Regeneration, Culture and Environment Overview and Scrutiny Committee
21 January 2025

Housing Revenue Account
Capital and Revenue Budgets 2025/26

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Summary

This report presents the Housing Revenue Account (HRA) capital and revenue budgets for 2025/26 and provides details of proposed rent and service charge levels for 2025/26.

The report also contains the latest revised forecasts of the HRA Business Plan.

The comments of this Committee will be collated for onward despatch to the Cabinet on 11 February 2025 and Council on 27 February 2025.

1. Recommendations

1.1. The Committee is asked to recommend the following to Cabinet:

a) A proposed social rent increase of 2.7% (CPI of 1.7 plus 1%) for the social rent housing stock as set out in Appendix A (based on 52 collection weeks) with effect from 01 April 2025. All new tenancies issued during 2025/26, to be set at either the formula rent or rent cap for social rent dwellings, whichever is lower.

b) A proposed affordable rent increase of the lower of Local Housing Allowance (LHA) rate or 2.7% (CPI of 1.7 plus 1%) for the affordable rent properties as set out in Appendix B (based on 52 collection weeks) with effect from 01 April 2025. All new tenancies during 2025/26 to be set at either 80% of market rent or the LHA rate for affordable rent dwellings, whichever is lower.

c) A proposed rent increase of 2.7% to be applied to all garage tenure types with effect from 01 April 2025 as stated in section 5.

d) That the service charges increases/decreases as set out in Appendix C of the report for 2025/26 be approved.

e) That the revenue budget for the HRA service for 2025/26 as per Appendix D be approved.

f) That the provision for the estimated repayment of debt, based on annuity-based payment as set out in section 7.3, on the HRA's outstanding debt for 2025/26 be approved.

g) To delegate authority to the Assistant Director, Culture and Community to agree weekly rental values presented by the Head of Tenant Services for any in-year completed HRA acquisitions and/or new builds during 2025/26.

h) That Members approve the 30-year HRA Business Plan model as attached at Appendix E.

2. Budget and policy framework

2.1. The Council is required by law to carry out a review of Council rents from time to time and to ensure that the HRA does not fall into a deficit position.

3. Background

3.1. The 'Self-financing' regime for the HRA came into place on 1 April 2012 and the previous subsidy regime and the complex calculations that accompanied it were then abolished. For the most part, at the time, this left the HRA free of Government intervention and with the responsibility for managing and maintaining the Council's housing stock within the rental stream that the stock generates. This report concentrates on proposals for 2025/26 including:

- Rent and Service Charges
- Performance Management – voids, welfare reform and debt collection
- Expenditure assumptions
- Housing repairs
- 3 Year Capital Budget
- New House Building Programme update
- Borrowing and Debt
- Revised forecasts of the HRA Business Plan
- Revenue Budget for 2025/26

4. Rent

4.1. The Government announced in the Autumn statement 2024 that social housing landlords are permitted to increase their rents for social and affordable properties by Consumer Price Index (CPI) plus 1% from April 2025.

4.2. The Government published the Consultation on future social housing rent policy on 30 October 2024, seeking views on the new Direction to the Regulator of Social Housing in relation to social housing rent policy from 1 April 2026. Which is proposing a minimum of a 5-year settlement at CPI + 1% or consideration for a longer-term settlement, e.g. 10 years. The consultation closed on 23 December 2024

4.3. The rent setting for the financial year 2025/26 has reverted to the Rent Standard set out in October 2024; CPI plus 1% based against September's CPI. Therefore, the permitted increase from 1 April 2025 – 31 March 2026 is 2.7%.

4.4. The Rent Standard also sets out the guidance for calculating formula rent and rent caps, formula rent increases are based on September CPI plus 1% while the rent cap is calculated at September CPI plus 1.5%. All empty properties (voids) will have the rent re-set based on the Rent Standard when they are re-let.

4.5. Rents under social rent arrangement exclude service charges, which are charged separately and are based on actual expenditure and any known increases/decreases. Details are set out in section 6 of this report. Affordable rent charges are inclusive of service charges.

4.6. The Department for Levelling Up, Housing and Communities (DLUHC) Policy Statement on Rents for Social Housing (issued Feb 2019) states that, at the start of a new affordable rent tenancy, the rent must not exceed 80% of the market rent (inclusive of service charges) and should not be lower than the potential formula rent. This rent can then be increased by the social housing rent policy each year. When a dwelling of affordable rent is relet to a new tenant, rent must be recalculated again to ensure new rent is no more than 80% of the market rent at that time.

4.7. Affordable rent levels are generally capped at Local Housing Allowance rates, which resulted in a small increase for 2023/24, however following the announcement in the Autumn Statement (November 2024), affordable rents will be increased by the Rent Standard (September CPI + 1%).

4.8. Appendix A (social rent) and Appendix B (affordable rent) set out the details of the proposed average rent increase by property type, which is based on social and affordable housing rent, and is in line with Government's current guidance as detailed above.

4.9. The increase in weekly rent of 2.7% will result in an increase of £851,787 in budgeted rental income from dwellings against 2024/25 yearly rental income. This increase includes budgeted rental income of £275,061 from 120 affordable rent properties. 44 of these affordable rent properties are being purchased/completed in Q2 of 2025/26, the budgeted rental income assumes the properties will be available from the start of Q2.

4.10. The proposed charges will give an average rent of £103.68 per week for social rent and £172.33 per week for affordable rent, based on 52 weekly payments on current properties.

4.11. As of 01 April 2025, with the implementation of proposed increases of rent capped at 2.7%, the Council will have all social rent dwellings below formula rent. It is proposed that any new tenancies issued during 2025/26, are set at formula rent or rent cap for social rent dwellings, whichever is lower. New tenancies for affordable rent dwellings to be set at lower of 80% of market rent or the LHA rate.

4.12. It is recognised that during the current cost of living challenges that any rent increase increases strain on households. Unfortunately, the cost of delivering safe and well-maintained housing stock is also increasing, challenges in respect of materials and labour have been widely reported even prior to increases in inflation. However, the Council continues to ensure that its residents are supported with the cost of living.

5. Garage Rents

5.1. Garage rents are currently £13.54 per week for both council and non-council tenants.

5.2. It is proposed that for 2025/26, the baseline rent for all tenants will be increased by 2.7% to £13.91 per week or £723.32 per annum. Non-council tenants will also pay VAT at the standard rate.

5.3. It is estimated that this will generate a potential additional income of approximately £3,102 based on current letting rates.

6. Service Charges

6.1. Service charges for 2025/26 have been calculated using estimated costs based on the actual charges for previous years and any known increases or decreases.

6.2. Guidance states that whilst social landlords should aim to confine service charge increases to inflation plus 1%, providing charges are fair, transparent and set at a level where they cover costs for a particular service, without profit or subsidising another, then the authority can use its discretion to charge a rate where costs are fully recovered.

6.3. Overall, the average weekly service charge decrease for 2025/26 (excluding housing related support eligible charges) will be £0.23 per week (paid over 52 weekly basis) when compared with 2024/25. Appendix C details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2024/25.

7. Performance Management

7.1. The financial management of the HRA is directly linked to key performance in a number of operational areas (void management, rent collection and arrears recovery).

7.2. Void Management

7.2.1. There is a direct correlation between the time a property remains void and the rent foregone.

7.2.2. The target for void property rent loss for 2024/25 was set at 0.68% of the rent debit, equating to £106,513.

7.2.3. Provision for void rent loss for 2025/26 has been set at 1.73% for social rent and 0.46% for affordable rent, or in financial terms £281,659, against the 2025/26 rent debit.

7.3. Rent Collection/Bad Debt Provision

7.3.1. The chart below shows the year-end comparison for current tenants' arrears in the general needs stock, including sheltered housing.

7.3.2. The current tenants' rent arrears at the end of the financial year 2023/24 totalled £245,364 which accounted for 1.54% of the annual rent debit. As of the end of November 2024 the outstanding arrears totalled £277,407 (1.58% of total debit raised).

7.3.3. The current and former tenant arrears (rent and other housing related debt) totalled £596,447 as at the start of 2024/25.

7.3.4. It is estimated that current and former tenant rent arrears (rent and other housing related debt) at year end 2024/25 will be approximately £643,262.

7.3.5. It is estimated that as at 31 March 2025 the total bad debt provision will be £399,000. Therefore, the bad debt provision budget for 2025/26 is set at £9,363 based on current years performance.

7.4. Universal Credit (UC)

7.4.1. UC has been 'live' in Medway since May 2018, and it currently affects new claimants or existing benefit claimants who have a change in circumstances that triggers a move from the old benefits system to UC. As at the end of

November 2024, there were 1,342 (around 44% of all tenancies) council tenants on UC.

7.4.2. To assist customers that are struggling with the cost-of-living crisis, the Tenancy Sustainment Team hold drop-in services for tenants to attend at Twydall library. They will also signpost and assist customers with accessing relevant services such as food banks and applying to the Household Support Fund, for help with energy costs, food, clothing etc.

8. HRA Expenditure

8.1. Generally, it is expected that expenditure will increase in 2025/26 compared to 2024/25 levels. To reflect the current economic climate and in line with the Medium-Term Financial Plan, various budgets will be realigned, such as rising cost of utility services, materials and labour, contracts that are subject to contractual annual uplifts and contracts which are due to be re-tendered, including any corporate and Government determinations such as increase in staff salaries and cost of implementing various new regulations. Where, through streamlining and service improvement, some budgets have regularly underspent, these have been revised down, as these budget reductions have been achieved through genuine savings.

8.2. It has been agreed internally that due to the time difference in preparing the HRA and the General Fund budgets, the existing SLA recharges between the HRA and the GF services will remain the same as 2024/25 for 2025/26 HRA budget. However, these will be reviewed during the GF budget build and any changes will then be reflected in the HRA budget. Any increase/decrease will be shown as an unidentified expenditure/savings to ensure correct SLAs are charged to the HRA based on the actual costs.

8.3. The revenue expenditure budget funds all general day to day repairs, emergency repairs, repairs to void properties, lift maintenance, estate improvements, repairs programme and central heating maintenance.

8.4. Planned maintenance to HRA stock is driven by stock condition data that determines when components need to be replaced or upgraded. To ensure that tenants homes are safe and repaired to a decent standard, a £1.76m budget will be required as a contribution to the capital programme for 2025/26.

