinet will then have the opportunity to recommend it to the Council. 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 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 The Government's budget on 30th October included a number of positive outcomes for the HRA, through more certainty on future rents and reduced property losses via Right to Buy. Though the potential for higher employer's National Insurance costs offsets some of these benefits, the overall impact on the HRA is positive. However, they do not resolve all of the issues faced, and aspirations in the HRA. There remain conflicting demands on resource expenditure in the HRA, with shortfalls in funding for Decent Homes and the Asset Management Strategy, and meeting carbon reduction aspirations. Additional resources are also likely to be required to support future development activity beyond the schemes currently committed. Setting rents that protect future income is as important as ever, particularly in an operating environment that is experiencing significant increased costs of repairs, and additional investments required such as damp, mould and condensation, 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.

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, the Government have unexpectedly overridden their rent policy on several occasions, which has significantly adversely impacted rental income expectations in the HRA. These previous rent policy changes are detailed below:

- 2015: ending rent restructuring a year earlier than expected, resulting in a significant number of rents remaining below the formula rent;
- 2015: changing the basis of all future annual rent increases from RPI to the lower CPI;
- 2016: the four years mandatory application of an annual 1% rent reduction, rather than the annual increases within the rent settlement of CPI+1%;
- 2023: the deviation to the rent settlement of the CPI + 1% rent increase, which would have permitted rent increases up to 11.1%, to a rent increase cap of 7% for the majority of rents. This resulted in all existing social rents moving below the formula rent.

2.5 All of these policy changes have had a significant negative impact on the HRA Business Plan and the services which were planned to be provided.

2.6 Over the 30-year business plan the four-year rent reduction resulted in the loss of income of £217m and the rent increase cap in 2023-24 resulted in a loss of income of £73.5m. The main impact of this is ongoing pressure on the Management and Maintenance Fee and in delivering the Capital Programme. The Capital Programme funding in the previous business plan was highlighted as being insufficient to maintain Decent Homes and Statutory Compliance after 10 years, and the Management and Maintenance Fee has not kept pace with the increasing demands and associated costs of providing services.

3 FUTURE RENT POLICY AND THE AUTUMN BUDGET

3.1 More recently, rent policy announcements have been positive for the HRA business plan. In April 2024 the Government announced an extension to the existing rent settlement for 2025/26, permitting social housing rents to be increased by up to CPI + 1% for a further year. Following this, as part of the autumn budget statement on 30th October 2024, the Government announced a consultation on a new long-term social housing rent settlement of annual CPI + 1% rent increases for at least five years from 2026/27. Previously the 30-year HRA Business Plan assumed CPI only rent increases from 2026-27, hence the application of CPI+1% will bring much needed additional resources into the HRA to support the Capital Programme and service delivery. A new HRA Rent Strategy will be developed when the new rent settlement is available, and will incorporate the rent settlement from 2026-27.

3.2 In addition to more certainty on future rents, the Government's budget on 30th October included another positive outcome for the HRA. The changes to Right to Buy discounts, and the cost-floor mechanism, are expected to reduce future property losses via Right to Buy, resulting in resources being retained in the HRA which can be used to support the Capital Programme and service delivery through the Management and Maintenance Fee.

3.3 The October budget also included increases in employers National Insurance costs from 2025/26. Though it is currently unclear the extent to which this will apply to Local Authorities and the HRA, even with the potential higher National Insurance costs, the extra resources generated from the rents and Right to Buy changes significantly increase resources in the HRA.

3.4 Though the outcomes from the October budget are positive, they do not resolve all of the issues and cost pressures faced, particularly the wider aspirations for enhanced improvements to HRA homes. There remain conflicting demands on resource expenditure in the HRA, with shortfalls in funding for Decent Homes and the Asset Management Strategy, and meeting carbon reduction aspirations. Additional resources are also likely to be required to support future development activity beyond the development schemes currently committed.

3.5 Setting rents that provide the future income to meet the housing stock investment requirements is as important as ever, particularly in an operating environment that is experiencing significant increased costs of repairs, and additional investments requirements such as damp, mould and condensation, and building safety investments.