9. Housing Repairs

9.1. Housing repairs expenditure covers both planned and responsive maintenance, some of which is capital funded. Government guidelines have stated that local authorities should be moving away from responsive repairs and towards increased planned maintenance expenditure, to achieve a spend ratio of 30:70. The HRA will also need to consider other legislative and regulatory changes such as changes to the Decent Homes Standard, Building Safety Act and the Housing Health & Safety Rating System (HHSRS).

9.2. Based on the proposed combined capital and revenue work programmes, the financial split in 2024/25 is anticipated as follows:

- Responsive maintenance £3.653m
- Planned/Capital maintenance £5.657m (excluding new build/acquisition and carried forward budgets)

9.3. When rounded to the nearest whole number, this split will equate to 30:70 spend ratio for 2024/25. This is in keeping with the threshold to meet good practice guidelines of 30:70.

9.4. Three-Year Capital Works Budget

9.4.1. The current three-year capital works budget was agreed as part of the 2024/25 HRA budget build. 2024/25 was the first year of the new three-year planned maintenance and disabled adaptations capital works programme (2024/25, 2025/26 and 2026/27). Projected planned work and development expenditure is set out in the table below. Included in the table is additional budget that is required for further acquisitions of properties such as Right to Buy (RTB) buy backs, purchasing units and the delivery of phase 5 and 6 of the HRA new build programme. Any under-spend/slippage on the 2024/25 planned maintenance, adaptations capital programme and new build/ acquisition capital programmes will be added to the 2025/26 and 2026/27 capital programmes.

9.4.2. Three-year Planned and Capital Programme Budget.

	2024/25 £000	**2025/26 £000**	**2026/27 £000**
Planned Maintenance	8,671	5,657	9,391
Disabled Adaptations	200	200	200
New build/Acquisition programme	4,500	8,875	2,225
Total	**13,371**	**14,732**	**11,816**

9.4.3. Three-year proposed Capital Programme Funding:

	2024/25 £000	2025/26 £000	2026/27 £000
Major Repairs Reserves	4,397	4,485	4,575
Revenue Contribution to Capital	1,756	1,756	1,756
Borrowing	7,218	8,491	5,485
Other External funding	0	0	0
Contribution from 1-4-1 RTB Capital Receipts for new build/ acquisition programmes	0	0	0
Total	**13,371**	**14,732**	**11,816**

9.4.4. A budget of £2.5 million has been earmarked for Year 3 for St Albans Close, reflecting the substantial nature of the project considering the extensive scope of the required works.

10. House Building Development Programme

10.1. Prior budget reports have detailed the previous four phases of HRA development. All previous programmes have been delivered from HRA reserves, borrowing and ring fenced Right to Buy (RTB) 1-4-1 capital receipts.

10.2. The Council aim to increase council owned housing by 1% year on year after projected right to buy sales over the next ten years. As the HRA has exhausted sites within existing ownership, further growth will be delivered through;

- Potential purchase opportunities. This relates to units that the HRA previously sold under RTB that have become available to re-purchase and/or open market acquisitions where appropriate.
- Options to appropriate land and/or assets to the HRA from the general fund.
- Acquiring/purchasing private land to develop on.
- Purchasing units from the open market/S106 Units.
- Major estate regeneration.
- Joint ventures and partnership opportunities.

10.3. The HRA is now bringing forward phases 5 and 6 which once completed, will deliver an additional 81 units. Phase 5 entered into contract in August 2024 and the build is underway with completion anticipated for early 2026. Phase 6 is progressing well and due to complete in anticipated Spring 2026.

11. HRA Working Balances

11.1. There is a requirement to maintain a working balance to safeguard against unplanned and unavoidable increases in expenditure or losses of income. As of April 2024, the working balance stood at £7.52m. For several years the actual HRA balance has exceeded the recommended good practice guideline of £450,000 and our set minimum reserve balance of £750,000. As part of the business plan review an optimum reserve level of £1.9m was agreed (based on 10% of turnover) consulted with the Tenant Panel and the Portfolio Holder.

11.2. Considering the optimum reserve level in conjunction with the view to reduce borrowing at high rates, £5.62m from the reserves will be used to fund the 24/25 capital programme.

11.3. Round 2 (2024/25) budget monitoring predicts a balance at the 31 March 2025 of £2.18m.

11.4. The proposed 2025/26 HRA Budget as presented at Appendix D, produces a projected breakeven budget for the year.

12. Self-Finance Arrangements - Borrowing and Debt

12.1. To comply with Medway Council's provision for debt repayment policy, the HRA debt repayment or Minimum Revenue Provision (MRP) is made on an annuity basis. 2025/26 estimated MRP repayment will be £0.5m.

12.2. As per 2024/25 R2 budget monitoring, it is estimated that on 01 April 2025, the HRA opening debt will be £56.47m, subject to repayment of 2024/25 MRP payment of £0.44m. With further borrowing for future phases of the new build and housing purchase programmes, and subject to 2025/26 MRP payment of £0.5m, closing debt for year 2025/26 is estimated to be £75.43m. The debt position has been reviewed and is within our debt cap.

13. HRA Business Plan Update

13.1. Local authorities are required to produce and maintain a HRA Business Plan that meets the Government's 'fit for purpose' criteria. The Business Plan is also a statement of the viability of the Council's HRA. It does not set the budget for the HRA but reports on the plans already agreed, including those reported to Members in this HRA Budget Report.

13.2. The housing stock represents one of Council's highest value assets and its repairs and maintenance is a significant liability, therefore planning for its sustainable future is important.

13.3. Effective and efficient management of the housing assets play an important part in delivering many of Council's corporate priorities and strategic objectives and the Asset Management Strategy (AMS) provides the long-term planning, provision and viability of assets.

13.4. The Council maintains a set of long-term financial forecasts for its Housing Revenue Account. These forecasts inform the HRA Business Plan and enable the authority to model the impact of potential changes on the authority's ability to manage its housing stock as well as identifying and helping to mitigate the potential risks it faces.

13.5. The HRA Business Plan was last approved by Members of Full Council in February 2023. The HRA Business Plan has recently been revised by Savills Housing Consultancy and details of the 30-year business income and expenditure charts can be found at Appendix E. The assumptions are based on the following optional aspects:

- High levels of inflation – driving both salary, maintenance and new development costs up by greater increments than assumed.
- Government intervention in respect of capping rent increases by 7%.
- Substantial increases for the cost of new borrowing reflecting both base rate changes and more importantly gilt rate rises. To date, no cap has been introduced for 2024/25.
- Continual increases for the cost of new borrowing reflecting both base rate changes and more importantly gilt rate rises.
- The loss of properties through the Right to Buy.
- The investment into the Development Phases 5 and 6 with additional acquisition and development programmes a total investment in 95 new homes, delivered from April 2023.
- The latest capital investment requirements which total £174.3million, without inflation and adjustment for stock losses and gains, on its existing properties, which remain unchanged as per the previous plan. Inclusion of a SHDF grant of £1.024m.
- Repayment of loans through an MRP mechanism, based on existing annuity values.

13.6. Whilst the business plan is sustainable at its base position and with the development of new stock the funding needed to meet the decarbonisation of the stock requires more borrowing and this would be unsustainable for the HRA. It is important to note that the position assumes no subsidy for these measures.

13.7. The Council will need to bid for funding to undertake the full programme of works needed, equally, more favourable changes in interest rates with improve the position. As recommended in the review, more regular reviews of the business plan may be required on an ongoing basis to make key strategic decisions.

14. Advice and Analysis

14.1. A Diversity Impact Assessment (DIA) has been completed at Appendix F.

14.2. The DIA recommends that proposed budget with the actions detailed put in place to ensure that any adverse impacts are mitigated.

14.3. The majority of changes that will be brought into effect in the 2024/25 Budget Report will not impact on our tenants in terms of the protected characteristics. Changes to charges and service delivery will be applied to all relevant tenants, not on an individual basis.

14.4. Where dwelling rent charges, service charges and garage rents have been increased there may be some negative impact on lower income groups. The HRA Landlord Service will continue to monitor and provide support to those in terms of income and welfare.

15. Risk management

Risk	Description	Action to avoid or mitigate risk	Risk rating
HRA Balance.	There is a requirement to ensure that the balance on the HRA does not fall into deficit and a business plan is required to model this need over a thirty-year period. The major factor with the potential to impact on this requirement, is the level of expenditure required for housing repairs.	Ongoing stock condition surveys undertaken to provide a sound basis on which to model future repairs investment. Regular monitoring by senior officers of the budgets and actions agreed to avoid deficit occurring.	**C1**
No up-to-date Business Plan in place.	Local authorities are required to produce and maintain a HRA business plan that meets the Governments 'fit for purpose' criteria.	The adoption of the business plan following the full implications of the housing and planning bill, as understood, would allow the Council to continue to meet this requirement.	**DI**
Significant change in income from rent or service	Arrears escalate above predicted 'bad debt' provision.	Dedicated team in place to manage income.	**CIII**

charges affects business plan.		Weekly reports produced to robustly monitor performance and take prompt and effective action. Weekly and monthly reporting in place for arrears and other income. Regular reviews undertaken of alternative methods of delivery, which may improve customer service and value for money.	
Change of stock Number	Significant change in stock numbers due to increase in Right to Buy or Strategies to review stock retention and assets such as garages.	Significant changes will be monitored, and the business plan refreshed as necessary.	**CIII**
Changing regulation and national targets	Changes to the decent home's standard, introduction of Awabbs Law and energy efficiency targets	Maximise opportunities to attract external funding to offset considerable energy expenditure. Review existing information and planned work programs to ensure they are aligned to targets.	**AII**

Likelihood	**Impact:**
A Very likely B Likely C Unlikely	I Catastrophic II Major III Moderate

D Rare	IV Minor

16. Consultation

16.1. The Housing Act 1985 requires the issue of written notification to each tenant, a minimum of four weeks in advance of the date any rent charge adjustments become operative. For 2024/25 the latest date for posting the notices is Friday 28 February 2025.

16.2. The Council has developed a resident engagement statement detailing how officers consult and engage with tenants in partnership with tenants' forums. To ensure tenants are informed of the change's, tenants will be consulted on any changes to their rents and service charges. A workshop took place in early December to discuss the details of the HRA budget and business plan, including the rent increase.

17. Climate change implications

17.1. The Council declared a climate change emergency in April 2019 - item 1038D refers and has set a target for Medway to become carbon neutral by 2050.

17.2. Housing stock represents a significant contributor to Co2 emissions. Improvement to the thermal efficiency and energy consumption of homes presents a significant opportunity to reduce emissions whilst also making homes warmer, more cost efficient and healthier for those that live in them.

17.3. The HRA continues to ensure that its properties have decent windows, doors, loft insulation as well as many other components that will help tenants to reduce the amount of energy they consume.

17.4. As highlighted in the business plan review, it is estimated that approximately £20,000 will be needed per property for it to become carbon neutral and expected expenditure of over £60m to achieve this across all of the housing stock. Officers are continuing to assess the areas in the most need of new measures following the nationally accepted "worst first" approach. The service is close to achieving 100% valid EPC certification for the stock which will enable the HRA to identify what properties need to be considered first.

17.5. Following the successful bid to the Social Housing Decarbonisation Fund - Wave 2, works have commenced with 88/190 properties completed by the end of November 2024. The remaining works will be completed by September 2025, the funding is to support improvement to the fabric of properties, improving their thermal efficiency.

18. Financial implications

18.1. The financial implications are contained within the body of this report and the appendices.

19. Legal implications

19.1. Under Section 76 of the Local Government and Housing Act 1989, the Council is required, in advance of the financial year, to formulate proposals which satisfy the requirement that on certain stated assumptions, the HRA for that year does not show a debit balance. The Council is obliged to implement those proposals and from time to time to determine whether the proposals satisfy the 'breakeven' requirement. If not, then the Council shall make such provisions, as are reasonably practicable, towards securing that the proposals, as revised, shall satisfy the requirement.

19.2. Under Section 24 of the Housing Act 1985, the Council can make such reasonable charges as it determines for the tenancy or occupation of its houses. The Council is obliged, from time to time, to review rents charged and make such changes, as circumstances may require. This is a decision for Full Council as it forms part of the Council's budget and policy framework.

19.3. A decision to adjust rent constitutes a variation of the terms of a tenancy. Under Section 103 of the Housing Act 1985, in respect of secure tenancies, a notice of variation (specifying the variation and date on which it takes effect) must be served on each tenant. For non-secure tenancies (excluding introductory tenancies), a notice must be served that complies with Section 25 of the Housing Act 1985.

19.4. In considering the recommended rent adjustments and other matters proposed in this report, the Members are exercising a public function. It must therefore comply with the duties in section 149 Equality Act 2010 to have 'due regard' to the need to eliminate discrimination, advance equality, and foster good relations between those with a protected characteristic (pregnancy and maternity, age discrimination, disability, gender reassignment, marriage and civil partnerships, race, religion or belief, sex and sexual orientation) and those who do not share it. A Diversity Impact Assessment is annexed to this report at Appendix F to assist committee members to fulfil these duties.

19.5. Members must consider tenants' human rights, in particular Article 8 of the European Convention on Human Rights (right to respect for a person's home) and Article 1 of the First Protocol (right to peaceful enjoyment of possessions), when considering these recommendations. Members will need to consider whether the proposals strike a fair balance between the rights of the individuals who may be adversely affected by them, and the legitimate aims of the Council, setting a balanced budget, targeting social housing at those who are most in need and generating income that can be invested back into social housing so that more people in need can benefit from it.

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Appendices

Appendix A – Average Social Rent Increases by Property Type
Appendix B – Average Affordable Rent Increases by Property Type
Appendix C – HRA Average Service Charges Summary
Appendix D – Revenue Budgets for HRA Service for 2024/25
Appendix E – Summary of HRA Business Plan
Appendix F – Diversity Impact Assessment

Background papers

None

Appendix A

AVERAGE WEEKLY SOCIAL RENT INCREASES BY PROPERTY TYPE (52 WEEKS)

Property Type	No of Properties	Actual Rent 2024/25	Formula Rent 2024/25	Proposed Rent 2025/26	Formula Rent 2025/26	Average Increase 2024/25 - 2025/26	Average Percentage Increase 2024/25-2025/26
Bedsit Bungalow	45	£80.52	£83.54	£82.69	£89.97	£2.17	2.7%
Bedsit Flat	70	£76.47	£79.60	£78.54	£86.26	£2.06	2.7%
1 Bedroom Bungalow	214	£94.40	£97.55	£96.95	£105.94	£2.55	2.7%
1 Bedroom Flat	469	£88.17	£91.63	£90.54	£98.68	£2.37	2.7%
2 Bedroom Bungalow	20	£114.21	£118.50	£117.29	£127.62	£3.08	2.7%
2 Bedroom House	521	£106.81	£111.32	£109.70	£119.96	£2.88	2.7%
2 Bedroom Flat	529	£98.42	£102.31	£101.08	£110.28	£2.66	2.7%
3 Bedroom Bungalow	1	£113.91	£118.98	£116.99	£128.14	£3.08	2.7%
3 Bedroom House	679	£119.78	£124.86	£123.02	£134.39	£3.23	2.7%
3 Bedroom Flat	106	£110.88	£115.58	£113.87	£124.48	£2.99	2.7%
4 Bedroom House	28	£129.42	£134.36	£132.91	£145.33	£3.49	2.7%
5 Bedroom House	2	£144.29	£155.33	£148.19	£167.29	£3.90	2.7%
Sheltered Bedsit for the Disabled	9	£74.19	£76.76	£76.20	£88.98	£2.00	2.7%
Sheltered Bedsit	187	£74.14	£80.89	£76.14	£87.12	£2.00	2.7%
1 Bedroom Sheltered	67	£84.01	£87.30	£86.28	£95.56	£2.27	2.7%
2 Bedroom Sheltered	6	£97.27	£100.48	£99.89	£108.22	£2.62	2.7%
1 Bedroom Sheltered Bungalow	17	£86.00	£99.30	£88.32	£96.81	£2.32	2.7%
Overall Average*	**2,970**	**£100.76**	**£105.10**	**£103.68**	**£113.53**		
*(Total rental income / total number of properties)							

Appendix B

AVERAGE WEEKLY AFFORDABLE RENT INCREASES BY PROPERTY TYPE (52 WEEKS)

Property Type	No of Properties	2024/25 Local Housing Allowance	2024/25 Average rent	2025/26 Proposed Average Affordable Rent	2024/25 Local Housing Allowance	Average Rent Increase	Average Percentage Increase 2024/25-2025/26
1 Bedroom Flat	13	£155.34	£137.57	£141.29	£155.34	£3.72	2.7%
2 Bedroom Flat	32	£195.62	£178.08	£182.88	£195.62	£4.80	2.7%
3 Bedroom Flat	1	£216.33	£210.62	£216.31	£216.33	£5.69	2.7%
2 Bedroom House	22	£192.62	£191.27	£196.23	£192.62	£4.96	2.6%
Shared Accommodation	8	£94.36	£77.25	£79.34	£94.36	£2.09	2.7%
Overall Average*	**76**	**£177.48**	**£167.47**	**£172.33**	**£178.58**		
*(Total rental income / total number of properties)							

Appendix C

HOUSING REVENUE ACCOUNT - SERVICE CHARGES SUMMARY (52 Weeks)

	Average Weekly Service Charge 2024/25 (52 weeks) £	Proposed Percentage Increase/(decrease) for 2025/26 %	** Proposed Average Weekly Service Charge 2025/26 (52 weeks) £	** Projected weekly increase/ (decrease) fr 2024/25 to 2025/26 £	Projected (Surplus)/ Deficit 2025/26 £'000
a) Eligible for Housing Benefit					
Adult Services Facilities	0.00	0.0%	0.00	0.00	0
Estate Services (Caretaking)	5.71	(6.1%)	5.36	(0.35)	0
Communal Electricity	2.14	(15.9%)	1.80	(0.34)	0
Grounds Maintenance	0.78	(1.1%)	0.78	(0.01)	0
Sheltered Management	22.79	3.8%	23.67	0.88	0
Window Cleaning	0.41	3.0%	0.42	0.01	0
Council Tax	11.93	5.0%	12.52	0.59	0
Laundry Room Sheltered	0.56	13.4%	0.64	0.08	0
Laundry Room General	0.47	(10.6%)	0.42	(0.05)	0
Heating - Communal	3.15	(39.2%)	1.92	(1.24)	0
Water - Communal	0.90	8.6%	0.98	0.08	0
Communal Lifts	0.66	12.8%	0.74	0.08	0
Communal TV Aerials	0.13	(9.4%)	0.12	(0.01)	0
CCTV	1.47	(1.9%)	1.44	(0.03)	0
b) Not Eligible for Housing Benefit					
Cooker	0.63	(1.2%)	0.62	(0.01)	0
Fridge	0.54	(1.9%)	0.53	(0.01)	0
Heating - Residential	13.24	(39.5%)	8.02	(5.23)	0
Water - Residential	3.55	8.2%	3.84	0.29	0
Average sections a & b (weekly)	**3.84**		**3.55**	**(0.29)**	**0**
c) Housing Related Support Eligible Charges					
Sheltered Helpline	4.11	12.8%	4.63	0.53	0
Community Alarm	8.80	(1.9%)	8.63	(0.17)	0
Sheltered Support	5.50	(1.9%)	5.40	(0.10)	0
Average sections c (weekly)	**6.14**		**6.22**	**0.09**	**0**
Average all sections (weekly)	**4.17**		**3.93**	**(0.24)**	**0**

Appendix D

HOUSING REVENUE ACCOUNT - BUDGET SUMMARY 2025/26

	Budget 2024/25			R2 Forecast 2024/25			Proposed Budget 2025/26		
Description	Exp	Inc	Net	Exp	Inc	Net	Exp	Inc	Net
	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
HRA Working Balance B/F			£6,827			£7,524			£2,188
HOUSING MAINTENACE	£3,654	£0	£3,654	£3,720	£0	£3,720	£3,717	£0	£3,717
HOMES FOR INDEPENDENT LIVING	£854	(£2)	£852	£820	(£2)	£818	£923	(£1)	£922
TENANCY SERVICES	£1,482	£0	£1,482	£1,331	£0	£1,331	£1,405	£0	£1,405
ESTATE SERVICES	£579	(£5)	£574	£550	(£5)	£545	£562	(£5)	£557
COMMUNITY DEVELOPMENT	£175	£0	£175	£171	(£16)	£155	£452	£0	£452
CENTRALISED ACCOUNTS	£263	£0	£263	£164	£0	£164	£603		£603
CLIENT SIDE	£2,327	(£268)	£2,059	£2,451	(£268)	£2,183	£2,371	(£277)	£2,094
CAPITAL DEVELOPMENT PROGRAMME	£165	£115	£280	£182	(£137)	£45	£248	(£198)	£50
CAPITAL FINANCING	£8,942	£0	£8,942	£8,967	£0	£8,967	£8,805	£0	£8,805
RENTAL INCOME	£0	(£17,767)	(£17,767)	£0	(£17,914)	(£17,914)	£0	(£18,378)	(£18,378)
OTHER INCOME	£0	(£284)	(£284)	£0	(£298)	(£298)	£0	(£227)	(£227)
TOTAL - HOUSING REVENUE ACCOUNT	**£18,441**	**(£18,211)**	**£230**	**£18,356**	**(£18,640)**	**(£284)**	**£19,086**	**(£19,086)**	**£0**
Revenue Contribution to Capital Expenditure			**£0**			**£5,620**			**£0**
HRA Working Balance C/F			£6,597			£2,188			£2,188

Appendix E
MEDWAY COUNCIL
HOUSING REVENUE ACCOUNT BUSINESS PLAN 2023/24:
UPDATED REVIEW ON PROJECTIONS & CAPACITY – AUGUST 2023

Introduction

This revisit of the plan comes after the last review of the plan undertaken in January 2023 taking into account the latest forecasts, assumptions and stock investment requirements.