3.6 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

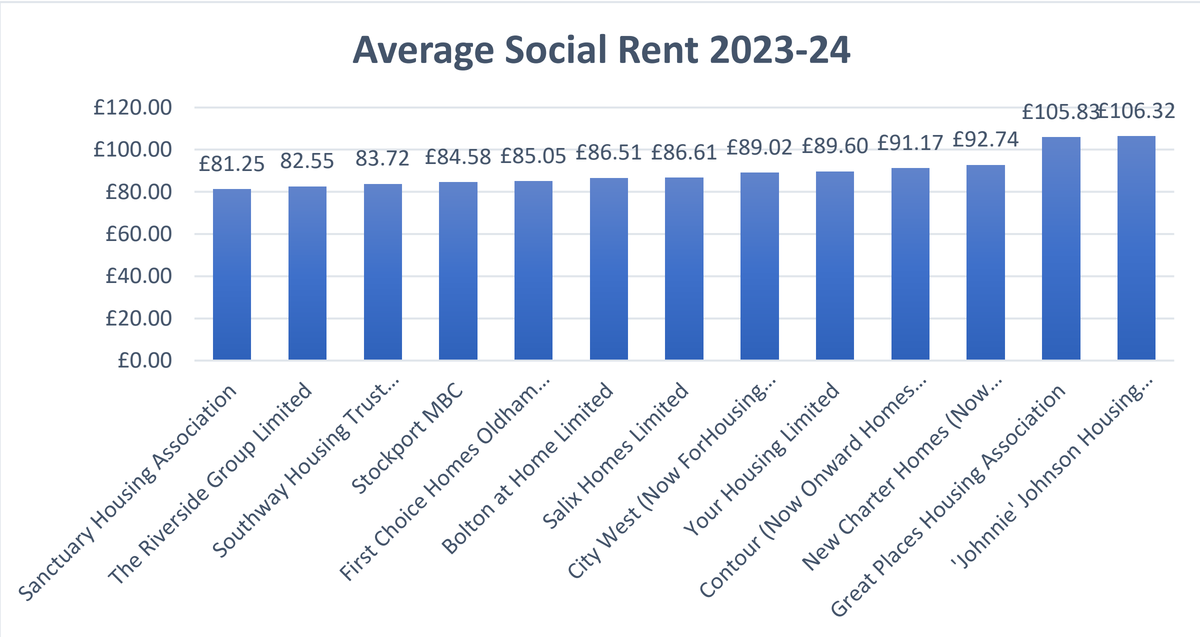
works;

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

4 RENT SETTING

4.1 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.

4.2 Out of a sample of 118 housing providers across different GM Boroughs, Stockport had the 10th 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 2023/24 social rents excluding affordable rents, with Stockport's HRA average rents at £84.58. (It should be noted that rents will be influenced by the make-up of properties in different organisations, but the comparison provides an indication of comparative rents.)



4.3 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 2023-24, and the difference between the HRA rents.

Property Type	HRA Rents	Stockport Private Rent	Weekly Difference
1 Bed	£74.60	£212.54	£137.94

2 Bed	£82.24	£279.92	£197.68
3 Bed	£95.36	£357.00	£261.64
4 Bed	£103.92	£472.62	£368.70
5 Bed	£140.07	£624.92	£484.85

4.4 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.

4.5 Formula rents are higher than current rents for the majority (92%) of properties, as a result of the rent increase cap imposed in 2023, and prior to that, the early end of rent convergence in 2015. As properties are re-let, the majority, or all properties, would eventually be set to the formula rent, but this is likely to take at least 15 years based on tenancy turnover rates.

4.6 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 2024, and shows that £2.303m of annual rental income is currently not received in the HRA as a result:

HRA Social Rented Properties	Annual actual rent for social rented properties	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 2024
10,493	£49.898m	£52.201m	£2.303m	4.61%

4.7 To further control rents nationally, 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.

4.8 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 24% to 2025/26, whilst over this same period, cost inflation measured through CPI has increased by around 31%, and building costs by around 64%.

4.9 In terms of Right to Buys (RTBs), the original Business Plan assumed 20 RTBs per annum. As a result of increases to the discounts implemented in 2012 (with the maximum discount up to 70% with a cap of £102,400) the Council has seen an increase in the number of RTB sales, as seen in the table below:

Year	Number 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	41
Total HRA stock lost through RTB	678

4.10 As part of the Autumn Budget statement, it was announced that the discounts would be reduced from a maximum of £102,400 to £26,000 in the North West, back to pre-2012 levels. This took effect from 21st November 2024. The illustrative HRA Budget therefore has been reduced to include 20 sales (from the previous 50) from 2025/26. Other RTB changes within the budget were the extension of the cost floor from 15 to 30 years, and that Councils can keep 100% of the sales receipt.