The model is launched from April 2023 (2023.24 financial year) and runs for 30 years to March 2053. The first year of the plan is balanced exactly to the Round 1 forecasts.

Currently the financial environment surrounding the HRA (and other social housing organisations) is creating some uncertainty in terms of:

- High levels of inflation – driving both salary, maintenance and new development costs up by greater increments than assumed
- Government intervention in respect of capping rent increases by 7% for April 2023 and with the potential for future intervention measures.
- Continual increases for the cost of new borrowing reflecting both base rate changes and more importantly gilt rate rises
- The revisit to the decent homes standard

These continue the theme of a 'perfect storm' in terms of business planning.

Therefore, we have updated the business plan model, which demonstrates the impact of the above based on the latest budgetary forecasts.

The plan has been developed with regards to the following "big picture" factors:

- The loss of properties through the Right to Buy
- The investment into the Development Phases 4,5 and 6 with additional acquisition and development programmes a total investment in 123 new homes, delivered from April 2023.
- The latest capital investment requirements which total £174.3million, without inflation and adjustment for stock losses and gains, on its existing properties, which remain unchanged as per the previous plan. Inclusion of a SHDF grant of £1.024m.
- Repayment of loans through an MRP mechanism, based on existing annuity values.

Overall Headlines – Baseline Position

The previous plan, based on the assumptions, data and budgets at that time projected a relatively balanced position in that:

- HRA Surpluses were projected at £18.6million (including the major repairs reserve)
- HRACFR (Debt) was projected at £72.1million

Therefore there was scope to increase the repayment of debt, if so required.

In overall terms, the updated plan is able to be fully funded over the 30-year term, generating surpluses in the HRA totalling **£33.2million**, and a closing debt balance of **£71.2million**. This compares to an opening HRA balance of £6.1million and debt of £42.5million. The plan, therefore, has a had a marginal impact on account of a number factors which are discussed below. In summary forecast borrowing has decreased by £0.9million and reserve balances increased by £14.6million.

As part of this review we have modelled a scenario that takes into account the costs of development ensuring that stock numbers grow year on year by a net 1%, for 7 years, after allowing for right to buys and also implementing additional energy efficiency works.

Key Baseline Assumptions

The following schedule is not exhaustive - however this lists the main assumptions affecting the viability of the plan.

HRA Budget assumptions

The table below shows the original 2023.24 budgets and latest Round 1 forecasts for 2023.24 to which the plan is initially based upon:

	Budget 2023.24	Forecast 2023.24
Dwelling rents	£14,710,687	£14,710,687
Non-dwelling rents	£243,709	£254,700
Service charge income	£1,302,063	£1,302,063
Other income and contributions	£40,525	£44,800
Total Income	**£16,296,984**	**£16,312,250**
Repairs & maintenance	-£3,249,447	-£3,120,226
Management (incl RRT)	-£5,259,383	-£5,024,573
Bad debts	-£50,000	-£50,000
Dwelling Depreciation	-£3,686,770	-£3,686,770
Debt management	-£63,364	-£63,364
Total costs	**-£12,308,964**	**-£11,944,933**
Debt Repayment (MRP)	-£357,933	-£357,933
Interest payable	-£2,300,715	-£1,845,791
Interest income	£105,217	£133,758
Revenue contributions to capital	-£1,430,081	-£1,430,081

Opening Balance	£5,207,028	£6,140,168

Surplus / (Deficit)	£4,508	£867,270
Closing Balance	**£5,211,536**	**£7,007,438**

In overall terms the HRA is forecast to make £867,270 surplus this financial year according to round one forecasts on account of projected interest charges, reduced repairs and management costs.

The actual model has a positive variance against the interest payable of £0.156m on account of the receipt of a SHDF grant of £1.024m which has reduced the borrowing requirement for this value in 2023.24.

1. The model is launched with opening properties of 3,026 with right to buy sales adjusted to reflect the 11 projected in 2023.24 and 2024.25, then a further 10 per annum for 4 years then reducing by 1 every five 5 years – total loss 230 properties over the 30 years of the plan. Stock additions total 123, post April 2023.
2. Net stock loss over the term is therefore 3.5%, though at this stage the model does not assume a reduction in base costs for management, repair costs for these losses (only capital works).
3. Average stock rents are £93.40/week at April 2023, for social rents and £170.32 for affordable rents. CPI is assumed at 6% for 2024.25 and therefore rents increase by 7.0% and at CPI thereafter (2.5% then 2.0% onwards).
4. Long-term void rates are 1.0% and bad debt provision of £50,000 is included within the management costs equivalent to 0.33% of net rental income.
5. The forecast management costs are based on latest forecast.
6. Repairs expenditure is based on the latest forecasts. A real increase of 1.0% above CPI is modelled for 2024.25.
7. The stock condition survey-based capital maintenance expenditure into the existing stock is based on outputs from the Codeman database, which is continually updated. The required levels of works are summarised below and are without any inflation or uplift allowances. The costs of the backlog works have been modelled for 5 years commencing in 2024.25.

	Backlog	2022.23	2023.24	2024.25	2025.26	2026.27	Years 6-10	Years 11-15	Years 16-20	Years 21-25	Years 26-30	Total
Major Works (Codeman)	£13,247,196	£4,513,243	£4,232,457	£6,186,780	£4,531,095	£5,515,611	£21,077,529	£13,609,314	£13,463,703	£16,751,693	£16,201,190	**£119,329,808**
Other Works	£0	£680,666	£500,666	£316,666	£316,666	£316,666	£1,583,330	£1,583,330	£375,000	£1,583,330	£1,583,330	**£8,839,650**
Fire Risk Assessments	£0	£400,000	£400,000	£200,000	£150,000	£150,000	£750,000	£750,000	£1,958,330	£750,000	£750,000	**£6,258,330**
Disabled Facilities Grants	£0	£200,000	£200,000	£200,000	£200,000	£200,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	**£6,000,000**
Energy Works	£0	£400,000	£400,000	£400,000	£400,000	£400,000	£2,400,000	£4,000,000	£4,000,000	£4,000,000	£4,000,000	**£20,400,000**
Contingency Sum	£0	£200,000	£200,000	£200,000	£200,000	£200,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	**£6,000,000**
Professional Fees	£0	£250,000	£250,000	£250,000	£250,000	£250,000	£1,250,000	£1,250,000	£1,250,000	£1,250,000	£1,250,000	**£7,500,000**
Total	**£13,247,196**	**£6,643,909**	**£6,183,123**	**£7,753,446**	**£6,047,761**	**£7,032,277**	**£29,060,859**	**£23,192,644**	**£23,047,033**	**£26,335,023**	**£25,784,520**	**£174,327,788**

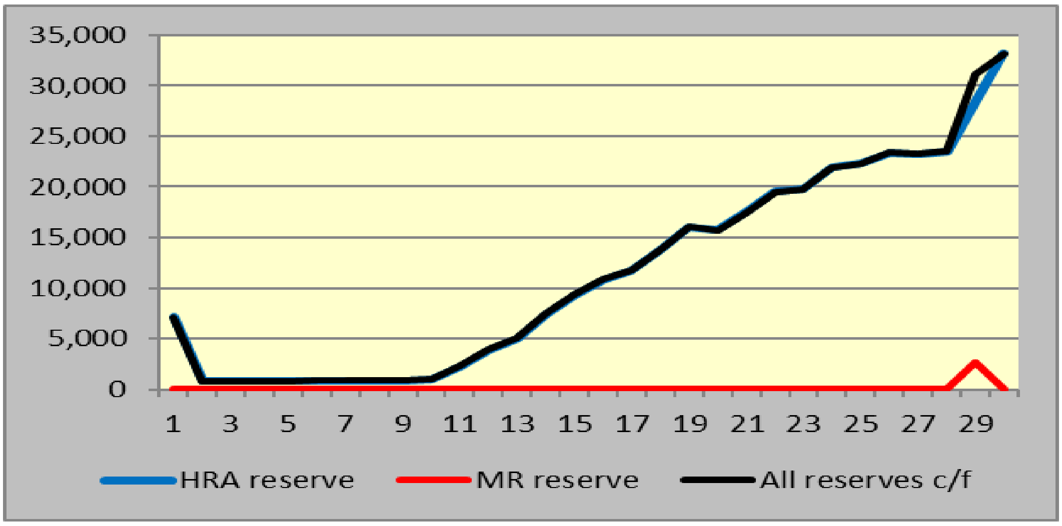
8. For 2023.24 we have matched the provisional capital expenditure and funding for both investment in existing stock and new developments as per the Round 1 forecasts.

9. Given that gross stock losses are estimated at 7.6% the investment costs have been adjusted to reflect stock losses by a 50% variable factor, which provides a small level of contingency.
10. Total investment into existing stock is £174.3million at current prices and equates to £58.2k per unit over 30 years. This is based on all categories of work to establish the base position for the model and test its viability in order meet these investment needs throughout the scenarios modelled. A core reason for the increase is in respect to energy efficiency works. Costs will increase by CPI, with an additional 5% applied in 2024.25.
11. Depreciation to finance existing stock improvements is charged to the HRA at an equivalent £1,220 per unit, which is adjusted for inflation on a unit-cost basis throughout the plan.
12. Rent income from the developments and acquisitions are included, with a standard range of costs added to existing repair and investment budgets. Development and acquisition expenditure is funded, where possible, via retained '1-4-1' receipts and Homes England Grant.
    Overall development expenditure stands at £36.174million. The existing schemes on-site will deliver 24 homes at a cost of £8.062million. Beyond this we have modelled provisional expenditure of £28.1million (inclusive of inflation) to deliver an additional 99 homes with an assumed subsidy of 30% through grant or retained '1-4-1' receipts delivered between 2024.25 and 2026.27.
13. The average interest rate applied to the HRA existing debt level is c4.2% throughout. Any new borrowing will be at 5% in 2024.25, 4.5% 2025 to 2027 than 4.25% 2027.28 the 4.0% based on long-term forecasts.
14. In line with previous iterations, the business plan does make provision for the part-repayment of loans as part of an MRP mechanism. The values have been calculated on annuity values provided by officers. It should be recognised that there is no statutory requirement for the repayment of debt, but given the 'one-pool' nature of the council's treasury management for both the HRA and General Fund, <u>there may be need to revisit this</u> as future borrowing is required.

The Baseline Summary Outputs

The charts below summarise the forecast:
- Revenue reserves forecast over 30 years
- Capital programme forecast over 30 years
- HRA Debt forecast over 30 years.

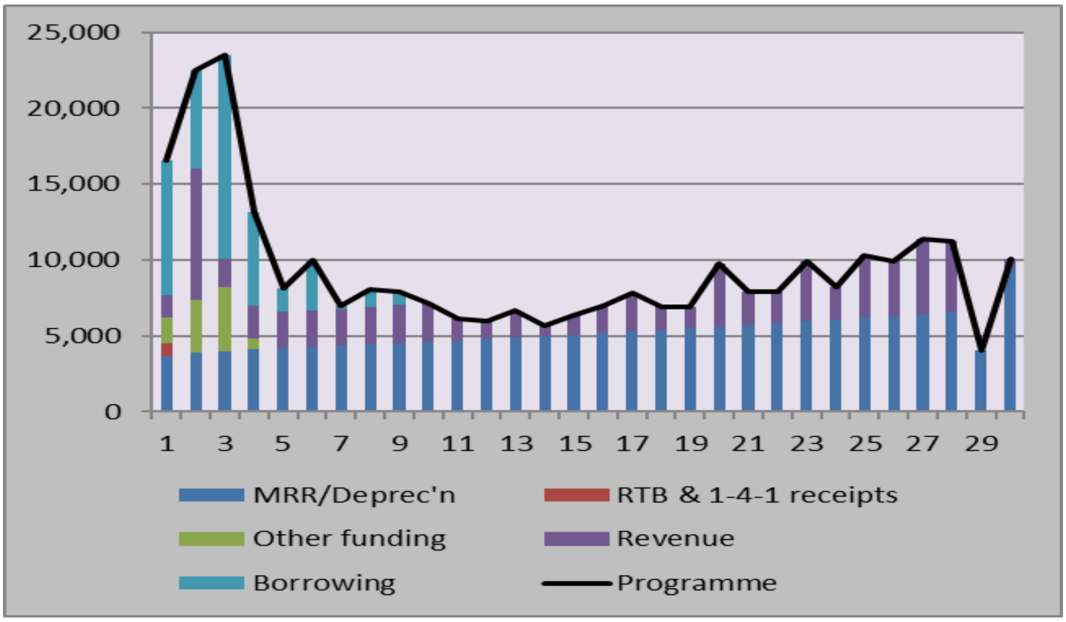
Figure 1 - Revenue Reserves forecast 2023-2053 Baseline Position



The main outputs from the revenue forecast are as follows.

1. There is a call on revenue reserves modelled in the early - this is to assist the financing of the stock investment in existing stock, and new homes. Medway does, of course, have the opportunity to borrow rather than utilise reserves. The HRA does not go below the pre-set minimum balance of £0.750million (inflated on an annual basis) in any year of the plan. The overall trajectory of revenue reserves is however upwards towards the end of the 30-year term. Revenue reserves are part-called on to repay loans through the MRP mechanism, but this could be revisited to increase the level of debt repaid thus reducing revenue balances but also the level of debt at the end of the plan.
2. The Major Repairs Reserve is fully utilised in the early years of the plan to assist in the funding of the Codeman in-year works and backlog repairs; thereafter the trajectory (blue line) is upwards suggesting that long-term investment costs are able to be covered more than fully.
3. The overall level of reserves (black line) is positive at the end of term highlighting that the plan generates sufficient revenue to meet all its obligations (but could not fully repay the full value of the HRA debt outstanding if the council so wished).

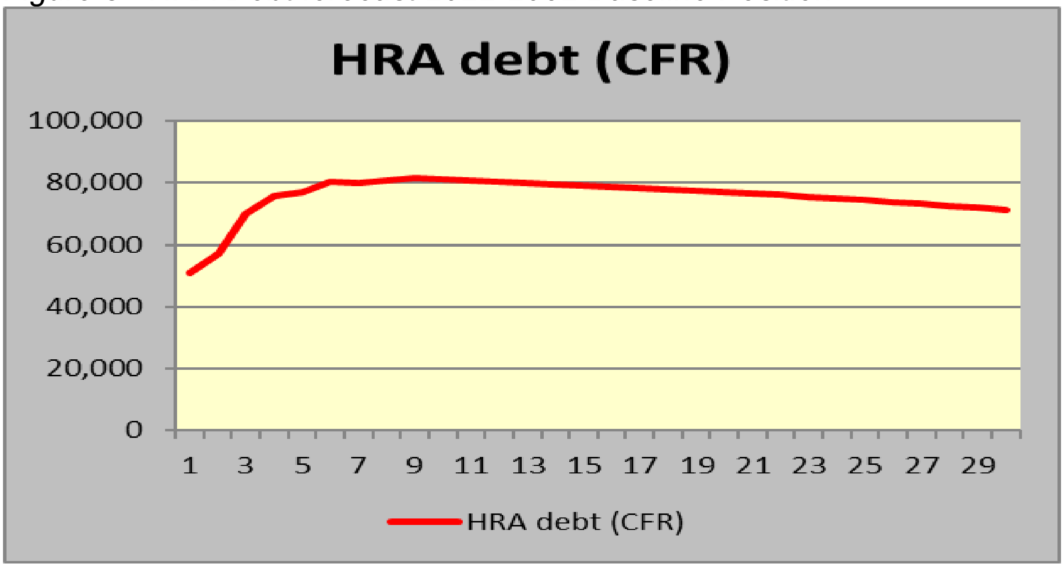
Figure 2 - Capital expenditure and financing forecast 2022-2052 Baseline Position



The capital forecast is fully financed as follows.

1. The total programme over 30 years is £247.6million (at outturn prices - which is £174.3million at today's prices), excluding the values assumed for development and acquisition programme (which extends into year 4, 2026.27)
2. Between years 1 and 9 borrowing is required to cover investment in the stock identified in section 7 above and developments and acquisitions.

Figure 3 - HRA Debt forecast 2022-2052 Baseline Position



In summary, the debt forecast highlights the following.

1. Following a short to medium period in which borrowing is drawn to assist in financing the stock investment programme, loan repayments are scheduled based on the annuity calculations.
2. There are alternative approaches to the repayment of loan balances based on the treasury management position for the council. An alternative plan, such as increasing the annuity payments would affect the level of reserves, debt and funding/investment profile within the plan.

3. However, the plan provides for the repayment of c£13.5million of debt balances, set against borrowing of £42.2million during the term. Closing debt is £71.2million, which when offsetting the reserve balances of £33.2million, presents a relatively positive position in that c44.7% of debt balances can potentially be covered (or repaid) over the duration of the plan, allowing for the HRA minimum balance requirement.

Scenarios

1. Impact of Growth to the Plan

As with previous reviews we have assessed the impact of additional development within the plan to ensure a net growth of an average 1% overall for the first 10 years of the plan.

The initial modelling results in an additional 266 units delivered from 2026.27 to 2032.33, in addition to the 123 properties within phases 4, 5 and 6 and other properties acquired. Expenditure split 50:50 where appropriate over the prior and year of delivery. The key assumptions are as follows:

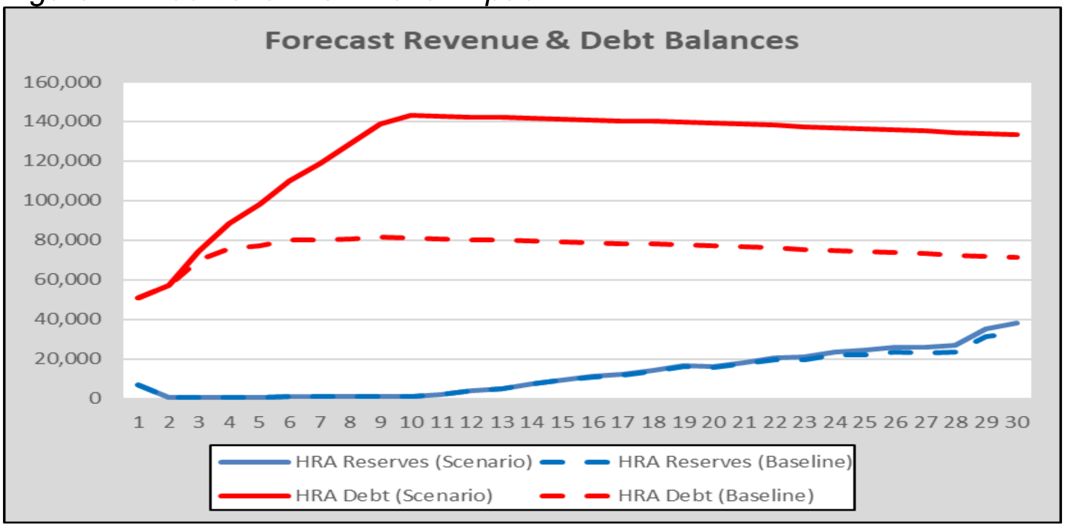
Year	Scheme	Properties	Cost
2025.26 - 2029.30	Unidentified Sites	266	£73.15m*

*Note * Inflation excluded*

Subsidy by way of 1-4-1 receipts, limited at 30% of development cost.
New Borrowing based on an adjusted interest rate of 4.0%
Rents: Based at affordable rent levels
Operational Costs (per unit): Management £0, Repairs £680 and Life-Cycle Costs £1,000 (year 11 onwards)

The impacts is as follows:

Figure 4 : Additional New Build Impact



The introduction of the additional units increase forecast reserve balances to £38.1million (£33.2million) at the expense of an increase of borrowing of £62.0million to £133.2million.