4.11 Shared Ownership rents - for rents in shared ownership properties (76 properties), the rent increase that is permitted is RPI plus 0.5% as per the leases in place with these residents. RPI at September 2024 was 2.7% equating to an increase for these properties of 3.2%.

4.12 The table below summarises the range of total weekly cost increases for customers in terms of their rents. Currently 80% (81% 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 - £0.99	0
£1.00 - £1.99	400
£2.00 - £2.99	9,525
£3.00 - £3.99	685
£4.00 - £4.99	142
£5.00 - £5.99	7
£6.00 - £6.99	2
Total	10,761

5 SERVICE CHARGES

5.1 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.

5.2 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 1.7% at September 2024, though this does not reflect the cost of providing the majority of services which have seen higher cost increases. 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 Value for Money (VfM), and stand up to customer scrutiny. Service charge proposals include both HRA and the Council's Temporary Accommodation properties.

5.3 Gas and electricity are the most significant and volatile areas in terms of charges and cost changes, and costs are largely outside of the control of the Council. During the budget setting process for 2024/25 costs were expected to remain the same as the previous year. However, as a result of the effective energy procurement strategy, costs decreased by around 22% for electric and 23% for gas. For 2025/26 a 15% increase on the current cost of gas and electric has been assumed, which has therefore resulted in some costs and corresponding charges decreasing for 2025/26 as outlined below.

	2024/25 Expected Increase	2024/25 Actual Change	2025/26 Estimated Increase	Net Impact over 2 years
Electric	0%	-22%	15%	-10%
Gas	0%	-23%	15%	-11%
Biomass	35%	35%	15%	15%

5.4 For context, the Government's energy regulator, Ofgem, raised the energy price cap by 10% for October 2024. This applies to most energy consumers across the UK including HRA customers whose energy is not provided via the Council. Based on the proposed 2025/26 charges, the following customers will receive an increase less than the price cap %

- 100% of customers paying an individual heating charge
- 96% of customers paying a communal heating
- 87% of customers paying a communal electric charge

5.5 The proposals for electricity, gas and biomass based service charges are:

5.6 **Individual Property Heating - 1,011 customers**. The majority of properties are fed by the district biomass systems. Individual heating charges are not eligible for Housing Benefit (HB) or Universal Credit (UC).

5.7 The costs of providing heating and hot water through biomass have become more expensive than if gas were used, with biomass now 65% more expensive per kWh than gas. There is a choice whether to run these systems on purely gas or a mixture of gas and biomass, with the biomass being more environmentally friendly but more expensive. When biomass is used the HRA receives ‘renewable heat incentive’ (RHI) income for every kWh of biomass used, with £0.394m forecast for the current financial year. RHI is designed to encourage the use of biomass, as the UK must reduce dependence on gas as a fuel as part of the government’s commitment to transition to a green economy. Given the cost disparity between biomass and gas that now exists, service charges for those customers who receive their heat from a biomass system should be supported by RHI income to ensure customers are not worse off from the use of biomass.

5.8 It is therefore proposed to offset RHI income against heating costs in customers service charges. To recover the remaining cost increases an average increase of 4% is illustrated, with charges to be cost reflective for all other non-biomass customers.

5.9 **Communal electricity – 4,777 customers**. It is proposed to amend charges to be cost reflective for each scheme. This will result in 55% of customers receiving a reduction and 43% of customers will have an increase of less than £1 per week.

5.10 **Communal Heating – 278 customers**. It is proposed to amend charges to be cost reflective with all customers receiving a reduction at an average of a 7%.

5.11 In addition to the energy proposals above, other service charges proposed to reduce or be frozen at current levels are:

5.12 **Wi-fi – 1,057 customers**. It is proposed to reduce charges by 6% resulting in a 5p per week reduction.

5.13 **Entry Phone – 2,364 customers**. It is proposed to freeze charges as costs are being fully recovered.

5.14 **TV Aerials – 1,686 customers**. The charge will be removed and included in the new Building Safety & Maintenance Charge.