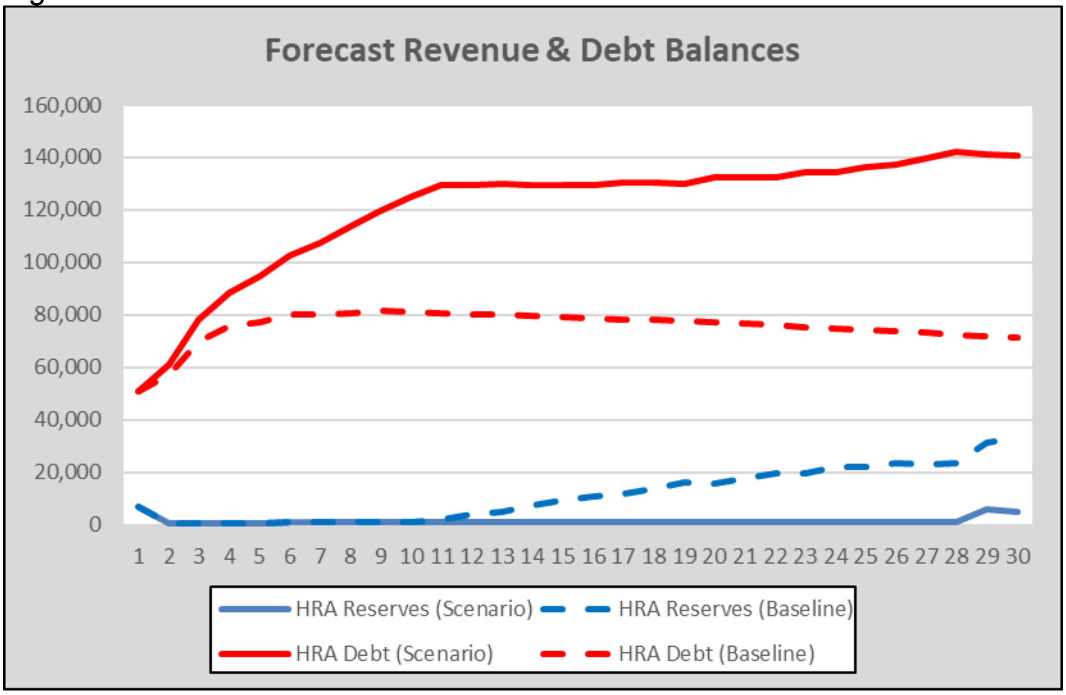
2. Impact of De-Carbonising the Stock to the Plan

The recent Social Housing White Paper reiterated the focus on climate change and along with the Council declaring a climate emergency we have modelled the potential impact for improving the energy efficiency of the current stock.

Drawing upon our national modelling for the Local Government Association we have assumed an average cost of £20,000 per property based on a programme spread over a 10-year period commencing 2024.25, less £6,800 due to the existing provision within the baseline model.

We have assumed no form of Government subsidy for these works.

Figure 5 – Additional Zero Carbon



The inclusion of these works has a significant impact to the plan. We have modelled the existing levels of annuity payments made to reduce debt in order to maximise the revenue position. In addition, we have followed the same principles in the stock growth scenario where new borrowing is factored in at 4.0%.

Debt balances increase by £69.4million on account on meeting the costs of zero-carbon but also maintaining the capital programme for existing stock.

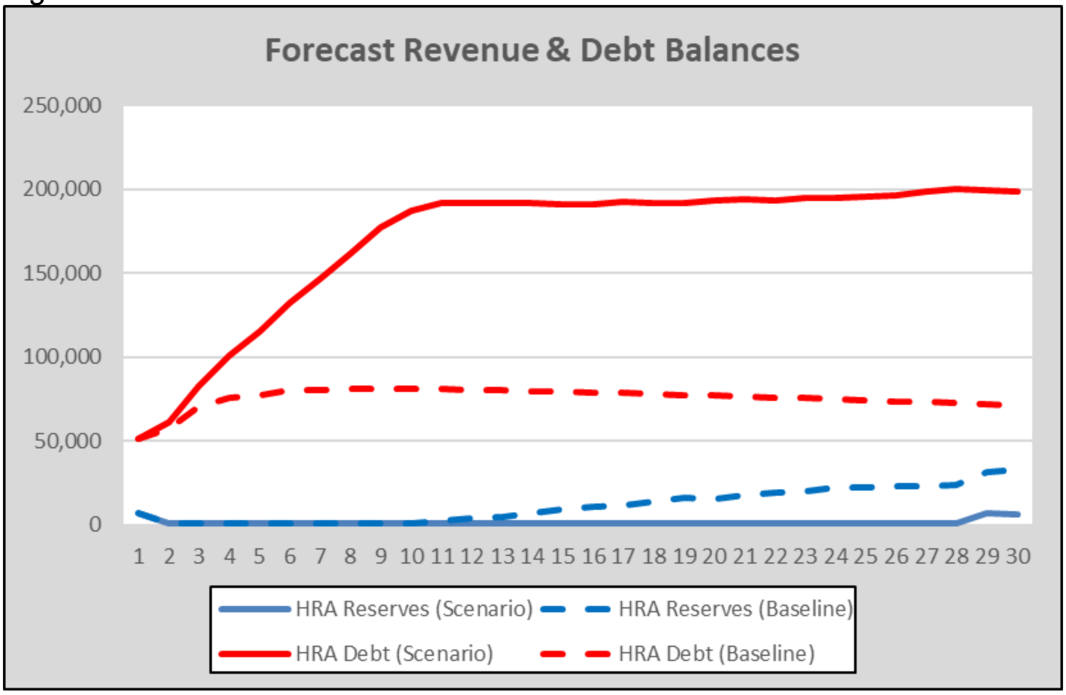
Reserve balances fall, but remain in a positive position, albeit below the minimum balance level set.

In order to mitigate this it is possible that some form of subsidy may be made available and that the Council could consider reducing its investment of all priority categories for existing stock as per section 7.

3. Combination of Impact of Growth and De-Carbonising the Stock to the Plan

This scenario includes both growth in terms of new homes and de-carbonisation.

Figure 6 – Additional Growth and Zero Carbon



The inclusion of both new build and zero-carbon works has a significant impact to the plan. We have modelled the existing levels of annuity payments made to reduce debt in order to maximise the revenue position. In addition, we have followed the same principles in the individual scenarios where new borrowing is factored in at 4.0%.

Debt balances increase by £127.2million to £198.4million on account on the additional costs but also maintaining the capital programme for existing stock.

Reserve balances reduce by £26.8million to £6.4million, but remain above the minimum balance level set.

Capacity Analysis

In previous reviews we have considered the potential for borrowing capacity within the plan.

As a reference we have used the interest cover ratio as a guide to borrowing limits as described below.

Interest Cover Ratio (ICR)

This is the ratio of operating surplus divided by interest costs, and represents the cover that the HRA has against its interest cost liabilities in any year; the ICR is set to a minimum which provides comfort that if there were a sudden drop in income or increase in operating costs, there would be sufficient headroom to continue to cover debt interest. For housing associations, the usual definition of operating surplus is EBITDA (Earnings before Interest, Tax, Depreciation and Appropriations). The average ICR for the HA sector in 2021.22 was around 2.85; typical lending covenants vary between 1.10 and 1.50 depending on the size and nature of the HA, with 1.25 being a typical expectation.

For the HRA, this is best defined as:

- Turnover (dwelling rents, other rents, service charges, contributions)
- Less
- Operating Costs (general management, special management, other management, repairs & maintenance, major repairs)

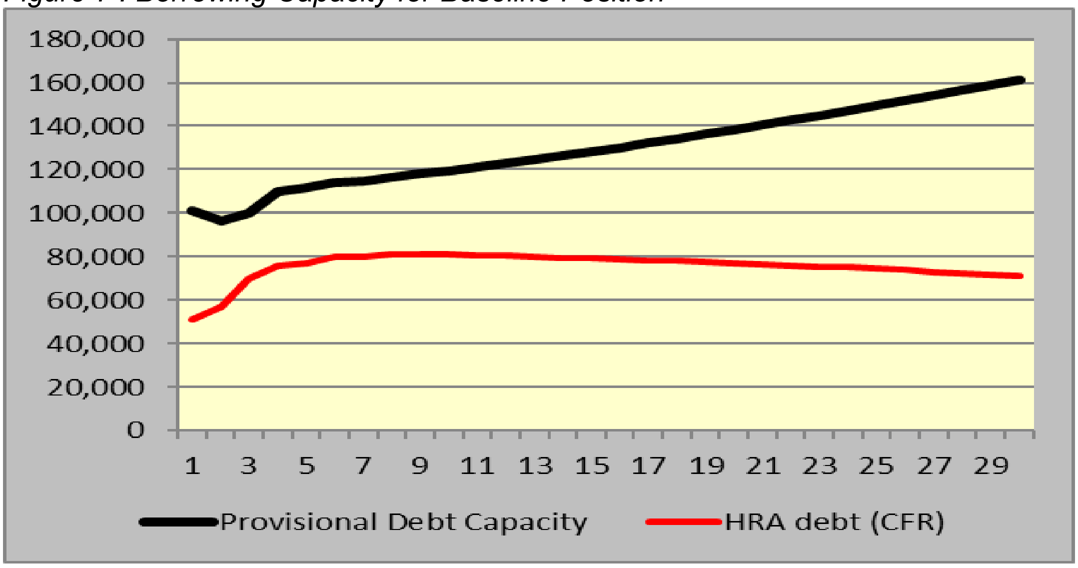
For housing associations, depreciation is not a cash transaction. In the HRA, because of the treatment of depreciation as a cash transfer to the MRR plus or minus an adjustment to reflect actual transfers to MRR, it is essential to include the net amount transferred to MRR in the calculation. This represents the revenue expenditure on major repairs made legitimately as part of operating costs. Notwithstanding that these are subsequently treated as part of the capital programme, they are funded from revenue and property an operating cost. Whilst transfers to the MRR may not be spent in-year, our experience is that the majority of balances carried in the MRR tend to be from expenditure slippage.