5.15 Other services are proposed to increase by more than CPI in line with the charging principles. The most significant areas are outlined below:

5.16 **Grounds Maintenance – 7,799 customers**. The proposal is to increase by 12.75%. The Grounds Maintenance contract was re-procured, with a fixed price over a number of years. It was agreed to phase the recovery of the increased costs of the new contract over 2 years, rather than all in the first year, 2024/25. The proposal is the increase required to recover the full costs.

5.17 **Caretaking – 4,809 customers**. Charges are proposed to increase by an average of 12% which includes the increased costs of the service along with additional resources to improve the service standard.

5.18 **Concierge – 2,089 customers**. Charges are proposed to increase by an average of 13%. As part of the ongoing transformation of the service, further enhancements to the service are being considered, which will enhance the existing offer for which provision is made in the proposed increase.

New charges

5.19 The Council previously approved the introduction of some new service charges for which the consultation is underway, and implementation is expected for the start of 2025/26. These charges were a Lift charge and Building Safety and Maintenance Charge.

5.20 The full cost of these services including is circa £1.1m of which only £0.050m is currently recovered through Leaseholders and Hostels.

5.21 Following the previous approvals, a Lift charge of 77p per week and a combined Building Safety and Maintenance Charge capped at £3 per week will now be introduced. Though these charges do not represent full cost recovery, they will result in a significant amount of new service charge income of £0.575m per year from 2025/26, which will support the financial pressures in the HRA. Future service charge reviews will consider changes to future charges in light of service costs.

5.22 All service charge proposals have been calculated based on relevant estimated costs. As the costs are finalised the service charges proposals may reduce if necessary, so that forecast income received does not exceed the cost of the services.

6 CUSTOMER AFFORDABILITY CONSIDERATIONS

6.1 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, 30% are receiving HB and 50% are receiving UC. 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.

6.2 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 2023/24, 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 £6.7 million of additional income for customers.

6.3 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.

6.4 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.

6.5 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.

6.6 During 2024/25 the HRA continued to set aside a hardship fund in light of the ongoing impact from 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 2024/25, and therefore provision will be carried forward into 2025/26. 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 2025/26 will be considered from available resources within the year.

6.7 At the end of 2023/24, 88% of residents had clear rent accounts or had managed payment plans in place to address any arrears.

Rent and Service Charge Combined Weekly Increase

6.8 The table below shows the combined rent and service charge increases per week, for properties currently occupied. This shows that 74% of customers would receive a total increase of no more than £5 per week inclusive of service charges.

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	%	
-£25.00 to £0.00 (Reduction)	31	28	90%	3	10%	69
£0.00 to £0.99	4	2	50%	2	50%	60
£1.00 to £1.99	70	23	33%	47	67%	53
£2.00 to £2.99	3,252	2553	79%	699	21%	52

£3.00 to £3.99	3,447	2740	79%	707	21%	54
£4.00 to £4.99	1,192	1008	85%	184	15%	49
£5.00 to £5.99	491	412	84%	79	16%	51
£6.00 to £6.99	259	205	79%	54	21%	54
£7.00 to £7.99	484	394	81%	90	19%	55
£8.00 to £8.99	480	389	81%	91	19%	48
£9.00 to £9.99	788	641	81%	147	19%	47
£10.00 to £10.99	273	226	83%	47	17%	44
Total	10,771	8,621	80%	2,150	20%	

7 CUSTOMER CONSULTATION

Consultation exercise and reach

7.1 A customer consultation took place for two weeks between 8th and 22nd November 2024. The consultation captured customer comments on the proposals, with additional questions specifying any support needs.

7.2 The consultation was publicised in an SHG customer newsletter special and the Stockport Review Extra, along with a dedicated webpage on the Stockport Homes website and social media channels, digital noticeboards, and a feature in the Councillor Bulletin. 3,027 people opened the newsletter special, with 519 people engaging with the link. Social media posts gained 1,539 impressions, with 1,447 people who saw the post, and 80 showing active engagement via likes, clicks or shares.

7.3 The proposal was shared as a downloadable two-page infographic-style information leaflet, and accompanied by a visual video, complete with subtitles, on a dedicated area on the Stockport Homes website. Information was also available to view on a drop-down webpage accordion, with the websites’ ‘Recite Me’ tool enabling the information to be adapted into accessible formats and translated into different languages. Customers were also signposted to cost-of-living information and resources. The dedicated webpage page saw 826 active users engage, with 377 views on the YouTube video, which is significantly higher than previous years.

7.4 Invites to view and comment on the proposals were sent to 11,220 customers. 7,903 received an email invitation, 2,308 without an email address were invited by SMS and a further 1,009, lacking both a valid email address and phone number, were mailed a copy of the proposals with a pre-paid envelope.

7.5 564 people (5%) responded. While relatively low given the reach of the consultation, this compares to 521 responses received in 2023, and around 100 received in 2022. Of the 564 responses, 294 were via email, 101 were through the open weblink on the website, 90 were via paper copy and 79 were by SMS. 524 responses were tenants, and 35 shared owners.

Feedback on Proposals

7.6 140 comments were made accepting or understanding the proposed increases. Of these, 20 accepted the increase on the condition that increases aligned with improvements. 43 comments stated that the increases were ‘fair’ or ‘reasonable’.

7.7 There were 194 negative comments overall, with 180 people disagreeing with, or rejecting, the increase, and 14 comments stating the increase is too high. The majority of these comments (50 of 194) were solely related to service charge increases. 66 customers expressed concern for themselves, or others, alluding to the increased cost of living. The remaining 163 customers left no - or neutral - comments on the proposals.

Comment Themes

7.8 Customers expressed a range of sentiments regarding the proposed rent and service charge increases. Some highlighted concerns about the current state of their properties, lack of maintenance, and dissatisfaction with existing services. Others mentioned struggles with affordability and the impact of the increases on their financial situations.

7.9 Key Points included:

- Requests for improvements in property conditions.
- Concerns about lack of maintenance and timeliness of repairs in properties
- Desire for fair rent increases aligned with service improvements.
- Questions about justification for service charges.
- Issues with existing communal area cleanliness and maintenance
- Dissatisfaction with current services provided.
- Calls for transparency in cost breakdown and service quality.
- Struggles with affordability and financial impact of increases.

7.10 Notably, 125 comments expressed dissatisfaction with services. These included investment and home improvements, grounds maintenance, caretaking, repairs, and concierge. Additional concerns included lift maintenance, window cleaning, heating systems, and anti-social behaviour. Each comment has been forwarded onto the relevant service area and appropriate action will be taken and / or support provided.

7.11 Other general comments included concerns around rising costs, stagnant salaries, inadequate pensions or benefits, lack of support for workers, and higher costs for shared ownership customers. 5 customers mentioned damp and mould and were escalated to SHG’s rapid responses team to make contact. 53 customers have requested to receive further information about the Money Advice or Energy Advice teams to explore further support.

7.12 There were more comments from residents in blocks with multiple service charges about the balance between cost and quality of service. For comments regarding general services (such as caretaking and grounds maintenance), additional inspections have been conducted to monitor service quality, and any necessary actions have been taken. If the feedback was more personal, individual contact has been made with the customer. For instance, where a customer expressed concerns regarding affordability, the Money Advice Team has arranged personal contact to assess if any financial assistance could be provided.

7.13 In January 2025, a leaflet will be sent directly to all customers who responded to the consultation, updating them on the actions taken, summarising the feedback received, and outlining the next steps in the process. The leaflet will also be shared on the Stockport Homes website and social media pages.

8 HRA BUDGET 2025/26

8.1 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 maintenance costs remaining high and gaps in funding for Decent Homes and the wider ambitions of the Asset Management Strategy, including meeting carbon reduction aspirations. Even with the proposed rent and service charge increases for 2025/26, and the additional future resources resulting from the October budget, a funding gap remains to fund Decent Homes across the next 30 years. Additional resources are also likely to be required to support future development activity beyond the schemes currently committed. The stock condition survey to be completed in 2025, new Development strategy, along with the Government's awaited rent settlement and subsequent new HRA rent strategy, will strongly influence future HRA resources and the investment priorities that can be delivered.

8.2 Setting rents that protect future income is as important as ever, particularly in an operating environment that is experiencing significant increased costs of repairs, and additional investments required such as damp, mould and condensation, and building safety investments.