The above definition of ICR works in the HRA context as it determines the revenue surplus before interest, appropriations, and other “below the line” adjustments.

We have assumed a “golden rule” in that the ICR does not fall below 1.25.

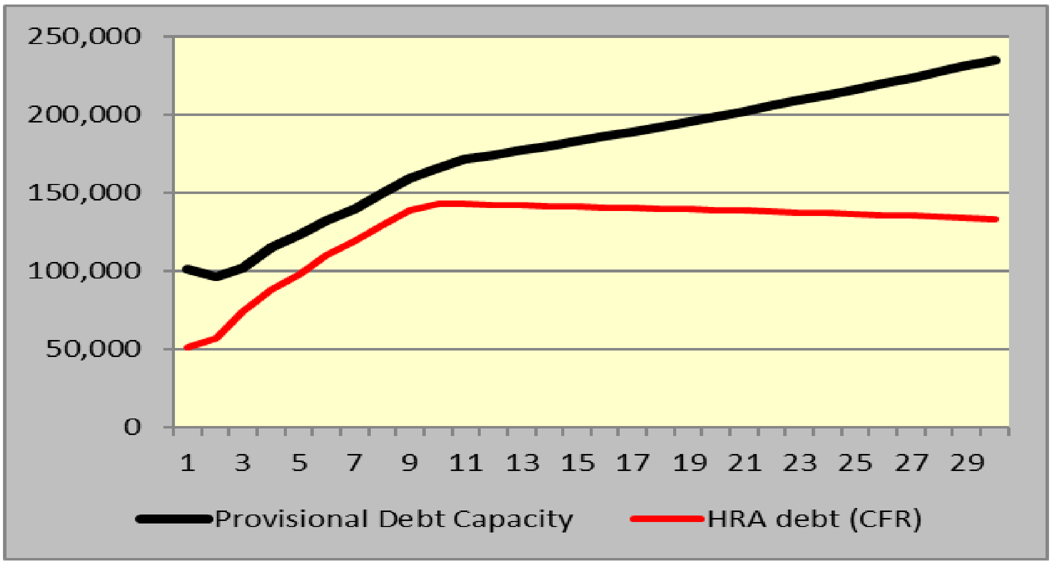
In order to provide context we have demonstrated borrowing capacity for the baseline position and 2 scenarios below.

Figure 7 : Borrowing Capacity for Baseline Position



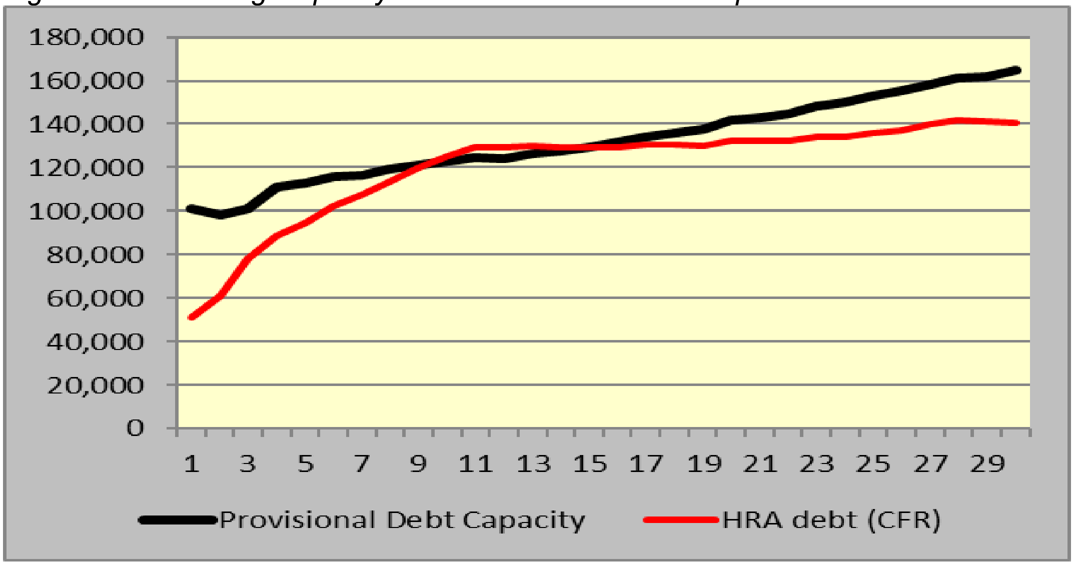
This demonstrates that there is borrowing capacity, the differential between the black and red line. At its minimum, borrowing capacity is estimated at £30.0million in year 3.

Figure 8 : Borrowing Capacity with Additional New Build



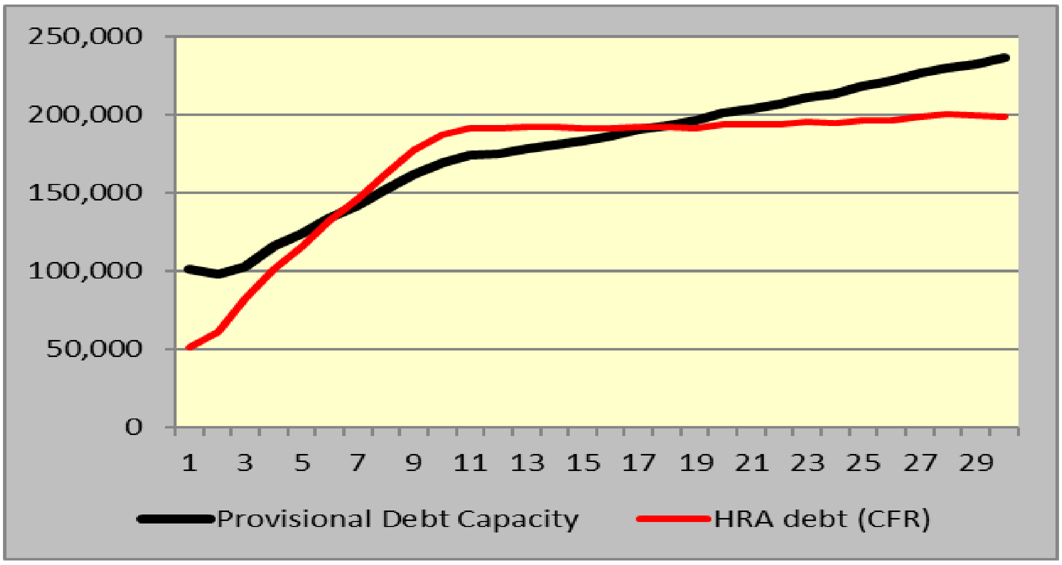
Whilst borrowing increases on account of additional development, the new properties generate additional rental income contributing to borrowing capacity. The minimum level of borrowing capacity is £20.3million in year 9 but continues to grow at a steady rate beyond the development phase.

Figure 9 : Borrowing Capacity based on Zero-Carbon Expenditure



The increase in costs to meet zero carbon without any form of subsidy of additional income results in the “golden-rule” applied being exceeded beyond year 10, but recovers by year 15.

Figure 10 : Borrowing Capacity based on Growth and Zero-Carbon Expenditure



The combination of borrowing for new growth and zero-carbon combined exceed the "golden-rule" from year 7 and at its maximum is in excess of £18.3million but reduces over the term of the plan.

Overall Summary

This review has demonstrated that a combination of:

- Increased assumed development expenditure on the pipeline schemes for 99 properties
- Higher interest rates for new borrowing
- Benefits of the Round 1 forecasts

Have resulted in the plan requiring additional borrowing but higher forecast reserves.

Other external factors will play heavily upon on the future of this plan and could result in the need to revisit the plan more often in order to make strategic decisions moving forward.

Simon Smith
August 2023

Appendix F

Diversity Impact Assessment

TITLE: Name / description of the issue being assessed	HRA Budget Setting 2025/2026
DATE: Date the DIA is completed	January 2025
COMPLETED BY:	Katherine Bishop/Aisling Sims – Customer Insight and Data Manager (HRA)

1. **Summary description of the proposed change**
- What is the change to policy / service / new project that is being proposed?
- How does it compare with the current situation?

In setting its budget, the Council is exercising a public function and must therefore comply with the duties in section 149 of the Equality Act 2010.

The Budget report for 2025/2026 presents the Housing Revenue Account (HRA) revenue and capital budget for 2025/2026 and details and updates:

- On the proposed rent and service charges levels for 2025/2026;
- The HRA Business Plan which is an integral part of the strategic planning and setting of priorities for the HRA Service.

Only the parts of the report that will have a direct financial impact on existing tenants are included for comment in this DIA. The main budgetary changes that will impact on tenants over the coming year and which the budget report and DIA will consider are:

- The ongoing roll out of Universal Credit in Medway (introduced by The Welfare Reform Act 2013)
- Dwelling rent increase of CPI plus 1.7%
- Garage rent increase by 2.7%
- Service Charge increase (internal decision)

Government implementations and changes to the budget that will directly impact on residents.

Universal Credit (UC) in Medway

Universal Credit is a single payment for people who are looking for work on a low income and replaces a number of existing welfare payments. Universal Credit is a government initiative that commenced full roll out in Medway on 30 May 2018. Tenants on Universal Credit who previously had Housing Benefit paid directly to Housing Services are now responsible for managing their Universal Credit payment (that may include a housing element towards their rent) and ensuring their rent is paid in full and on time.

Dwelling rent increase

In October 2017, the Government announced in the Housing White Paper ‘Fixing our Broken Housing Market’, that social housing landlords are permitted to increase social and affordable rent by Consumer Price Index (CPI) plus 1% each year from April 2020 for a period of 5 years. This makes a return to the rent setting approach, which was to apply for 10 years from 2015, before it was replaced with rent reduction from April 2016 for 4 years in ‘Welfare Reform and Work Act 2016’.

It is proposed to increase social rents by 2.7% of 2025/26 base rent of current tenants (CPI of 1.7 plus 1%) All new tenancies issued during 2025/26 will be set at either the formula rent or rent cap for social rent dwellings, whichever is lower.

The proposal for affordable rent increase is lower than LHA or 2.7% (CPI of 1.7 plus 1%). All new tenancies for 2025/26 must be set either 80% of the market value or the LHA rate for affordable rent dwellings, whichever is lower.

Garage rents

In 2018 it was agreed that garage rents would be aligned in a cascade approach. In April 2020 all garage rents were set at the same level regardless of tenure type.