8.3 An illustrative HRA budget for 2025/26 is set out in Appendix 1. It incorporates a rent increase of 2.7% for social and affordable rented properties, and 3.2% for shared ownership properties. The illustrative budget provides for a level of retained balances of £1.097m which is viewed by the Director of Finance (Section 151 Officer) to be the minimum considered necessary to support the illustrative 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.

8.4 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.

8.5 The cost of delivering services is increasing, with significant cost rises in potential employer's National Insurance costs, pay inflation, along with repairs and maintenance, insurance and regulatory 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 £1.452m, from £35.523m to £36.975m (an increase of 4.1%) from the 2024/25 fee. This is made up of the costs of delivering the Management Agreement services, including the impact of higher National Insurance costs, and previously agreed delivery plan initiatives, which are increasing by £2.356m, less the delivery of a 3% efficiency totalling £0.904m. In addition to the £36.975m Management Fee is a one-off cost of £1.153m which represents the recovery of increased maintenance costs carried out in 2024/25 mainly for Adaptations, Damp, Mould and Condensation and Voids, which will be subject to a final reconciliation and Council approval at year-end. The 2025/26 HRA budget also makes provision for offsetting respective customers heating charges with RHI income as outlined earlier in section 5.7. There is no budget in 2025/26 to reimburse Stockport Homes for the costs it has already incurred for the new housing system implementation, which instead are provided for in 2026/27 of the business plan.

8.6 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 became 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 oversight 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. Quarterly Council assurance meetings take place between the Council and Stockport Homes. The Council's Director of Place Management and the Strategic Housing Lead meet with the Deputy Chief Executive and Head of Assurance from Stockport Homes, and receive a wide range of information regarding performance and regulatory matters.

8.7 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.

8.8 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.

8.9 Stockport Homes demonstrates a commitment to innovation and efficiency. Last year's Delivery Plan outcome report references significant savings, including year-on-year 3% efficiency savings in the Management Fee, which are often in excess of £800k per year, and other examples of efficiency in services, such as through successfully managing housing fraud cases, and restructuring senior management roles. Ongoing digital transformation, exemplified by the implementation of a new housing management system, promises further efficiency gains and improved service delivery. In addition, there are also surplus generating areas that have supported the annual 3% Management Fee efficiency. These include new build development and property sales, security services to third parties and external marketing work. Uncertainty around delivery of the future development pipeline could place further pressure on delivering the existing annual Management Fee efficiency and delivery of core services in the future.

8.10 The main features of the illustrative spending plan for the HRA are as follows:

- The Stockport Homes Management Fee reflects the delivery of 3% efficiencies and continuation of a hardship fund, as well as increased costs of National Insurance, pay, insurance and regulatory costs, and delivering repairs and maintenance.

- Delivery of the annual Capital Programme.

8.11 The Independent Review of Stockport's Housing Management Arrangements report included in the agenda for this Scrutiny meeting recommends a series of priority actions in section 4.5. Action 2 is to "Identify resource from HRA for Council to lead strategic review of portfolio and investment requirements." The one-off resource required to complete the strategic review is £0.125m and is included in the proposed 2025/26 HRA Budget at Appendix 1. The action will seek to:

- Review overall capital programme to meet challenges of decent homes and net zero expectations
- Analysis of stock condition, demand, neighbourhood management and complaints
- Develop capital investment programme to meet needs of borough's stock
- Develop costed renewal options for those locations or property types where significant challenges exist, such as Lancashire Hill and sheltered housing schemes
- Engage local Members and residents in development of key estate plans

9 The illustrative HRA budget is showing a balanced budget.

9.1 The Capital Programme for the HRA in 2025/26 and future years, based on the

HRA Business Plan would be as follows:

Table Two – Illustrative HRA Capital programme 2025/26 – 2026/27

	2025/26 £000s	2026/27 £000s
HRA Capital programme		
General Capital Programme as per HRA Business Plan	14,730	16,003
New Build programme *	10,749	268
Total HRA Capital Programme	25,479	16,271
Funded By:		
Grants / Other receipts	7,919	0
Directly Funded Borrowing	2,600	268
RCCO – including depreciation charge	14,730	16,003
HRA Capital Reserves	230	0
Total Funding for Capital Programme	25,479	16,271

* Committed schemes as at November 2024. Future non-committed development schemes would be in addition to the totals above.

9.2 The HRA capital programme for 2025/26 – 2026/27 is in line with the current HRA Asset Management Strategy and also takes account of the new build pipeline programme within the Housing Revenue Account.

9.3 Based on the illustrations contained within the report total balances expected to be held within the HRA would be £1.097m in 2025/26.

10 FINANCIAL CONSIDERATIONS

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

11 LEGAL CONSIDERATIONS

11.1 The contents of the report aligns with the governance requirements of the council and the relevant legislation. As set out in the recommendations below, the resolutions to be agreed, are functions of the Council Meeting.

12 EQUALITY IMPACT ASSESSMENT

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

13 ENVIRONMENTAL IMPACT ASSESSMENT

13.1 There are no direct implications.

14 RECOMMENDATION

14.1 Scrutiny is asked to comment on the report.

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

a) An increase of 2.7% for social and affordable rent;
b) An increase of 3.2% for rent of shared ownership properties;
d) Service charge increases as outlined in section 5, with authority delegated to the Director of Finance, 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 2025/25 as set out in Appendix 1

14.3 The Council to approve:

a) An increase of 2.7% for social rent and affordable rent;
b) An increase of 3.2% for rent of shared ownership properties;
d) Service charge increases as outlined in section 5, with authority delegated to the Director of Finance, 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 2025/26 as set out in Appendix 1

Appendix 1

Illustrative Housing Revenue Account 2025/26			
Expenditure	**Budget 2024/25 £'000**	**Forecast 2024/25 £'000**	**Illustrative Budget 2025/26 £'000**
Management Fee	35,523	35,523	36,975
Additional Adaptations and Maintenance Costs	1,519	1,386	1,153
Hardship Fund	90	35	35
Council HRA Costs	1,380	1,380	1,380
Strategic Review			125
Rents, rates, taxes & other charges	355	370	618
Total management & maintenance	38,867	38,694	40,286
HRA share of interest charges (Per Item 8 Debit)	5,648	5,630	5,646
Depreciation of fixed assets	13,898	13,898	13,835
Debt management costs (Treasury Management)	66	66	70
New Build MRP, Interest and other	999	756	1,090
Bad debts provision	528	450	486
Solar PV Interest	57	50	51
Solar PV Voluntary MRP	0	0	0
Water Charges	5,113	4,928	5,012
	26,309	25,778	26,190
Total expenditure	**65,176**	**64,472**	**66,476**
Income			
Rents of dwellings	(52,218)	(52,382)	(53,492)
Rents (non dwellings)	(300)	(300)	(300)
Charges for services & facilities	(5,782)	(5,571)	(6,620)
Solar PV FIT Income	(1,350)	(1,350)	(1,400)
Renewable Heat Incentive	(446)	(394)	(446)
Appropriations / Retained Income from RTBs	(65)	(52)	(26)
Water Charge Debit	(5,113)	(4,928)	(5,012)
Total	**(65,274)**	**(64,977)**	**(67,296)**
Net cost of services	**(98)**	**(506)**	**(820)**
Investment income	(75)	(75)	(75)
Net operating expenditure	**(173)**	**(581)**	**(895)**
Capital met from revenue – Business Plan	0	34	895
Voluntary MRP	0	0	0
Contribution from Reserves	0	0	0
(Surplus)/Deficit for year	**(173)**	**(547)**	**0**
(Surplus)/Deficit brought forward - HRA	(1,097)	(1,097)	(1,097)
Additional RCCO	0	0	0
Future investment – new housing system	173	547	0
Accumulated (surplus)/deficit at year end	**(1,097)**	**(1,097)**	**(1,097)**

Appendix 2

2025/26 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 2024/25	0	20%	0
Pay & Prices N/A – contained within Management Fee payable to Stockport Homes Limited			
Income Yield from Rental and Service Charge Income	60,268	1.31%	790
Void Rate	0.75%	0.25%	150
Investment Income	75	0%	0
Interest rates / other changes Interest and other expenditure (excluding Water charges)	21,035	0.75%	157
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 an illustration regarding the minimum level of general balances.

4 The key risks reflected in the above assessment include:

15 Uncertainty regarding actual rates of interest, and yield from rental and service charge income; and,

16 Potential for void rates to be higher at 1.00% than the 0.75% included within the financial assumptions.

BACKGROUND PAPERS

There are none

Anyone wishing to inspect the above background papers or requiring further information should contact Andy Kippax

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