For the 2025/26 year it is proposed to increase the garage rent by 2.7% to make a standard rent of £13.91 per week or £723.32 per annum. Non council tenants will also be required to pay VAT at the standard rate.

It is estimated that this will generate an additional income of approximately £3,102 based on current letting rates.

Service Charges

Overall, the average weekly service charge decreases for 2025/26 (excluding housing related support eligible charge In line with previous years, it is proposed to continue the process of rounding service charges to the nearest 5p or 10p for 2025/26 to ensure efficiency.

Appendix C details the average percentage increase/decrease required against each type of projected weekly service charge in comparison to 2024/25.

Member’s preference has been not to increase average service charges by more than 15% in any given year, even if a larger increase is needed to fully recover costs.

There will be no new additional service charges implemented in 2025/26 that would affect existing tenants.

2. Summary of evidence used to support this assessment

- Eg: Feedback from consultation, performance information, service user records etc.
- Eg: Comparison of service user profile with Medway Community Profile

Consultation

The proposed budgets will be presented to the Tenants Panel at a meeting in December 2024.

In addition, the Housing Act 1985 requires the issue of written notification to each tenant a minimum of four weeks in advance of the date that rent changes become operational. For 2025/26 the latest date for posting the notices is Friday 28 February 2025.

Universal Credit (UC) in Medway

UC has been 'live' in Medway since May 2018, and it currently affects new claimants and existing benefit claimants who have submitted a change in circumstances. Currently the HRA receives approximately 26.78% of rental income via Housing Benefit. As at October 2024 HB accounts for roughly £90,420 of our weekly rental income.

As of November 2024, there were a total of 1342 tenants (44% of tenants) receiving UC (this is an increase of 13.44%) compared to the same time last year) It is well known that nationally the introduction of UC is leading to increased rent arrears, and this is likely to continue as more claims move to the system.

Dwelling rent increase

From April 2025 the proposed rental increase will raise the average weekly social rent to £103.68 based on 52 weekly payments. The proposed rental increase for affordable rented properties will raise the average weekly rent to £172.33

The effect of the dwelling rent increase will have the most impact on those tenants who are not on full housing benefit. As of October 2024, around 22.18% tenants are on full housing benefit, which is paid directly to the service, with the other 77.82% receiving either partial or no housing benefit.

The proposed average increase for social rented is £7.21 per week and £6.25 for affordable rent, depending on the type and size of property.

It is estimated that over the next year the rent increase could generate an additional £851.787 budgeted rental income from dwellings against 2024/25 yearly rental income. This includes budgeted rental income of £275,061 from 120 affordable rent properties.

Service Charges

All service charges are covered for those in receipt of housing benefit, except for cookers, fridges, heating (non-communal) and water rates (non-communal) charges.

Residents receiving supporting people elements have their charges covered by Housing Related Support funding. If this fund were discontinued, the charges would be payable by the tenants. As of 28 October 2024, this would affect around 303 tenants.

Garage Rents

As of October 2024, there were 390 garages let.

In April 2025, it is proposed to uplift garage rents by 2.7% to £13.91per week or £723.32 per annum. Non-council tenants will also pay VAT at the standard rate.

There are a couple of tenants that have more than one garage linked to their tenancy so they would be liable for the increase for each garage rented.

3. What is the likely impact of the proposed change?

Is it likely to :

- Adversely impact on one or more of the protected characteristic groups?
- Advance equality of opportunity for one or more of the protected characteristic groups?
- Foster good relations between people who share a protected characteristic and those who don't?

Protected characteristic groups (Equality Act 2010)	Adverse impact	Advance equality	Foster good relations
Age	✓		
Disability			
Gender reassignment			
Marriage/civil partnership			
Pregnancy/maternity			
Race			
Religion/belief			
Sex			
Sexual orientation			
Other (e.g. low income groups)	✓		

4. **Summary of the likely impacts**

- Who will be affected?
- How will they be affected?

Universal Credit in Medway

Medway Council is already starting to see the impact of Universal Credit on tenant arrears, largely due to delays in payments. At the end of quarter 3 (December 2024), a total of 1,342 households on Universal Credit which is 44% of all council households. Working age tenants are more likely to be impacted by Universal Credit and in turn more likely to be at risk of rent arrears etc. Resources and support need to be targeted to this age group to ensure they are not adversely affected.

Universal Credit will have to be claimed online. This may mean that some of our residents with barriers to internet access will struggle to make UC claims.

Dwelling rent increase

The dwelling rent increase will be applied to all tenants equally.

The effect of the dwelling rent increase could have the greatest impact on those tenants who are not on full housing benefit and these households will be monitored particularly and if necessary, preventative actions undertaken to avoid financial hardship.

As of 5/12/24 around 22.18% tenants are on full housing benefit, which is paid directly to the service, with the other 77.82% receiving either partial or no housing benefit. The proposed average increase is £7.21 for social rent and £6.25 for affordable rent per week depending on the type and size of property.

Rent charges are based on the property type and size, so the dwelling rent increase could also have more impact on larger households (perhaps families with children) who typically will reside in the larger properties.

Garage rent increase
Garage rents are now aligned, so that council and non-council tenants were charged the same rent. The 2.7% uplift proposed for 2024/25 will be applied to all garage tenants equally. Private tenants will be subject to VAT.

Service Charges

Service charges will be applied to all applicable residents regardless of their protected characteristics. Whilst some of the service charges are optional for tenants the majority of charges are for a necessary service that would be charged for regardless of the characteristics of the household or the type of housing provider.

Some service charges are funded through a Housing Related Support fund via a Service Level Agreement (SLA). If this fund were discontinued, the charges would be payable by the tenants.

Any tenants identified as having an above average increase will be monitored to ensure these are paid and supported should any financial issues arise.

Summary of impacts
The majority of changes that will be brought into effect in the 2024/25 Budget Report will not impact on our tenants in terms of the protected characteristics. Changes to charges and service delivery will be applied to all relevant tenants, not on an individual basis.

Where dwelling rent charges, service charges and garage rents have been increased there may be some negative impact on lower income groups. The HRA Housing Service will continue to monitor and provide support to those in terms of income and welfare.

Legislation brought in by Government around Universal Credit may have a negative impact on working age residents and lower income households. Whilst these changes are however outside our jurisdiction it will be up to the Council to implement the necessary mitigating actions to reduce this impact.

5. **What actions can be taken to mitigate likely adverse impacts, improve equality of opportunity or foster good relations?**

- What alternative ways can the Council provide the service?
- Are there alternative providers?
- Can demand for services be managed differently?

The majority of the changes being implemented are Government directed, and out of Medway Councils control. Housing Services will follow Government process in order to ensure that compliance is met and implement the following mitigating action to ensure that any negative impacts are kept to a minimum.

Consultation
To ensure tenants are informed of the change's tenants will be consulted on any changes to their rents and service changes. A meeting was scheduled for December 2024 to present the proposed changes to customers.

Additionally, each tenant will receive a written notification a minimum of four weeks in advance of the date any rent charge adjustments become operative.

Universal Credit (UC)
Where Universal Credit or financial problems impact on our tenants Housing Services will signpost them to the HRA Welfare Reform Team who will provide them with help and advice. This team also sign post tenants to other debt advice agencies. The HRA has a communications strategy via the internet, leaflets, newsletters, social media and tenants handbook for advertising the impact of benefit changes. The HRA Housing Team is a prominent member of the Corporate Welfare Reform Steering Group where partnership working has been developed with the Department of Works and Pensions and work streams agreed around communication, identifying vulnerable customers and development of digital inclusion initiatives.

Where residents struggle to claim UC through barriers to internet access Housing Services will signpost to appropriate training agencies, in addition to signposting to free internet access sites like libraries. Housing Services will also work with providers to get resident help and guidance to get back into employment.

Housing Services can request direct payment of UC for the Housing element if it is identified that the tenant would struggle to pay their rent directly to the Council. This will help prevent vulnerable tenants from getting into rent arrears and face the possibility of eviction.

Rent and Service Charges

Housing Services will need to proactively monitor the rent accounts of those households that will see an increase in their overall rent and/or service charges in 2025/26 and support offered to the tenants where necessary.

The rent arrears policy sets out the process that will be taken by Housing Services should a rent account fall into arrears, and this is available on the internet.

Any household struggling with rent payments or requiring debt advice will be signposted to our Welfare Reform Team. Housing Services also produce publications, such as the tenants' handbook and Housing Newsletter that promote debt advice helplines. We also have our own website and Facebook page that tenants can access for help and advice.

The service can assist with property moves including mutual exchanges to ensure that residents live in a property that best meets their household's needs and size.

Tenants and Leaseholders who pay services charges will be written to inform them of the exact changes to their contributions.

Leaseholders can apply to Housing Services for a mandatory or discretionary loan to help them manage the payback of their service charges.

Garage rent increase

Garage rent arrears are monitored on a weekly basis, should a tenant (council or private) fall into arrears then the Housing Management Team will make contact within 1 week. If an account is still in debt after 4 weeks, then the repossession process will start. The deposit can be retained if the tenancy is terminated with arrears on the account.

6. Action plan

- Actions to mitigate adverse impact, improve equality of opportunity or foster good relations and/or obtain new evidence

Action	Lead	Deadline or review date

Consult tenants on the budget	Resident Engagement Officer	January 2025
If changes agreed, update the Rent Setting Policy to reflect everything highlighted in HRA Budget Report and publish online.	Customer Insight and Data Manager	February 2025
Continue to identify, support and prevent financial hardship	Income Manager/	Ongoing
Monitor all arrears associated with Rent, service charges and garages	Head of Tenant Services/Income Manager	Ongoing
Monitor the number of households on Universal Credit and the impact on rent arrears	Head of Tenant Services/Income Manager	Ongoing

7. Recommendation

The recommendation by the lead officer should be stated below. This may be:

- to proceed with the change, implementing the Action Plan if appropriate
- consider alternatives
- gather further evidence

If the recommendation is to proceed with the change and there are no actions that can be taken to mitigate likely adverse impact, it is important to state why.

The recommendation is to proceed with implementing the proposed budget and Action plan and mitigating actions in this DIA.

8. Authorisation

The authorising officer is consenting that:

- the recommendation can be implemented
- sufficient evidence has been obtained, and appropriate mitigation is planned
- the Action Plan will be incorporated into the relevant Service Plan and monitored

Assistant Director	Mark Breathwick
Date	**January 2025**